

# Macquarie Australian Small Companies Fund

Monthly report – 31 August 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	\$235.6m
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	<a href="https://www.macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a>

\*Read the Product Disclosure Statement for more details on fees and costs.

## Fund performance to 31 August 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	3.32	3.26	0.58	2.68
<b>3 months (%)</b>	-0.11	-0.29	-2.59	2.30
<b>1 year (%)</b>	-4.27	-5.20	-14.66	9.46
<b>3 years (% pa)</b>	10.31	9.24	4.10	5.14
<b>5 years (% pa)</b>	14.51	13.16	6.85	6.31
<b>Since inception (% pa)</b>	11.05	9.61	3.26	6.35

### 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

Johns Lyng Group Ltd

News Corporation

Spark New Zealand Ltd

Syrah Resources Ltd

## Top 3 stock attribution (alphabetical)

Liontown Resources Limited

Lovisa Holdings Ltd

Syrah Resources Ltd

\*Italics denotes underweight

## Bottom 3 stock attribution (alphabetical)

Aussie Broadband Ltd

Centuria Capital Limited

*Sayona Mining Ltd*

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## Fund highlights

In August, the Fund finished up 3.26% (post-fees), outperforming the benchmark by 2.68%.

The largest contributors to relative performance included overweight positions in Syrah Resources (SYR), Lontown Resources (LTR) and Karoon Energy (KAR).

Lithium prices continue to remain strong with further positive outlook for the sector as supply is expected to remain tight, benefiting Lontown Resources (LTR) which outperformed for the period.

Oil and gas company Karoon Energy (KAR) outperformed for the period after reporting solid FY22 results including growth in both its top and bottom lines. The company also announced it will consider returning excess capital to shareholders in the form of dividends and share buybacks.

The key detractors from relative performance included an overweight position in Centuria Capital (CNI) and underweight positions in lithium companies Lake Resources (LKE) and Sayona Mining (SYA).

Specialist listed property fund (REIT) manager Centuria Capital (CNI) underperformed for the period as the impact of higher interest costs was felt across the REIT sector with many companies flagging distributions to be flat or to fall in FY23.

## Market overview

Australian equities outperformed slightly in August, with the S&P/ASX Small Ordinaries Accumulation Index returning 0.58%.

Globally, equity markets struggled in August with both the S&P 500 (-4.1%) and the MSCI Developed Markets Index (-3.4%) losing ground. Investor sentiment softened following hawkish commentary from the Federal Reserve at the annual Jackson Hole symposium which heightened expectations of continued rate hikes in the US.

For the Small Ords, Energy (+6.5%) was the best performing sector, despite weakness in the oil price. Thermal coal producers Whitehaven Coal (WHC, +28%) and New Hope Corporation (NHC, +12%) were up strongly as coal prices remained elevated. Materials (+4.3%) also outperformed driven by gains in battery material producers. This included lithium companies such as Sayona Mining (SYA, +44%) and Lake Resources (LKE, +38%) which were helped by high prices for spodumene, a key lithium ore. Real Estate (-4.9%) was the worst performing sector, amid concerns that distributions will be impacted as higher bond yields flow through to increased interest costs.

A key focus for domestic investors was the August reporting season, which sees most listed companies announce financial results and earnings guidance. Overall, the Australian market enjoyed a stronger than expected reporting season with most companies cautiously optimistic about their revenue outlook despite facing several headwinds and volatile markets over the last six months. Many companies commented on the strength of the Australian consumer, noting high levels of savings and the robust nature of the household balance sheet as a positive. However, companies also noted many common challenges, including increasing costs impacting margins, and supply chain issues leading to high levels of inventory.

Commodity prices continued to fall during the month as COVID impacts linger and supply increased. This saw Brent oil drop US\$14 to US\$96/bbl and Iron ore fall US\$19 to US\$99/Mt. Gold continued to decline, seeing a fall by US\$38 to US\$1,716 per ounce.

The hawkish commentary from the U.S Federal Reserve also impacted bond yields, with Australian 10-year yields increasing 0.54% to 3.60% and in the US, 10-year yields rising by 0.33% to 2.64%. The USD strengthened against the AUD, gaining 2.09% for the month. At the time of writing this report, the RBA cash rate is 2.35% after the RBA raised the rate by 0.50% on Tuesday 6th September 2022.

## Outlook

Despite a generally positive August reporting season, investors remain cautious given the traditional lag between rising interest rates and the impact on the economy. As the market continues to grapple with the trade-off between using tighter monetary policy to tame inflation against the risk of a slowing economy, market volatility is likely to remain elevated.

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**For more information speak to your financial adviser, call us on 1800 814 523, email [mam.clientservice@macquarie.com](mailto:mam.clientservice@macquarie.com) or visit [macquarieim.com](http://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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