Macquarie Australian Shares Fund

Monthly report – 31 December 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	$308.5m
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 31 December 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-3.03	-3.07	-3.21	0.14
3 months (%)	8.80	8.63	9.40	-0.77
1 year (%)	1.31	0.70	-1.08	1.78
3 years (% pa)	9.20	8.56	5.55	3.01
5 years (% pa)	9.91	9.26	7.11	2.15
Since inception (% pa)	11.78	10.40	6.92	3.48

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)

Clinuvel Pharmaceuticals Limited
New Hope Corporation Limited
QBE Insurance

*Italics denotes underweight

Bottom 3 stock attribution (alphabetical)

Aristocrat Leisure Limited
Fortescue Metals
Nine Entertainment Co

*Italics denotes underweight

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Fund highlights

In December, the Fund finished down -3.08% (post-fees), outperforming the benchmark by 0.14%.

The key contributors to relative performance included overweight positions in QBE Insurance (QBE), Clinuvel Pharmaceutical (CUV) and Perenti (PRN).

Insurance business QBE Insurance outperformed as it continues to benefit from rising interest rates.

Mining services company Perenti outperformed following a positive earnings update, upgrading its earnings guidance. The company had managed to arrange rate adjustments with customers, including for work already completed. Perenti had also managed to secure additional contracts with Evolution Mining and Regis Resources.

The key detractors from relative performance included overweight positions in Aristocrat Leisure (ALL) and Nine Entertainment (NEC) and an underweight position in Fortescue Metals (FMG).

Aristocrat Leisure continued to underperform as investors digested commentary from its November full year result. Of particular concern was the lower-than-expected growth forecast from its mobile-games unit.

Media giant Nine Entertainment saw share price weakness after digital property company Domain (ASX: DHG) underperformed following a poor trading update, highlighting a decline in listings threatening near term earnings. Nine holds 55% of DHG shares.

Market overview

Australian equities fell in December, with the S&P/ASX 200 and S&P/ASX 300 Accumulation Index finishing the month down -3.2% and -3.3% respectively.

Australian shares outperformed global shares (MSCI global -4.3%) and the various US equities markets (S&P500 down -5.9%, NASDAQ down -8.7%). Central bank commitment to returning inflation to pre-pandemic levels continues to weigh on the big US technology companies which are large constituents of these indices.

Outside Australia, the Federal Reserve's battle against US inflation continues to set the stage for US growth and consequently global growth. Even though the Fed increased rates in December by a smaller 50bp compared to recent meetings, the continued strength of services inflation along with a tight labour market but lower participation (compared to Australia) means further rate rises are inevitable. Comments by the Fed following the December meeting confirmed the battle against these "stickier" elements of inflation will continue well into 2023. Subsequently the forecast peak official rate increased and the risk of the US economy falling into recession became a little higher – both triggering the sell-off in global equities in December.

In December, Australian shares did not fall as much as global shares as the risks of recession remains low. Most economists expect the RBA to pause rate rises early in 2023 after the central bank lifted rates by only 25bp at the December meeting. The latest monthly CPI series printed lower than expected however the labour market remains strong; unemployment is at a record low of 3.4% and the participation is at a record high. However, house prices continue to weaken from their pandemic high and this will function as a brake on further RBA rate hikes with lower house prices flowing on to lower consumer spending (via the wealth effect) and impacting the housing and construction industry. This is already evident with downgrades in Domain (where profits are a function of sale listings) and James Hardie during December.

Domestically, all sectors retreated last month however the largest fall was the consumer discretionary sector (-7.0%), where several housing industry constituents announced deteriorating trading conditions. The resources dominated materials sector fell only -0.9% supported by a much stronger iron ore price (up +19.0%) and a rally in several of the green metals (Copper +5.1% and Nickel 14.3%). Small gold companies were some of the best performing companies underpinned by the recovery in the gold price however lithium companies, impacted by the changing landscape for battery demand, struggled in the final weeks of December.

Australian 10-year yields bounced back, increasing by 0.52% to 4.05%. This was also seen in the US, where 10-year yields rose by 0.18% to 3.88%. The AUD strengthened against the USD, gaining 1.3% for the month.

Outlook

Moving into 2023, market focus will increasingly turn to the trajectory of company earnings as it assesses the impact of interest rates increases on demand. Company valuations have improved considerably over 2022 and in most cases, factor in a moderate earnings slowdown. Whether this buffer is sufficient will depend on the depth and duration of an economic slowdown. The first test will be the upcoming February results period.

Other challenges facing the market include the potential for another round of supply chain disruption as China grapples with its current COVID outbreak as well as heightened geo-political risk.

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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