Macquarie Investment Management

Macquarie Asia New Stars No.1 Fund

Monthly report – 31 October 2021

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	$62.3m
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.

Fund performance to 31 October 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-4.35	-4.44	-2.67	-1.77
3 months (%)	0.06	-0.23	-1.53	1.30
1 year (%)	26.96	26.49	33.04	-6.55
3 years (% pa)	15.80	14.75	16.56	-1.81
5 years (% pa)	8.49	7.37	11.01	-3.64
10 years (% pa)	13.71	11.54	10.86	0.68
Since inception (% pa)	12.26	9.72	7.99	1.73

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

	%
Bank Tabungan Pensiunan Nasional Syariah	5.20
Erajaya Swasembada	4.26
Hansol Chemical	4.20
DGB Financial	4.09
China Education Group	4.06
3SBio	3.97
UPL	3.77
BGF retail	3.38
Fusheng Precision	3.17
IndusInd Bank	2.93

Geographical weighting

	%
China	15.42
Hong Kong	2.26
India	18.95
Indonesia	10.64
Malaysia	1.80
Pakistan	0.00
Philippines	0.00
Singapore	0.00
South Korea	20.56
Taiwan	24.27
Thailand	1.25
Cash	4.84

Sector breakdown

	%
Consumer Discretionary	17.05
Consumer Staples	7.13
Energy	1.84
Financials	18.62
Health Care	8.98
Industrials	0.00
Information Technology	26.84
Materials	7.97
Real Estate	4.33
Communication Services	2.39
Utilities	0.00
Cash	4.84

What happened in October?

- The Fund lagged the benchmark during the month with reversions in South Korean stocks that have performed well year to date, COVID-19 fears in China and capital flows from China around excessive regulatory oversight being the main drivers of performance detraction.
- Offsetting these headwinds, the rapid recovery from the impact of the COVID-19 delta-strain in India and South East Asia saw conviction in these regions pick-up and markets rebound.
- Much like we did with our long-held conviction investments in India and South East Asia, we hold our conviction in the face of short-term issues in China. Our resolute view is that quality companies endure and we look to their fundamental delivery and valuations, ahead of sentiment and trends in capital flows.
- Hansol Chemical is a conviction position that saw a modest retracement in October but is well placed to be a beneficiary of the structural trend of electric drive trains displacing internal combustion engines, in our view. Although not a pure play on this trend the bottom-up delivery from Hansol is in three key areas being next generation screens for televisions and other electronic devices, memory and elective vehicles. In each case Hansol enjoys strong and improving margins from research and innovation delivering superior inputs as well as security of supply to their industry leading clients whilst gaining scale economies. Whilst others may have taken profits into the rally which has seen the share price more than double over the past year, we hold this position for the growth potential yet to come and we outline why further below.

Stock story - Hansol Chemical

The Fund has long been investing in the lithium-ion battery value chain; first investing in Samsung SDI in mid-2017 when its market capitalisation was US$12bn. The Fund still holds this position, but with a market capitalisation close to US$40bn, we recognise that it is more efficiently priced and hence not the highest conviction investment in the portfolio, a status it held for quite some time over the holding period.

It was through our on-the-ground channel checking of this investment and through industry analysis that the team has met with multiple industry players supplying into this compelling structural dynamic. This stone turning showed us Hansol Chemical, an industrial chemical producer which was undergoing a sharp transformation in refocusing its research and development and capital in two key directions: Electric Vehicle (EV) materials and Quantum Dot OLED materials supplying Samsung Electronics' new generation high end televisions.

During the time we have held Hansol Chemical its sales have hardly impressed growing from KRW582bn in 2018 to 619bn for 2020, but this top line picture likens the company to a relaxed duck coasting across a pond and there was much action below this line for Hansol over this period, with the divestment of stakes in low margin legacy chemical ventures and the reinvestment into the above revenue streams at far superior margins.

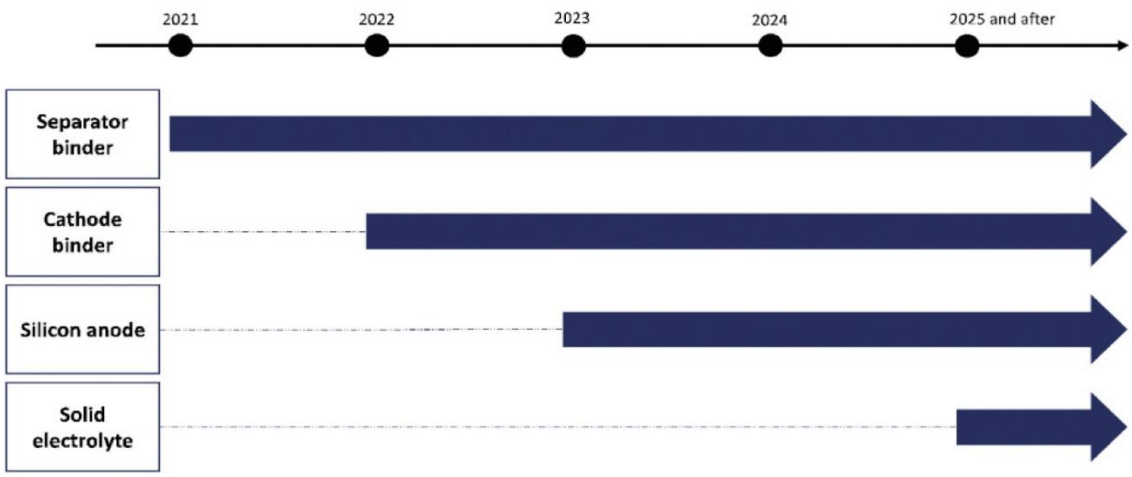
Hansol Chemical's profit margin and revenue

YEAR	2018	2019	2020	2021	2022	2023
Operating profit margin	16.1%	19.0%	24.3%	27.6%	28.9%	29.7%
QD OLED % Revenue	10.3%	10.6%	13.8%	15.0%	16.2%	16.9%
EV Batteries % Revenue	0.3%	0.9%	1.9%	4.5%	5.8%	7.9%

Source: Hansol Chemical, Macquarie Asset Management

The above dynamic was pleasing to watch, but what excites us more is the forward road map for Hansol especially in EV battery materials. The data above capture only the early-stage production of just two key products in this value chain, while the company's focus and ambition goes much further.

Hansol Chemical's battery materials roadmap



Source: CLSA, Hansol Chemical

We feel the potential is growing rapidly, as the company's key EV battery customer, Samsung SDI, is set to see EV battery sales grow 10-fold by 2030, based on our estimates.

Apart from its strong growth prospects, we also find the company to be attractively priced compared to other players in the EV space whilst delivering higher returns on capital. The combination of these factors support our conviction holding in this name.

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