

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	\$53.7m
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 December 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-3.53	-3.40	1.03	-4.43
3 months (%)	-4.98	-5.04	1.88	-6.92
1 year (%)	20.05	18.92	28.13	-9.21
3 years (% pa)	12.98	12.04	16.52	-4.48
5 years (% pa)	9.83	8.74	12.00	-3.26
10 years (% pa)	14.35	12.19	12.15	0.04
Since inception (% pa)	12.02	9.53	8.31	1.22

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	4.80
China Education Group	4.13
Hansol Chemical	4.04
UPL	4.03
DGB Financial	3.83
Erajaya Swasembada	3.72
WONIK IPS	3.58
3SBio	3.46
Sinbon Electronics	3.43
Fusheng Precision	3.38

Geographical weighting

	%
China	14.63
Hong Kong	2.30
India	21.92
Indonesia	9.59
Malaysia	2.40
Pakistan	0.00
Philippines	0.62
Singapore	0.00
South Korea	17.57
Taiwan	27.54
Thailand	1.45
Cash	1.98

Sector breakdown

	%
Consumer Discretionary	18.33
Consumer Staples	6.73
Energy	1.73
Financials	13.99
Health Care	9.73
Industrials	1.10
Information Technology	31.29
Materials	8.07
Real Estate	3.91
Communication Services	3.14
Utilities	0.00
Cash	1.98

Macquarie Asia New Stars No.1 Fund

Monthly report – 31 December 2021

What happened in December?

- The Fund retraced in December mainly on poor sentiment toward Chinese property services and education companies. The Fund lagged a benchmark that was led higher by cyclicals with Industrial and Materials sectors extending their recent outperformance over the structurally advantaged Consumer and Healthcare sectors.
- Both property services and education are respectively supported by trends of increased multi-dwelling living and higher demand for vocational and higher education with a shift toward services and higher technology manufacturing within the Chinese economy, in our view. For the year both sectors witnessed strong earnings growth with high annuity style earnings visibility ahead of them. Nonetheless these highly profitable business models are being overlooked with poor sentiment toward China prevailing.
- The discounting of domestic demand names despite the solid earnings delivery saw the portfolio close the year at a material discount to both its own benchmark and global bourses. Despite maintaining superior quality and structural growth prospects, the portfolio has historically tended to trade in line with its more cyclical benchmark which we observe to be a product of the less efficient, under-analysed market. The prevailing discount we see as an exaggerated anomaly.

2022 outlook

The Asian Equities team outlook for 2022 is grounded in the perspective of our reflections of 2021. We believe understanding the past and present can help distil future opportunities. Two high level observations of Asia ex-Japan markets in 2021 were the strong outperformance of Small and mid-caps and the outperformance of cyclicals.

In our outlook for 2021 we identified the potential for small and mid-caps to outperform due to the effects of regulation on large cap internet and e-commerce companies, the headwinds facing this segment after their strong 2020 performance and the concentration of large cap index in these names particularly within China. This largely played out as expected and small and mid-cap investors were consequently rewarded in 2021.

The outperformance of cyclicals was not forecast by the team and was particularly concentrated in transportation, logistics and materials names as is highlighted below. Although we do not see immediate resolution of issues driving constraints in these sectors, we do see them persisting indefinitely and hence retain our long-held view that quality structural growth opportunities tied to domestic demand and the emergence of the Asian consumer as better long-term opportunities. Indeed, many consumer related companies witnessed margin contraction despite seeing solid revenue growth. Naturally it was the higher quality of these that better endured this cost burden and had the pricing power to pass on these cost increases in many instances taking share from weaker competition.

MSCI Asia ex Japan Small Cap Index sectoral performance illustration

GICS sector	Classification	2021 Return (USD)
Materials	Cyclical	39.7%
Industrials		34.2%
Benchmark		21.47%
Consumer Discretionary	Structural Growth	8.6%
Consumer Staples		0.9%
Health Care		-12.8%

Source: Bloomberg, MSCI, Macquarie Asset Management

Although the emergence of Covid-19 strains was a headwind for the domestic focused companies over the two years since the virus emerged, it is these very opportunities that have great potential as the economies open and lockdowns are wound back. It is Indonesia to us which stands out as a market with many overlooked opportunities at attractive valuations. We expect investor attention will increasingly turn to ASEAN more broadly in 2022 and in the largest economy in the region, Indonesia. The country has many compelling structural growth drivers having a young population eager to attain a higher quality of life. It is estimated that Indonesia will vaccinate 99% of its total population by March 2022 (Source: Morgan Stanley) lessening the risk that COVID will further impede the region's growth.

