

Macquarie Australian Small Companies Fund

Monthly report – 28 February 2023

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	\$304.8m
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	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 (%)	-3.33	-3.38	-3.70	0.32
3 months (%)	-0.78	-0.94	-1.21	0.27
1 year (%)	2.74	1.67	-7.97	9.64
3 years (% pa)	12.59	11.53	4.24	7.29
5 years (% pa)	10.44	9.31	3.56	5.75
Since inception (% pa)	10.94	9.52	3.03	6.49

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.

The management fee was reduced to 0.60% pa from 18 January 2017.

Top 5 overweight positions (alphabetical)

CSR Limited
News Corporation
Nufarm Limited
Spark New Zealand Ltd
Technology One Limited

Top 3 stock attribution (alphabetical)

<i>Core Lithium Ltd</i>
Johns Lyng Group Ltd
Ridley Corporation Limited

*Italics denotes underweight

Bottom 3 stock attribution (alphabetical)

Clinuvel Pharmaceuticals Limited
<i>Flight Centre</i>
NRW Holdings

*Italics denotes underweight

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Fund highlights

The Fund returned -3.38% (post-fees) for the month, outperforming the benchmark by 0.32%.

The key contributors to relative performance included an underweight position in Core Lithium (CXO), and overweight positions in Johns Lyng Group (JLG) and AUB Group (AUB).

Building services company Johns Lyng outperformed after reporting a bumper earnings update, benefiting from a long pipeline of restoration work from 2022 floods.

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.

The key detractors from relative performance included an underweight position in Flight Centre (FLT), and overweight positions in NRW Holdings (NWH) and Clinuvel Pharmaceuticals (CUV).

Travel company Flight Centre outperformed after raising equity to fund an acquisition in late January. The travel industry generally reported strong results in February.

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

Market overview

The rally in equity markets stalled in February, with Australian equities falling -3.7% (Small Ordinaries) 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. Globally, the MSCI Developed Markets Index (-1.5%) and the S&P 500 (-2.4%) also saw falls.

Commodity prices fell during the month. Brent fell by US\$2.04 to US\$82/bbl, as the USD strengthened. While 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 Information Technology 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.

Companies with lower pricing power and limited ability to pass on higher costs have borne the brunt of a rising cost environment. With the borders now open, many companies reported signs of easing in the labour market with lower employee turnover rates. However, wage inflation continues to be an issue. Many companies reported impacts to operations from extreme weather events. The Auckland floods impacted Downer (DOW) and Fletcher Building (FBU), leading to a slower start to 2H23.

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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