

## Investment objective

Aims to capture the potential capital growth of small and mid-sized companies in Asia (excluding Japan), and to provide some income.

## Key information

### Fund details

APIR code	MAQ0640AU
Inception date	27 May 2010
Fund size	\$180.6m
Distribution frequency	Annually
Management fee*	1.20% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	<a href="http://macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a>

\*Read the Product Disclosure Statement for more details on fees and costs.

## Sector breakdown

	%
Consumer Discretionary	24.67
Consumer Staples	5.01
Energy	1.59
Financials	15.21
Health Care	3.98
Industrials	4.09
Information Technology	27.98
Materials	8.93
Real Estate	1.03
Communication Services	5.70
Utilities	0.00
Cash	1.80

## Fund performance to 31 December 2020

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-0.75	-0.05	1.59	-1.64
3 months (%)	5.95	6.49	11.13	-4.64
1 year (%)	6.23	5.83	14.96	-9.13
3 years (% pa)	2.30	1.37	3.62	-2.25
5 years (% pa)	2.63	1.56	6.19	-4.63
10 years (% pa)	9.98	7.72	6.02	1.70
Since inception (% pa)	11.28	8.67	6.60	2.07

### Past performance is not a reliable indicator of future performance.

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions.

Total net Fund returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

Prior to 2 October 2019, there was a performance fee charged to the Fund.

Benchmark is MSCI Asia ex Japan Small Cap Index (Unhedged in \$A with net dividends reinvested).

## Top 10 stocks

	%
Hansol Chemical	5.98
WONIK IPS	4.69
China Yongda Automobiles Services	4.56
Converge ICT Solutions	3.67
Samsung SDI	3.47
IndusInd Bank	3.35
China New Higher Education	2.97
UPL	2.95
Globalwafers	2.88
Taiwan FamilyMart	2.82

## Geographical weighting

	%
China	16.72
Hong Kong	4.13
India	14.47
Indonesia	1.44
Malaysia	2.14
Pakistan	0.00
Philippines	5.66
Singapore	3.51
South Korea	26.49
Taiwan	23.64
Thailand	0.00
Cash	1.80

## Macquarie Asia New Stars No.1 Fund

Monthly report – 31 December 2020

### Fund highlights

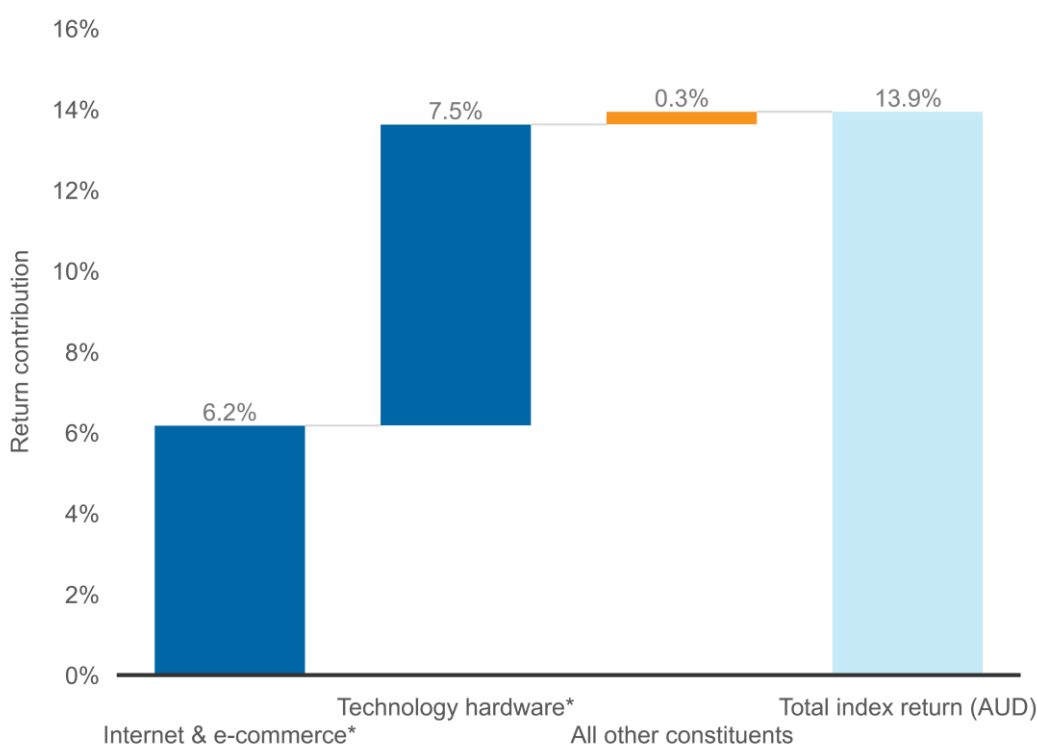
- Asian markets ended the year strongly with the most bullish market sentiment since 2017. The year was characterised by factor performance, where we saw significant underperformance from Value, muted performance from Quality and clear outperformance from the Growth and Momentum factors.
- December continued the market theme of 2020, where stocks with high long-term growth forecasts and share price momentum outperformed. Meanwhile quality and value lagged. This environment has not favoured our style of investing in quality growth companies at a reasonable valuation, and we remain unwilling to risk investor capital in chasing lofty growth expectations at unreasonable valuations.
- South Korea and Taiwan filled the Fund's top stock contributor list this month, with 8 out of the top 10. Good stock picking helped the Fund outperform in these markets, which were the region's best performing in December.
- This month's underperformance largely came from areas of the portfolio that did not participate in the rally, such as Chinese Education and broadband providers in both Hong Kong and the Philippines. We consider these to be resilient businesses, but the market has either overlooked or sold them at the margin due to shorter-term concerns. We remain of the view these firms have good growth prospects in 2021 and expect them to perform well given their reasonable valuations.
- The disparity between Growth and Value remains highly elevated and we expect this gap to narrow with a broader market participation in 2021. Overall, we hold a constructive view on Asian equities for the year ahead and we expect areas of the market that have recently been overlooked, such as small caps, to come back into favour in 2021 – as explained in our outlook further below.