In 2021, environmental issues were front mind for policymakers, corporates and consumers alike culminating in commitments made at the COP26 meeting. Structural growth opportunities that have capitalised and are well positioned to further benefit from this enduring shift include South Korean battery and battery materials producers and Taiwanese green energy component producers. These sectors performed well in 2021 and have a long runway of compounding ahead of them as the world shifts to less carbon intensive transportation.

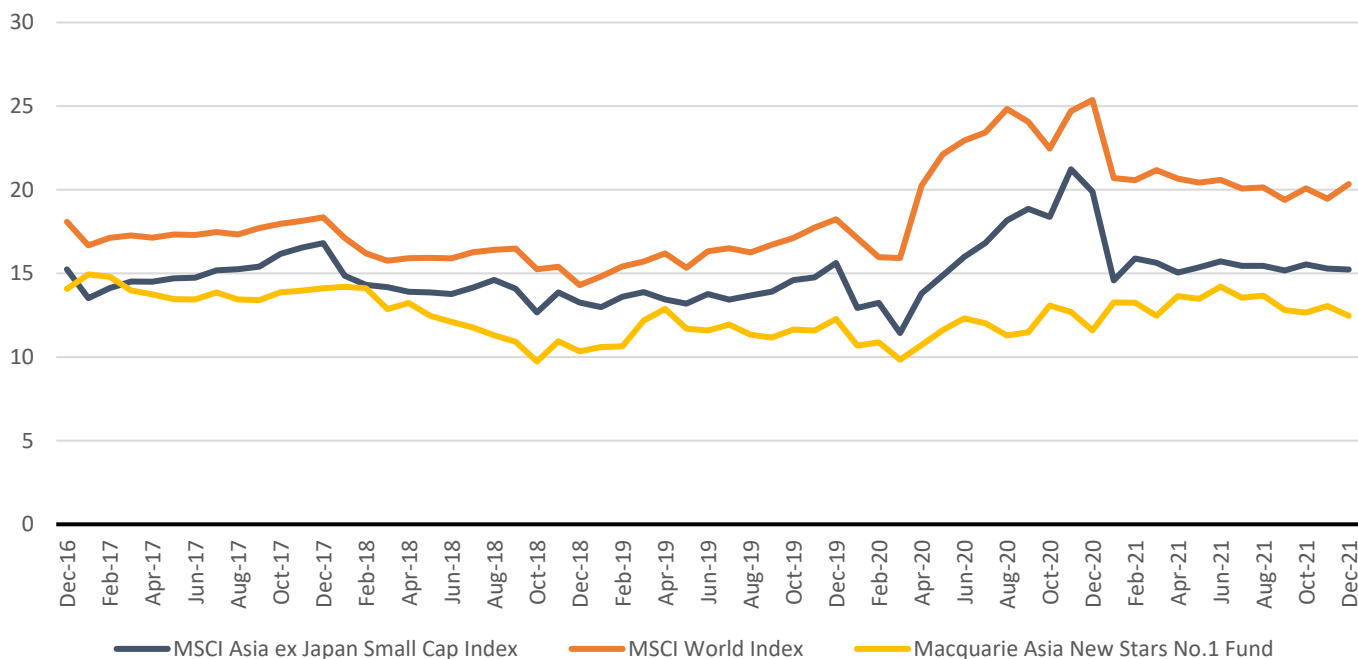
As we enter 2022, we look to the key structural drivers of the global economy being technology, addressing the environmental concerns of the planet and society and the emergence of the Asian middle class. We see a high concentration of these opportunities in Asian Small and Mid-Caps and within that universe certainly favour opportunities aligned to these enduring trends. Although the wane of economic cycles and the impacts of COVID are difficult to forecast, the falling commodity prices and high vaccination rates suggest these 2021 headwinds for structural growth opportunities may be lesser if not tailwinds within the Asian region in 2022. Similarly, policy risk is notoriously hard to

Macquarie Asia New Stars No.1 Fund

Monthly report – 31 December 2021

predict we see this as being particularly elevated at present and more than reflected in the depressed valuation multiples which is a further area of both comfort and excitement in investing in Asian small and mid-caps.

Price-to-Earnings multiple comparison



Source: Bloomberg, Macquarie Asset Management

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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