

### 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	\$63.8m
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.

### Fund performance to 31 July 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	-2.82	-2.92	0.84	-3.76
<b>3 months (%)</b>	6.96	6.64	7.47	-0.83
<b>1 year (%)</b>	32.05	31.54	43.87	-12.33
<b>3 years (% pa)</b>	10.20	9.20	12.20	-3.00
<b>5 years (% pa)</b>	7.72	6.60	11.54	-4.94
<b>10 years (% pa)</b>	11.89	9.63	9.18	0.45
<b>Since inception (% pa)</b>	12.54	9.98	8.33	1.65

#### 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

	%
Converge ICT Solutions	4.82
UPL	4.42
China Education Group	4.26
Erajaya Swasembada	4.22
Hansol Chemical	4.14
DGB Financial	3.78
3SBio	3.59
Fusheng Precision	3.59
BGF retail	3.42
WONIK IPS	3.29

### Geographical weighting

	%
China	17.24
Hong Kong	1.77
India	18.53
Indonesia	7.82
Malaysia	0.00
Pakistan	0.00
Philippines	4.82
Singapore	0.00
South Korea	22.27
Taiwan	23.14
Thailand	0.00
Cash	4.41

### Sector breakdown

	%
Consumer Discretionary	21.78
Consumer Staples	8.08
Energy	1.75
Financials	15.31
Health Care	6.99
Industrials	1.91
Information Technology	24.68
Materials	8.56
Real Estate	1.69
Communication Services	4.82
Utilities	0.00
Cash	4.41

## Macquarie Asia New Stars No.1 Fund

Monthly report – 31 July 2021

### What happened in July?

- It was a volatile month for Asian equities as the market reacted with extreme caution, bordering panic, in response to an accumulation of regulatory initiatives in China.
- The straw that seemingly broke the market's back was the regulation remedying unscrupulous behaviour in the afterschool tutoring sector, decimating companies operating in this segment. These actions are an irrelevance for our education holdings, which operate higher education institutions with strong local, provincial and central government support. Recent regulatory moves very much encourage the private sector's participation recognising their innovation, campus expansions and collaboration with business in better preparing the future workforce for the demands of China's economy.
- In our view, there was a clear over-reaction in the indiscriminate selling we saw in markets. Companies with sound fundamentals and enduring business models were caught up in the volatility.
- The result at the portfolio level was underperformance relative to the benchmark, almost exclusively from China and predominantly from companies that fit the description above. With a good understanding of both the fundamental and regulatory backdrop for these companies, we used the opportunity to add further to positions at significant discounts to intrinsic valuations.
- On the positive side of the ledger, India delivered another stella month of returns for the Fund. All 3 of the top performing stocks were Indian, delivering between 12%-39% rallies. This is one area where profit taking occurred to take advantage of the volatility by adding more to our China positions.
- History tells us that volatile periods such as this are good buying opportunities, and it is our view that the short-term pressure on portfolio companies provide a compelling stored alpha opportunity for the longer term.

### China, China, China

The recent regulatory events in China have led to 3 key questions from investors.

