Macquarie Investment Management

Macquarie Australian Small Companies Fund

Monthly report – 31 December 2021

MACQUARIE

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	$243.5m
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 December 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	3.58	3.37	1.41	1.96
3 months (%)	3.98	3.67	2.03	1.64
1 year (%)	21.46	20.31	16.90	3.41
3 years (% pa)	21.68	20.46	15.71	4.75
5 years (% pa)	19.16	17.63	11.17	6.46
Since inception (% pa)	12.08	10.61	4.45	6.16

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)

Imugene Limited
Johns Lyng Group Ltd
Novonix Ltd

Italics denote underweight

Top 5 overweight positions (alphabetical)

Charter Hall Group
Healius Ltd
IGO Ltd
Johns Lyng Group Ltd
Steadfast Group Ltd

Bottom 3 stock attribution (alphabetical)

Ardent Leisure Group Limited
Iluka Resources
Link Administration

Italics denote underweight

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Fund highlights

This month, the Fund finished up 3.37% (post-fees), outperforming the benchmark by 1.96%.

The largest contributors to relative performance for December included an overweight position in Johns Lyng Group (JLG), and underweight positions in Novonix Ltd (NVX) and Imugene Limited (IMU).

John Lyng Group announced the acquisition of US-based group Reconstruction Experts. Reconstruction Experts is a provider of insurance-focussed repair services to insurance clients in the US. This business is similar to Johns Lyng domestic operations. An equity raising was held to partially fund the $200m acquisition.

Battery technology company Novonix (NVX) saw a sharp fall mid-December following a media story highlighting that Chinese supplies of graphite may be granted waivers from US tariffs, potentially affecting demand for Novonix's products. After very strong gains in recent months, this was enough to prompt nervous retail investors to take profits in the name.

The largest detractors from relative performance include underweight positions in Iluka Resources Limited (ILU) and Link Administration Holdings Ltd (LNK) and an overweight position in Ardent Leisure Group Limited (ALG).

The IT service management company Link Administration Holdings (LNK) saw a 15% share price gain after announcing a takeover approach from Dye & Durham. Under the scheme, shareholders will receive $5.50 cash per share and an interim dividend of 3 cents, representing a significant premium to Link Group's closing price prior to the announcement.

As at 31 December 2021, the largest overweight positions in the Fund were IGO Limited (IGO), Johns Lyng Group (JLG) and Steadfast Group Ltd (SDF).

Market overview

The S&P/ASX Small Ordinaries Accumulation Index rose 1.41% in December, underperforming the S&P/ASX 300 Accumulation Index by 1.24%.

In global equities, December experienced steady increases despite case numbers from the Omicron variant continuing to reach daily records, stalling the international recovery from the COVID-19 crisis. Although the pandemic remains unpredictable, stable hospitalisation rates and subsiding fears toward Omicron have contributed to a relatively neutral initial reaction from markets. Furthermore, growth in the number of booster shots administered has led to more COVID recoveries and an optimistic outlook to life with the virus, enhanced by the easing of government restrictions. US inflation rates were on par with expectations as supply chain disruptions were slightly alleviated, encouraging investors to raise equity prices and push bond yields down. Considering this, the Australian market lagged other developed markets, sitting 1.2% behind the MSCI World All Countries Index (+3.7%). Globally, China was the worst performer in December experiencing a 3.2% decline, however MSCI Emerging Markets sustained reasonable growth at 1.5%.

REITs were the best performing sector in the Small Ordinaries Index for December, up 7.4%. The worst performing sector was Technology (-5.2%).

Yield changes in December were minimal with the Australian 10-year yield dropping 3bps to 1.67% and the US 10-year yield rising 8bps to 1.51%.

Commodities were mixed for December. Iron ore rose by 18.5% following cuts to the one-year lending rate by the People's Bank of China. Uranium (-27.2%) and Natural Gas (-22.1%) experienced the largest falls among commodities in December, mainly attributed to warmer than expected weather in both the US and Europe. WTI Oil ended the month on a high, up 13.6%, as gas and power prices surge in Europe and governments forgo implementing new restrictions in response to Omicron.

The AUD appreciated 2.5% in December to US$0.727. The cash rate remained stable at 0.10% in the domestic economy.

Outlook

As rules surrounding isolation and testing continue to be relaxed in Australia, markets are expected to normalise. However, investor focus remains on the impact of the Omicron variant and potential emergence of further virus mutations.

Domestically, the economic rebound continues to be a key theme for investors, with the easing of restrictions being met with strong consumer and corporate demand. With a Federal election expected in May, government policy will be an important contributor to economic activity in the coming months.

In global markets, inflation above pre-COVID levels will continue to impact investment decisions. As a result, central bank policy should be monitored closely by investors, with higher interest rates likely throughout 2022.

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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