

Macquarie Australian Small Companies Fund

Monthly report – 31 March 2022

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	\$239.5m
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 March 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	6.16	5.91	5.26	0.65
3 months (%)	-0.42	-0.73	-4.21	3.48
1 year (%)	15.63	14.48	9.68	4.80
3 years (% pa)	17.46	16.22	9.64	6.58
5 years (% pa)	18.10	16.55	9.90	6.65
Since inception (% pa)	11.85	10.39	4.10	6.29

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 5 overweight positions (alphabetical)

Centuria Capital Limited

CSR Limited

IGO Ltd

Johns Lyng Group Ltd

Uniti Group Ltd

Top 3 stock attribution (alphabetical)

IGO Ltd

New Hope Corporation Limited

Uniti Group Ltd

*Italics denotes underweight

Bottom 3 stock attribution (alphabetical)

Ardent Leisure Group Limited

AVZ Minerals Limited

Liontown Resources Limited

*Italics denotes underweight

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Fund highlights

This month, the Fund finished the month up 5.91% (post-fees), outperforming the benchmark by 0.65%.

The largest contributors to relative performance included overweight positions in Uniti Group (UWL), New Hope Corporation (NHC), and IGO Ltd (IGO).

Lithium and nickel producer, IGO Limited (IGO), performed strongly due to rising lithium and nickel prices during the period. Investor demand for lithium remains positive, given the strong long-term demand outlook for electric vehicle (EV) batteries. Meanwhile, the spot nickel price rallied 32.3% during March, as investors grew concerned about ongoing supply disruptions stemming from the Russia/Ukraine conflict.

Uniti Group (UWL) outperformed after the company received two takeover offers in the month. The initial bid was from infrastructure and property-focused asset manager, Morrison & Co. The bid valued the company at A\$3.06bn, a 43% premium on UWL's previous closing price.

The largest detractors from relative performance included overweight positions in Virgin Money UK (VUK) and Ardent Leisure Group (ALG).

United Kingdom focused regional bank, Virgin Money UK (VUK), underperformed during the period, as the Russia/Ukraine conflict weighed on the European banking sector.

Underweight holdings in lithium project developers Lake Resources (LKE) and AVZ Minerals (AVZ) detracted from performance. The strong performance in these names was driven by positive investor sentiment for the lithium price. The Macquarie Australian Small Companies Fund has exposure to other lithium miners such as IGO Ltd (IGO) which benefited from this thematic.

As at 31 March 2022, the largest overweight positions in the Fund were IGO Ltd (IGO), Johns Lyng Group (JLG) and Uniti Group (UWL).

Market overview

It was another strong month for Australian equities, with the S&P/ASX Small Ordinaries Accumulation Index returning +5.26%.

March saw global equity markets rising on hopes of peace talks between Russia and Ukraine. Global investors also appear to remain positive on the economic outlook of developed nations despite high inflation and approaching rate hikes, as geopolitical tensions continue to keep investors wary of Emerging markets. Australian equities outperformed global equities for a second month in a row, driven by strong commodity prices which pushed the Energy and Materials sectors higher. Australian equities have been strong performers since Russia's invasion of Ukraine which has driven a rotation to markets with high commodity exposure and strong governance.

Domestically, Communication Services (+15.4%) was the best performing sector. Energy (+12.2%) and Materials (+11.3%) also outperformed. Consumer Discretionary (-0.4%) and Industrials (+0.9%) underperformed.

Commodity prices continued to rise. Brent oil moved up US\$7 to US\$108/bbl on continuing geopolitical tensions restricting supply. This increase was despite the sharp drop in prices at the end of the month on news that the US government is considering an emergency oil reserve release. Iron ore climbed US\$17 to US\$153/Mt as markets expect robust restocking demand post-COVID. Gold increased 1.7%.

Bonds sold off as investors priced in higher inflation and interest rates, with the Australian 10-year yield increasing 0.69% to 2.83%. US 10-year yields also materially sold off by 0.49% to 2.32%. The AUD appreciated 2.5c in March to US\$0.751. The RBA cash rate remained stable at 0.10%.

The Australian Federal budget for 2022-23 was announced at the end of the month, with ongoing fiscal stimulus measures ahead of the Federal election in May.

Outlook

Over recent months, the Australian equity market has remained resilient despite macroeconomic and geopolitical related volatility. With the Federal election due in May, short-term government policy is likely to remain supportive for corporate earnings.

Elevated global inflation will continue to be a focus for investors over coming months, as will the ongoing development of the Russia and Ukraine conflict. These are risks that we will continue to monitor closely.

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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 macquarieim.com

Important information

Macquarie Investment Management Australia Limited ABN 55 092 552 611 AFS Licence 238321 is the issuer of units in, and responsible entity of the Fund. Macquarie Investment Management Global Limited ABN 90 086 159 060 AFSL 237843 is the investment manager of the Fund.

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