

Macquarie Asia New Stars No.1 Fund

Monthly report – 31 May 2022

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	\$47.9m
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 May 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-3.56	-3.66	-2.84	-0.82
3 months (%)	-3.55	-3.84	-4.20	0.36
1 year (%)	-10.95	-11.82	-3.09	-8.73
3 years (% pa)	6.08	5.19	10.46	-5.27
5 years (% pa)	4.07	3.06	6.75	-3.69
10 years (% pa)	11.54	9.44	9.66	-0.22
Since inception (% pa)	10.51	8.09	6.89	1.20

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

	%
UPL	5.27
Erajaya Swasembada	4.76
BGF retail	4.42
Wiwynn	4.31
Fusheng Precision	4.12
DGB Financial	4.11
Hansol Chemical	4.10
Bank Tabungan Pensiunan Nasional Syariah	4.00
Zhen Ding Technology	3.78
Samsung SDI	3.75

Geographical weighting

	%
China	12.28
Hong Kong	1.62
India	21.03
Indonesia	9.28
Malaysia	3.62
Pakistan	0.00
Philippines	1.68
Singapore	0.00
South Korea	20.58
Taiwan	25.31
Thailand	1.80
Cash	2.80

Sector breakdown

	%
Consumer Discretionary	13.73
Consumer Staples	6.55
Energy	1.47
Financials	13.83
Health Care	7.45
Industrials	2.50
Information Technology	35.05
Materials	9.37
Real Estate	2.93
Communication Services	4.31
Utilities	0.00
Cash	2.80

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Monthly report – 31 May 2022

What happened in May?

- Asian markets declined over the month as the expectations of aggressive policy tightening by the Fed and concerns over global economic growth weighed on the risk sentiment. The portfolio underperformed its benchmark in May primarily driven by what we believe to be stock specific short-term sentiment driven factors.
- The source of this month's underperformance primarily came from China with the tertiary education providers, China Education Group and China New Higher Education, depressed on negative sentiment toward the sector. We remain positive on their long-term outlook and continue to look through the sector-based volatility that has seen their valuations drop to highly attractive levels, in our view.
- More broadly, we saw signs that market sentiment was turning more positive on the Chinese equities due to the government's efforts to cushion economic growth slowdown, expectations of Shanghai re-opening and Beijing's easing Omicron cases and reduced mobility restrictions, as well as US President Joe Biden's statement that he is considering removing some of the tariffs on Chinese imports.
- On the positive side of things, India was the country where the most outperformance was delivered during the month, with a re-opening play via our investment in the MakeMyTrip online travel booking website provider delivering the bulk of the outperformance.

Earnings season (Q1 2022)

Quarterly earnings releases help provide glimpses of the recent operating environments for the regions' companies, often helping to bring underlying fundamentals back into focus.

During this quarterly earnings season, in a reflection of the underlying strength of commodity prices we have seen these sectors produce the most positive surprises relative to market expectations.

Although looking back is important, it is company prospects moving forward that drives investment results from here. Consensus now expects earnings growth of 9.0% for 2022, with the fastest-growing markets expected to be the Philippines (28%) and India (23%). In last three months, earnings have been upgraded for Taiwan and Korea but downgraded the most for mainland China and Hong Kong (source: HSBC).

Quarterly earnings momentum



Source: FactSet consensus forecasts, FTSE Russell, HSBC

Within the Asia New Stars portfolio we highlight three higher conviction positions that have produced strong results in this quarter:

UPL

The result: UPL delivered 19% revenue growth vs guidance of 10%, with a pleasing contribution from sales volume increases from the differentiated and sustainable product portfolio; in addition to pricing driven growth for post-patent products due to strong commodity prices.

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Monthly report – 31 May 2022

Our outlook: UPL continues to increase its global crop protection market share from 4% in 2017 to now 8% in 2022, aiming for it to be 9-11% by 2027 (as it expects 2-3x market growth). We also expect UPL to benefit from the growing need for its differentiated and sustainable products, which currently stand at 29% of its revenue and, with over 70% of its new product pipeline devoted to this, could grow to 50% of total revenue by 2027.

BGF Retail

The result: BGF Retail grew sales by 13% over the quarter, with margin improvements seeing its operating profit surge 75% year-on-year, beating consensus by 26%.

Our outlook: The reopening of the South Korean economy has benefitted BGF's top line which has also seen scale economies contribute to the lift in profit margin. However, the majority of the sector leading margin improvement comes from the company's efforts in improving its meal and drinks offerings where self-branded products deliver a far higher margin than the broader offering.

BTPS

The result: An in-line result on all metrics with unchanged guidance.

Our outlook: The Indonesian economy has bounced back strongly during the second quarter and although the company remains selective, the month of April alone saw customer finance growth match that of the first quarter of 2022. The company remains a high conviction, long-term hold.

For more information speak to your financial adviser, call us on 1800 814 523, email mam.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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