### Asia in 2021 – The outlook

2020 was a remarkable year for investors, witnessing the paradox of severe economic disruptions and record returns in some equity markets, including in Asia. The economic performance of the major regions of the world was largely determined by the impacts of COVID-19, but the structural growth drivers that power Asia's economies have seen it perform resiliently over this period and is expected to enter 2021 on sound footing.

The outperformance of technology and internet stocks helped the MSCI Asia ex Japan Index trade to all-time high levels and return 25% (in USD, 14% in AUD) during 2020. Indeed, even if the contributions from this group of stocks are excluded from the index's performance this year, the aggregate returns from all other constituents remains positive. This is a remarkable result under the circumstances and highlights the resilience of the Asian region.

Decomposition of returns (CY2020)



Source: Macquarie, GICS, Bloomberg. \*'Internet & e-Commerce' comprises GICS 'Internet & Direct Marketing Retail' industry and 'Media & Entertainment' Industry Group (GICS 5020 and 255020, respectively); 'Technology Hardware' comprises GICS 'Technology Hardware & Equipment' and 'Semiconductors & Semiconductor Equipment' Industry Groups (GICS 4520 and 4530, respectively).

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We believe there are numerous reasons to be optimistic for 2021 and we expect more sectors to eventually participate in the market recovery as attention looks beyond the pandemic.

