

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	\$182.6m
Distribution frequency	Annually
Management fee*	1.20% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	macquarie.com.au/unit_prices

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

Sector breakdown

	%
Consumer Discretionary	24.98
Consumer Staples	5.45
Energy	1.52
Financials	13.96
Health Care	4.15
Industrials	3.90
Information Technology	27.47
Materials	8.91
Real Estate	0.45
Communication Services	5.69
Utilities	0.00
Cash	3.51

Fund performance to 31 January 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	1.51	1.41	1.42	-0.01
3 months (%)	6.65	7.19	10.22	-3.03
1 year (%)	11.20	10.77	16.20	-5.43
3 years (% pa)	3.05	2.11	3.43	-1.32
5 years (% pa)	4.55	3.46	7.80	-4.34
10 years (% pa)	10.20	7.93	6.07	1.86
Since inception (% pa)	11.34	8.74	6.68	2.06

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	5.37
WONIK IPS	4.62
China Yongda Automobiles Services	3.85
Converge ICT Solutions	3.80
UPL	3.54
China New Higher Education	3.16
IndusInd Bank	3.16
Nien Made Enterprise	3.04
Wiwynn	2.97
AEM	2.85

Geographical weighting

	%
China	17.68
Hong Kong	3.42
India	15.27
Indonesia	1.37
Malaysia	2.01
Pakistan	0.00
Philippines	5.17
Singapore	3.30
South Korea	24.39
Taiwan	23.90
Thailand	0.00
Cash	3.51

Macquarie Asia New Stars No.1 Fund

Monthly report – 31 January 2021

Fund Highlights

- China led world markets out of the gates in 2021 at a bristling pace, up 10% (in USD) in January, the impressive rally was underpinned by its resilient economic growth trajectory that has been running comfortably ahead of consensus expectations.
- Asian equities rose 4.0% (in USD) in January, a fourth consecutive month of positive performance, and leading developed markets which declined 1.1% over the month (Australia remained flat, while the US declined 1.0%, Japan 1.0%, and Europe 1.5%).
- Earnings reporting for 4Q20 has commenced across the region and things are looking good, with reported results up 43.8% year-on-year; consensus expects Asian earnings growth of 26% in 2021. Amongst markets, consensus expect Philippines (50.4%), Korea (48.7%), Malaysia (44.6%), and Singapore (41.0%) to see the highest earnings growth in 2021 (source: HSBC).
- The MSCI Asia ex Japan Small Cap Index lagged its large cap peer to deliver a 0.7% return (in USD for January), with its lower allocation to China being the main factor. However, the earnings outlook for the region provides some optimism as the small cap index has a larger allocation to the markets with the highest earnings growth forecasts.
- The Fund performed in line with its benchmark during January with the recent country level performance themes continuing, with good contributions from South Korean and Indian positioning but detractor from China. We remain satisfied with our positioning, expecting the market's attention to underlying fundamentals to increase over the course of 2021.

Mind the (Growth vs Value) gap in Asia

Where do the opportunities in Value lie? One answer could be in Asia.

In global equity markets the valuation differential between companies that are considered Growth relative to their Value counterparts is extreme, with much of the recent market commentary focused on the US market. However, it is often overlooked that the difference is even more extreme in Asia.

Asian growth stocks had a stellar 2020, the resultant and exacerbated difference in valuation between these high growth companies, particularly in China, and the rest of the market in the region has led to increasing questions of whether this narrow cohort will continue to lead the market in 2021.

Simplistic valuation comparisons pitting Growth against Value are often criticised for oversimplifying the drivers of company valuations. Recently released analysis by BofA Global Research uses a more rigorous approach to valuation assessment and applies this to various equity markets globally. Their research looks back to the 1970s for the US market, 1980s for the Australian and 1990s for Asian markets.

Our key observations from this analysis are:

- **Broad based growth overvaluation** - Growth stocks appear overvalued by 61% in the US, 44% in Australia and 62% in Asia ex Japan, which is largely driven by a 153% overvaluation in China.
- **Selective undervaluation of Value** – Value stocks are seemingly in the fair value range in the US, but 19% undervalued in Australia and 17% undervalued in Asia ex Japan.
- **Prospective returns** – Value stocks could outperform Growth over the next 12 months by 9% in the US, 31% in Australia and 53% in Asia ex Japan. Based on a comparison of 12-month average returns from similar historical valuation levels.

Mean reversion and the potential returns which could accompany such a reversal are of course not assured. The primary catalyst to power Value from its depressed levels is considered to be a pick-up in global economic activity. Conversely, in BofA Global Research's view, the case for Growth to rally further rests on a continuation in 2021 of the sharp rises in quantitative easing and a very strong rise in growth stocks' return-on-equity, as occurred in 2020.

What we see in Asia is an improving earnings cycle, with companies delivering better-than-expected results and analysts revising forecasts higher, as well as generally higher near-term inflation expectations. Both indications of broadening and rising economic activity in the region, which could provide the catalyst that Value needs to return to a fairer valuation.

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For more details on the referenced research from BofA Global Research, please read on. The BofA Global Research uses PB as a function of ROE less COE, as a more rigorous approach to valuation assessment with the aim of improving the analytical/predictive power of their analysis. The chart below provides the results of their research, including the current deviation of valuations, how often they have reached these levels historically and the typical outcomes from this point:

PB as a function of ROE less COE

Country/Region	Current PB deviation	What happens when			
		Condition (D=Deviation)	Time spent	Average of next 12-month returns	Time period
<i>Based on ROE minus COE model</i>					
US	34%	D > 25%	15%	-1.5%	Dec-1974 - current
US Growth	61%	D > 25%	20%	1.5%	Dec-1974 - current
US Value	15%	25% > D > -25%	70%	10.0%	Dec-1974 - current
Australia	-2%	15% > D > -15%	74%	7.1%	Jul-1983 - current
Australia Growth	44%	D > 15%	14%	-12.2%	Jul-1983 - current
Australia Value	-19%	D < -15%	16%	19.0%	Jul-1983 - current
Asia ex Japan	3%	25% > D > -20%	74%	9.3%	Dec-1987 - current
Asia ex Japan Growth	62%	D > 25%	12%	-29.1%	Jan-1997 - current
Asia ex Japan Value	-17%	D < -15%	20%	24.0%	Jan-1997 - current

Source: BofA Global Research, MSCI, Moody's FactSet, Thomson Reuters Datastream, Prof. Damodaran (<http://pages.stern.nyu.edu/~adamodar/>).

For more information speak to your financial adviser, call us on 1800 814 523, email mim.clientservice@macquarie.com or visit 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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