Macquarie Australian Shares Fund

Monthly report – 30 November 2022

Investment objective

Aims to outperform the S&P/ASX 200 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	MAQ0443AU
Inception date	29 November 2005
Fund size	$306.1m
Distribution frequency	Quarterly
Management fee*	0.60% 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 30 November 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	5.99	5.94	6.58	-0.64
3 months (%)	7.27	7.11	6.04	1.07
1 year (%)	7.70	7.05	5.00	2.05
3 years (% pa)	9.68	9.05	5.93	3.12
5 years (% pa)	11.40	10.74	8.20	2.54
Since inception (% pa)	12.04	10.66	7.17	3.49

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.

Top 5 overweight positions (alphabetical)

Altium Limited
Auckland International Airport Limited
Qantas Airways
QBE Insurance
South32

Top 3 stock attribution (alphabetical)

National Aust. Bank
Northern Star Resources Ltd
Perseus Mining Ltd

*Italics denotes underweight

Bottom 3 stock attribution (alphabetical)

BHP Group
Fortescue Metals
Lend Lease Group

*Italics denotes underweight

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Fund highlights

In November, the Fund finished up 5.94% (post-fees), underperforming the benchmark by -0.64%.

The key contributors to relative performance included an underweight position in National Australia Bank (NAB) and overweight positions in Northern Star Resources (NSR) and Perseus Mining (PRU).

National Australia Bank underperformed for the period, in line with other banks, amid concerns over rising costs outweighing expected gains from higher net interest margins.

Gold miner Norther Star Resources performed strongly for the period as gold prices rebounded.

The key detractors from relative performance included underweight positions in Fortescue Metals (FMG) and BHP Group (BHP) and an overweight position in Lendlease (LLC).

Miners BHP and Fortescue Metals outperformed for the period as iron ore prices rose more than +25% during November, directly impacting their bottom lines.

Market overview

Australian equities bounced back in November, with the S&P/ASX 200 and S&P/ASX 300 Accumulation Index finishing the month up 6.6% and 5.5% respectively.

It was a strong month for equities globally, as both the S&P500 (+5.7%) and the MSCI Developed Markets Index (+5.7%) also rallied off the back of more dovish commentary from central banks. In the US, Federal Reserve chair Jerome Powell flagged the potential for rate hikes to slow, potentially as soon as December, which provided relief for investors. Similarly, in Australia investors took the second consecutive 25bp rate hike as a positive sign the RBA was slowing down their interest rate hikes.

The Australian market is ~5% higher than where it was a year ago with Energy companies up 59% and Resources more broadly ~32%. Australia's oil & gas sector (along with the thermal coal stocks) have benefited from the pricing pressures that have arisen during the Russian aggression in Ukraine. In comparison, global markets are down -12% driven by the US market where a recession looms over corporate earnings and the pandemic gains of big technology companies have sharply unwound.

The Annual General Meeting (AGM) season continued in November, with the bulk of listed companies having June year-ends the month was busy with updates. More than half of companies reiterated their earnings guidance made back in August, while a sixth materially upgraded and a quarter downgraded their expectations.

Upgrades came from companies that continue to experience better trading conditions compared to 2020 and 2021 especially in travel (Qantas and Webjet), retail (JB HiFi, Harvey Norman) and stocks where higher interest rates mean higher net revenues (Computershare, ANZ and Suncorp). Companies that downgraded noted the further waning of lockdown benefits (Helius), ongoing poor weather (Costa and Origin Energy) and margin pressures or loss of pricing power (Reliance, Sims and Collins Foods).

Domestically, Utilities (+20.8%) was the best performing sector. This was largely driven by Origin Energy receiving an $18.4 billion takeover bid from Canadian-based Brookfield Asset Management and private equity firm MidOcean Energy, which saw the share price rise +45% during the month. Australian markets were further buoyed by renewed optimism over China re-opening from strict COVID lockdowns. This led to Materials (+16.3%) outperforming, with miners BHP, Rio Tinto and Mineral Resources all up over 20% for the period.

As mining stocks performed so strongly, other sectors struggled to keep pace and underperformed for the period, despite being in the green. Communication Services (+2.1%) and Financials (+2.5%) were the worst performing sectors, with defensive telecommunication stocks lagging the broader market and big banks underperforming.

Commodity prices had mixed results during the month. Brent oil fell US$9 to US$85/bbl while Iron ore rose US$21 to US$103/Mt. Gold prices bounced back, seeing a gain of US$115 to US$1,754 per ounce.

The smaller RBA rate hike in November saw Australian 10-year yields continue to fall, dropping by 0.23% to 3.53%. This was also seen in the US, where 10-year yields reversed their recent trend and fell by 0.38% to 3.70%. The AUD strengthened against the USD, gaining 3 cents for the month, and finishing at $0.67 USD.

At the time of writing this report, the RBA cash rate is 3.10% after the RBA raised the rate by a further 0.25% on Tuesday 6th December 2022.

Outlook

Markets have continued to recover from September lows as the outlook for inflation and interest rates has gradually improved. Valuations remain moderately attractive, but there are increasing signs that the Australian economy is slowing as rising mortgage rates and higher cost-of-living expenses start to impact households.

Whilst demand is expected to remain robust over the first uninterrupted holiday period in three years, there is a risk that spending will slow in 2023, impacting corporate earnings. 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 or visit macquarieim.com