### Why are we positive about the economic picture in 2021?

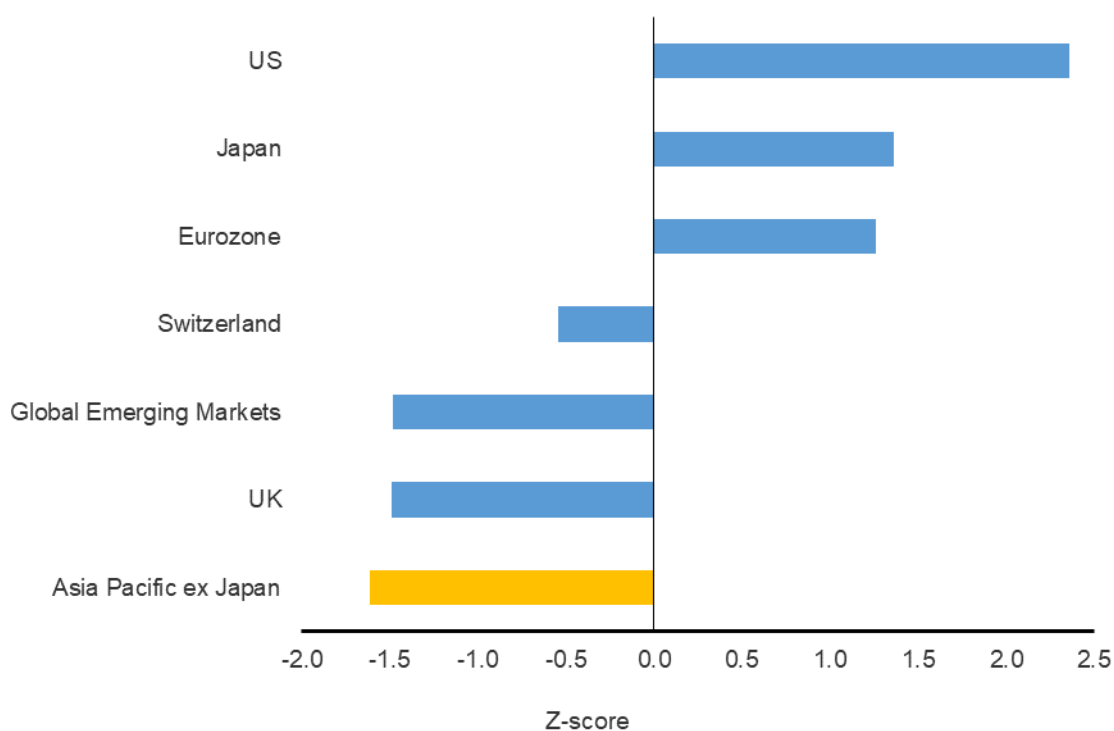
- 1. The prospect of vaccines:** The successful early trials of various high-profile COVID-19 vaccines suggest that it is a matter of time before the worst effects of the pandemic will ease and restrictions on people's activities can be lifted.
- 2. Supportive policy conditions:** Policymakers deployed unprecedented amounts of stimulus to address the economic shortfall caused by the pandemic. Though fiscal stimulus may diminish as the economy improves, major central banks have indicated monetary policy will be kept at accommodative levels for at least several years and we expect overall policy conditions to be supportive in 2021. The potential for a weakened US Dollar under this scenario is also a positive for Asian equities.
- 3. Upside to global trade:** The outgoing Trump Administration's 'America First' attitude towards international relations was notable for its adversarial and confrontational approach. We expect the new administration to employ greater diplomacy and while tensions will likely persist between the United States and China for the foreseeable future, some calming of the current storms will be welcomed by businesses and an incremental positive for global trade activity.

Asia is in the enviable position of entering 2021 on the tailwinds of being both a natural beneficiary of the global 'reopening' recovery and enjoying structural growth as the pandemic shows little evidence of diminishing its underlying drivers.

### Key factors to consider for Asian equities in 2021 include:

- 1. Asia is under-owned:** The region's close ties into global supply chains mean it is poised for the post-pandemic economic recovery. However, fund allocation data shows that investors remain underweight Asia ex Japan equities and highlights the potential for significant inflows to the region when sentiment turns positive.

Global funds active weight positioning (z-score)



Source: FTSE Russell, HSBC calculations, EPFR Global, Refinitiv Datastream. As at 30 September 2020.

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- 2. Growth and Value:** We believe the Growth versus Value debate is a false dichotomy for Asian equities. One of the advantages of investing in Asia is the presence of structural and persistent growth opportunities and because so much recent focus has been themed around technology disruption, it has left other growth segments such as private education and companies in the electric vehicle and data verticals undervalued relative to their potential. One does not need to necessarily trade off Growth to find Value in Asia.
- 3. Small cap catch-up:** Prominent internet and technology stocks in the MSCI Asia ex Japan Index have been instrumental to its outperformance over the small-cap index in recent years. However, with the small-cap index tilted more towards the performance of the real economy, we believe conditions in 2021 are favourable for this overlooked group of stocks.

**For more information speak to your financial adviser, call us on 1800 814 523, email [mim.clientservice@macquarie.com](mailto:mim.clientservice@macquarie.com) or visit [macquarie.com](http://macquarie.com)**

### Important information

Macquarie Investment Management Australia Limited ABN 55 092 552 611 AFS Licence 238321 is the issuer of units in, and responsible entity of the Fund.

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