

Investment objective

Aims to outperform the S&P/ASX Small Ordinaries Accumulation Index (**Index**) over the medium to long term (before fees). It aims to provide capital growth and some income.

Key information

Fund details

APIR code	MAQ0454AU
Inception date	6 July 2006
Fund size	\$226.0m
Distribution frequency	Quarterly
Management fee*	0.60% pa
Performance fee*	15% of outperformance of the Fund (after management fee and expenses) above return of the Index, subject to a 'high watermark'.
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.

Fund performance to 31 August 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	4.03	3.98	4.98	-1.00
3 months (%)	9.14	8.97	8.95	0.02
1 year (%)	30.81	29.74	29.51	0.23
3 years (% pa)	14.70	13.61	10.08	3.53
5 years (% pa)	17.56	16.07	10.99	5.08
Since inception (% pa)	12.14	10.66	4.56	6.10

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.

The management fee was reduced to 0.60% pa from 18 January 2017.

Top 3 stock attribution (alphabetical)

Ardent Leisure Group Limited

Champion Iron Ltd

Uniti Group Ltd

Italics denote underweight

Top 5 overweight positions (alphabetical)

Charter Hall Group

IGO Ltd

Oz Minerals Limited

Spark New Zealand Ltd

Uniti Group Ltd

Bottom 3 stock attribution (alphabetical)

Mineral Resources

Pilbara Minerals Ltd

Seven Group Holdings

Italics denote underweight

Macquarie Australian Small Companies Fund

Monthly report – 31 August 2021

Fund highlights

The Fund finished the month up 3.98% (post-fees), underperforming the benchmark by 1.00%.

The largest contributors to relative performance for the month included overweight positions in Uniti Group (UWL) and Ardent Leisure (ALG), and an underweight position in Champion Iron Ltd (CIA).

Telecommunications company Uniti Group (UWL) outperformed following the release of full-year results for FY21. UWL achieved revenue of \$160m for FY21, representing an increase of 175% from the previous year. This jump in revenue was largely the result of the company's various acquisitions and increased number of premises connected to UWL's network.

Leisure and entertainment group Ardent Leisure (ALG) enjoyed a strong full-year result for FY21. A strong result for Main Event, the group's chain of US family entertainment centres, underpinned the full-year result. Main Event benefitted from the general 're-opening' trend observed in much of the northern hemisphere over the past few months.

The greatest detractors from relative performance included overweight positions in Mineral Resources (MIN), Seven Group Holdings (SVW), and Accent Group (AX1).

Shoe retailer Accent Group (AX1) underperformed for the month despite the company posting record financial results for FY21. The drop in AX1's share price is linked to the current COVID-19 outbreaks and subsequent lockdowns in Sydney and Melbourne. AX1 warned FY22 earnings may be impacted by around \$15m due to the continued lockdown of Australia's two largest cities.

As at 31 August 2021, the largest overweight positions in the Fund were IGO Limited (IGO), Uniti Group (UWL) and Charter Hall Group (CHC).

Market overview

The S&P/ASX Small Ordinaries Accumulation Index rose during August, returning 4.98% for the month. Small caps materially outperformed the broad-based S&P/ASX 300 Accumulation Index which returned 2.61%.

August saw positive returns for global markets, as the S&P 500 and MSCI Developed Markets index returned 3.0% and 2.7% respectively. The delta variant continues to drive a surge in global COVID cases. Global COVID cases passed 216m in August, a material increase from the 196m cases at the end of July. Pleasingly, the global vaccine rollout continues and as at the end of August, 5 billion COVID vaccines had been administered, with 39.7% of the world's population having received at least one dose.

Reporting season was the focus for many domestic investors throughout August. Across the market, only 31% of companies missed expectations, with consensus FY22 earnings downgraded by a modest 1.5%, largely due to downgrades in COVID 'losers'. However, given rising vaccination rates and a shift in political rhetoric in favour of living with COVID, it appears the market is largely looking through COVID-driven downgrades. Other themes that emerged include globally exposed companies performing strongly as the re-opening trade continues, particularly offshore. Capital management was another highlight of reporting season with many dividend 'beats' across the board. This suggests many companies believe their balance sheets are in good health and are instead choosing to return excess cash to shareholders in the form of dividends and buybacks. While companies are taking COVID impacts into consideration when providing guidance, it seems they have more certainty around the extent of disruption of COVID on their specific operations.

In sector news, Communication Services (+11.0%) and Financials (+10.0%) were the leaders, while Industrials (+0.0%) and Materials (+0.2%) were the laggards.

Across the broad market, Growth (+4.4%) was the best performing factor last month, driven by stock specific movements in large technology names such as Afterpay (+39.0%) and WiseTech (+57.0%). Supported by the general decline in long term bond yields since March, Growth has outperformed Value over the past 6 months.

On the commodities front, iron ore prices fell 18% on the back of weaker Chinese steel demand. Brent oil prices decreased \$3/bbl to \$73/bbl as global concerns around the Delta variant spread. Gold was down slightly (-0.60%).

Global bond yield retraced in August on moderating inflation expectations, with the US 10 year government bond yield falling 0.21% to 1.23%. US Fed Chair Powell's comments at the annual Jackson Hole conference suggest a taper announcement is likely to occur soon. In contrast Australian 10 year bond yields stayed relatively flat, with 10 year yields declining a modest 0.02% to 1.16%, likely due to local lockdown related uncertainty.

The AUD depreciated 0.4c against the USD during August to US\$0.731. In the domestic economy, the RBA maintained the cash rate at 0.15%.

Outlook

Whilst Australia scrambles to control its Delta strain outbreak with lockdown measures and vaccine efforts, investors have not reacted as they did during the initial 2020 outbreak. Consumers have demonstrated a tendency to continue spending during a lockdown and investors have learned that growth can rebound quickly once an economy is reopened.

The August reporting season provided another window into how companies are performing through these unprecedented times. We continue to monitor the ongoing developments relating to COVID and which companies are best placed to benefit over the medium-term. The vaccination rollout over the coming weeks and months will be critical for the performance of companies, sectors and factors going forward.

Macquarie Australian Small Companies Fund

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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

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