

Macquarie Australian Shares Fund

Monthly report – 28 February 2023

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 | \$326.9m |
| Distribution frequency | Quarterly |
| Management fee* | 0.60% pa |
| Minimum investment (Direct) | \$20,000 |
| Unit prices and spreads | macquarie.com.au/unit_prices |

*Read the Investment Memorandum for more details on fees and costs.

Fund performance to 28 February 2023

| | Total Fund return (gross) | Total Fund return (net) | Benchmark return | Total excess return (net) |
|-------------------------------|---------------------------|-------------------------|------------------|---------------------------|
| 1 month (%) | -2.63 | -2.67 | -2.45 | -0.22 |
| 3 months (%) | 0.02 | -0.13 | 0.30 | -0.43 |
| 1 year (%) | 9.76 | 9.09 | 7.16 | 1.93 |
| 3 years (% pa) | 11.31 | 10.66 | 7.93 | 2.73 |
| 5 years (% pa) | 10.05 | 9.40 | 7.90 | 1.50 |
| Since inception (% pa) | 11.86 | 10.49 | 7.08 | 3.41 |

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)

| |
|------------------------------|
| AGL Energy |
| Altium Limited |
| Austbrokers Holdings Limited |
| Qantas Airways |
| QBE Insurance |

Top 3 stock attribution (alphabetical)

| |
|------------------------------|
| Austbrokers Holdings Limited |
| Medibank Private Ltd |
| QBE Insurance |

*Italics denotes underweight

Bottom 3 stock attribution (alphabetical)

| |
|----------------------------------|
| Clinuvel Pharmaceuticals Limited |
| Northern Star Resources Ltd |
| NRW Holdings |

*Italics denotes underweight

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Fund highlights

The Fund returned -2.67% (post-fees) for the month, underperforming the benchmark by 0.22%.

The key contributors to relative performance included overweight positions in AUB Group (AUB), QBE Insurance (QBE) and Medibank Private (MPL).

Insurer AUB outperformed following a positive earnings update. The company reported revenue growth and margin expansion in its Australian broking division driven by ongoing network optimisation, disciplined acquisitions, and enhanced broker propositions.

Health insurer Medibank Private also saw strong share price movement after releasing its half year results for the six months ending 31 December 2022. Despite the controversy due to the cybersecurity breach in October, Medibank reported growth in revenue, profit and earnings per share as the company benefited from a higher interest rate environment and lower claims.

The key detractors from relative performance included overweight positions in Clinuvell Pharmaceuticals (CUV), Northern Star Resources (NST) and NRW Holdings (NWH).

Biotech company Clinuvell Pharmaceuticals saw share price weakness after reporting lower than expected sales of its key product SCENESSE.

Despite reporting strong results in its earnings update, gold mining company Northern Star underperformed for the period as the share price was weighed down by higher costs impacting the broader mining sector and a falling gold price.

Market overview

The global rally in equity markets stalled in February, with Australian equities falling -2.5% (ASX200) as equity market volatility continues. The weaker performance was driven by an underwhelming February reporting season, and renewed expectations that central banks will need to continue rate hikes to control inflation. The MSCI Developed Markets Index (-1.5%) and the S&P 500 (-2.4%) also saw falls, however both marginally outperformed the S&P/ASX 200 as Technology stocks, which comprise a larger section of the global indices, outperformed during the period.

Commodity prices fell during the month. Brent fell by US\$2.04 to US\$82/bbl, as the USD strengthened. Iron ore prices were impacted by soft demand and fell US\$3.00 to US\$126/Mt. Gold fell sharply, with prices dropping by US\$105.25 to US\$1,819, driven by higher bond yields and the higher US dollar.

Bond yields rose in reaction to continued tightening monetary policy, and hawkish commentary from central banks. Australian 10-year bond yields increased 30bps to 3.86% and US yields saw similar movement, rising 39 bps to 3.92%.

Australian reporting season had a more downbeat tone compared to last year with the S&P/ASX 300 Index losing -3.0% during the reporting season period. Across the ASX 300, slightly more companies missed than beat their reported half yearly profit - indicating slowing earnings momentum, and an operating environment which may have already peaked. Utilities and Consumer Staples were the top performing sectors with Materials and Financials the weakest. Commentary and outlook statements from most companies were negative (more downgrades than upgrades) with many companies noting a step down in activity since they ruled off accounts on 31 December 2022. There was a clear recognition that the robust economic environment over the most recent period has ended.

Rising interest rates continue to impact companies, with cracks appearing as several companies reported the impact from second order changes in consumer behaviour as higher mortgage repayments and living costs began to bite. For example, Coles noted customers looking for discounted items and for basic, rather than premium goods. In contrast there were no signs of a slowdown in the travel-related sector with significant pent-up demand from consumers still evident. Insurers and financial companies benefitted from higher interest rates while banks enjoyed a relatively robust reporting season with net interest margin expansion and relatively low credit loan losses. However, Commonwealth Bank's (CBA) share price reaction of -6% down on result day highlighted investor concerns about the peaking net interest margins and concerns for a weakening domestic economy.

Outlook

The February reporting season was moderately negative with earnings downgrades outnumbering upgrades, highlighting that economic conditions have likely peaked. As the lagged impact of rising interest rates gains traction, the economic environment will become more challenging, with potential for further earnings downside. Against this backdrop, markets are likely to remain volatile.

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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

Important information

Macquarie Investment Management Australia Limited ABN 55 092 552 611 AFSL 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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