Macquarie Investment Management

Macquarie Australian Small Companies Fund

Monthly report – 30 September 2021

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	$226.2m
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 30 September 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-0.93	-0.98	-2.14	1.16
3 months (%)	4.95	4.79	3.44	1.35
1 year (%)	32.56	31.48	30.41	1.07
3 years (% pa)	14.47	13.38	9.42	3.96
5 years (% pa)	17.38	15.90	10.17	5.73
Since inception (% pa)	12.00	10.53	4.39	6.14

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)

Karoon Gas Aust.
Paladin Energy Ltd
Whitehaven Coal Limited

Italics denote underweight

Top 5 overweight positions (alphabetical)

Charter Hall Group
IGO Ltd
Spark New Zealand Ltd
Uniti Group Ltd
Virgin Money UK CDI

Bottom 3 stock attribution (alphabetical)

Beach Energy Limited
Flight Centre
Mineral Resources

Italics denote underweight

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Fund highlights

The Fund finished the month down 0.98% (post-fees), outperforming the benchmark by 1.16%.

The largest contributors to relative performance for the month included overweight positions in Karoon Energy (KAR), Whitehaven Coal (WHC), and Paladin Energy (PDN).

Oil producer Karoon Energy (KAR) was strong, as the reopening of the global economy lifted energy demand whilst supply remains disrupted. Uranium producer Paladin Energy (PDN) is benefitting from the aggressive purchase of physical uranium by an investment fund in a less liquid market relative to other metals.

The greatest detractors from relative performance included an overweight position in Mineral Resources (MIN) and underweight positions in Beach Energy and Flight Centre (FLT).

Mining services company Mineral Resources Limited (MIN -18.4%) underperformed due to uncertainty and reduced steel output in China, with fears looming that discounts on lower grade iron ore may widen.

As at 30 September 2021, the largest overweight positions in the Fund were IGO Limited (IGO), Uniti Group (UWL) and Virgin Money UK (VUK).

Market overview

The S&P/ASX Small Ordinaries Accumulation Index declined during September, falling 2.14% for the month. Small caps underperformed the broad-based S&P/ASX 300 Accumulation Index which fell 1.88%.

Despite the fall, the Australian market outperformed most other global equity markets, particularly the US (-4.7%) and China (-4.9%). The pullback was driven by a number of factors. Markets were focussed on China as property giant Evergrande faced debt woes with payment deadlines looming. Staying in China, regulatory tightening and a decarbonisation push softened crude steel demand and triggered further falls in the price of iron ore and other industrial metals. In the US, more hawkish tones from the Federal Reserve lifted global bond yields and another brush with the US debt ceiling caused some mild uncertainty. More broadly, an energy demand rebound off COVID-19 lows combined with transport disruptions caused a number of regional markets to see steep rises in prices, with natural gas up 34%, thermal coal +21%, and Brent oil up 7%.

In the domestic market, the jump in energy prices resulted in a stellar return for the Energy sector (+16.7%), materially outperforming the next best sector (Utilities, +2.5%). Materials (-9.3%) was the worst performer, driven down again by the continued pull back in iron ore prices. Whilst COVID-19 cases continued to rise in Victoria, NSW now has a clear roadmap out of lockdown including the reopening of many retail and hospitality businesses in October. This saw re-opening names generally outperform.

On the commodities front, weaker Chinese steel demand persisted which drove iron ore prices down 44% for the month. The spike in energy demand amidst logistics issues drove Brent oil prices up $6/bbl to $79/bbl. Gold fell 3.4% as the Fed signalled a sooner-than-expected rate hike.

Optimistic Fed comments lifted global bond yields in September, with the US 10 year government bond yield rising 0.24% to 1.52%. Australian 10 year bond yields followed, up 0.33% to 1.49%.

The AUD depreciated 0.9c against the USD during September to US$0.722. In the domestic economy, the RBA maintained the cash rate at 0.15%.

Outlook

With New South Wales and Victoria edging towards reopening in October, the focus will be on how the national economy reacts given the level of pent-up demand in the two largest states. Previous re-openings have seen a strong and immediate snapback in activity. The uncertainty this time is whether higher levels of COVID circulating through the community, albeit offset by high vaccination rates, will affect the strength of the recovery.

The local market is entering 'AGM season' and initial earning updates have generally been positive, following a broadly positive reporting season in August. Solid earnings growth, accompanied by accommodative monetary and fiscal policy is likely to remain supportive for equities.

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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