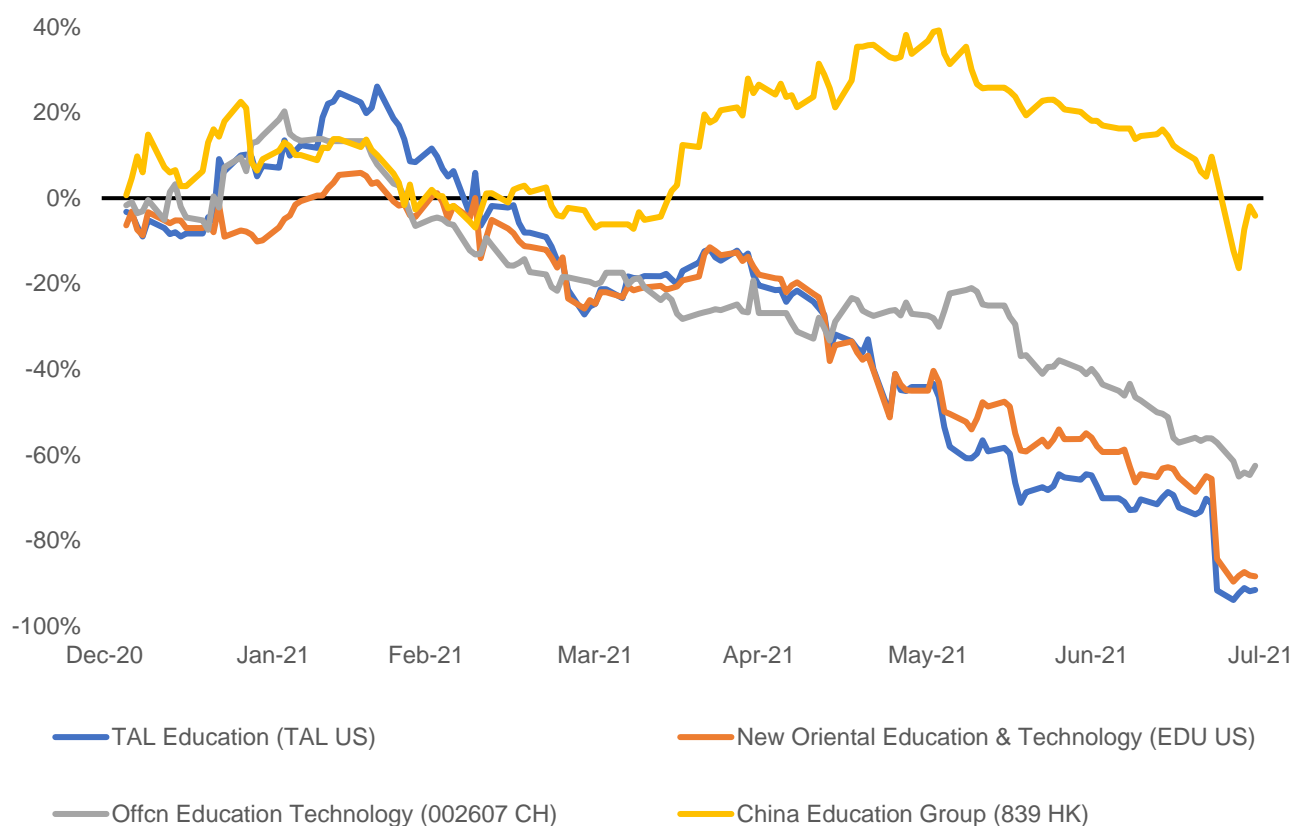
#### Is this the end of private investment in China's education sector?

As we noted in both last month's report as well as our 2020 insight report - [Closing the skills gap](#) - we believe the best opportunities lie outside the sector's largest companies.

The new regulation on China's education sector is even harsher than anticipated. However, it is important to note that, despite the market's reaction, the regulation is very targeted on areas which are considered to be causing social harm – K-12 after-school tutoring in particular.

The previous market darlings of: TAL Education; Offcn Education Technology; and New Oriental Education & Technology (none of which are held in the portfolio) have all suffered severely. Tertiary education companies however, such as China Education Group (held in the portfolio), were caught up in July's volatility.

## China education stocks in 2021



Source: Bloomberg

### Is this a sign of more to come from China's regulators?

Some have raised concerns that this is a sign of co-ordinated efforts or a broader crackdown in China. We disagree. More than a decade of investment experience has shown us that regulatory shifts in China can occur and are often unimpeded by the potential capital market implications.

Rarely are they completely unexpected, as was the case in this instance, with our understanding of the education policy direction being formed during 2020 and further confirmed in May 2021, when pre-cursor announcements to the July policy release were made.

Equally, we do not sign up to the view there has been a pre-meditated or co-ordinated crackdown across China. Although we do expect investors to generally be more alert to policy initiatives in future as many have seen the binary outcome of betting against them.

### Is China un-investable?

Our view is completely to the contrary, for long-term investors the sell-off has created good opportunities in companies whose future growth trajectories remain intact.

While the education policy is particularly targeted in its nature our experience in China is that episodes of regulatory scrutiny are natural and to be expected.

We will conclude by noting that the recent actions by Chinese regulators are not dissimilar from those seen in western democratic nations, with a focus on social inequalities, monopolistic corporate behaviour and data privacy to name a few.

## Macquarie Asia New Stars No.1 Fund

Monthly report – 31 July 2021

**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**

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