

Macquarie Australian Small Companies Fund

Monthly report – 30 April 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	\$324.8m
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 Product Disclosure Statement for more details on fees and costs.

Fund performance to 30 April 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	3.14	3.09	2.78	0.31
3 months (%)	-1.19	-1.33	-1.74	0.41
1 year (%)	-0.78	-1.59	-9.43	7.84
3 years (% pa)	16.67	15.56	9.22	6.34
5 years (% pa)	10.57	9.48	3.90	5.58
Since inception (% pa)	10.97	9.56	3.13	6.43

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
 CSR Limited
 Johns Lyng Group Ltd
 Nufarm Limited
 Spark New Zealand Ltd

Top 3 stock attribution (alphabetical)

Centuria Capital Limited
 Helloworld Travel Ltd
 Resolute Mining Limited

*Italics denotes underweight

Bottom 3 stock attribution (alphabetical)

Champion Iron Ltd
 Syrah Resources Ltd
Telix Pharmaceuticals Ltd

*Italics denotes underweight

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Fund highlights

The Fund returned 3.09% (post-fees) for the month, outperforming the benchmark by 0.31%.

The key contributors to relative performance included overweight positions in Helloworld Travel (HLO), Centuria Capital (CNI) and Resolute Mining (RSG).

Helloworld Travel underperformed for the period after reporting a strong update with the company benefiting from a continued rebound in travel post COVID-19.

Gold miner Resolute Mining outperformed following the release of a strong quarterly update and ongoing strength in the gold price.

The key detractors from relative performance included an underweight position in Telix Pharmaceutical (TLX) and overweight positions in Champion Iron (CIA) and Syrah Resources (SYR).

Cancer imaging company Telix Pharmaceutical saw its share price surge following the release of significantly better-than-expected March quarter sales.

Iron ore producer Champion Iron underperformed on continued weakness in the iron ore price.

Market overview

Australian shares lifted 2.8% (Small Ordinaries) in April joining a broad rally in global equities which largely forgot its March concerns over banking stress. The Small Ordinaries, which is growth focused, outperformed the broad market by 1% (ASX 200).

Evidence continues to mount that inflation is waning and March monthly and quarterly inflation data in late April confirmed the disinflationary cycle is underway in Australia. The composition, however, remains concerning. On the positive side, goods inflation, which is one-third of inflation, has peaked and is now falling and reflects the dissipation of 2022's supply chain shocks. The remaining two-thirds, which is the "stickier" services component, continues to increase at 8% pa which is now 2% higher than the US. This segment is driven by wages and rents and is forecast to be at best 4% by the end of 2023. For now, the market has glossed over the services inflation challenge and is taking a victory lap on the RBA's pause in rates.

More broadly, Australian shares have underperformed global shares in 2023 due to their relative overweight in financials and underweight to technology. (MSCI global +9%, S&P500 up +8.6%, NASDAQ +16.8%). Despite the strength in Australia's banking system, weaker returns have been unavoidable which, due to their relative size, have created a larger drag on the ASX indices. A more sanguine outlook for rates has improved the valuations of long duration technology companies. This has a greater relative benefit to US and global markets which have higher concentrations of technology in their indices.

Besides the growing evidence that inflation is waning, the other reason central banks have slowed rate rises has been the rise of banking stress. Higher rates have triggered solvency issues within US regional banks which has slowed credit growth and proxied the rate hiking work of central banks. Initially, the swift actions of regulators and market participants in the US curtailed any contagion however more recent concerns around another US Regional bank, First Republic, has revived fears of a US recession later this year. While banking stress gives central banks another reason to pause the tightening cycle the impact on financial stocks has been oppressive. Even though Australia's retail banks have the strongest balance sheets in global retail banking, our financial sector (mainly banks) has posted only 0.6% gains this year versus the ASX200 which is up 5.4%.

Commodity prices generally fell during the month. Brent Oil fell by US\$0.23 to US\$79.54/bbl. Iron ore prices fell US\$22 to \$105.00/Mt. Gold was flat, with prices increasing slightly by US\$2.85 to US\$1,983.

Bond yields were relatively flat with Australian 10-year bond yields moving 4 bps to 3.34% and US yields seeing similar movement, changing 5 bps to 3.45%. At the time of writing this report, the cash rate is 3.85% after the RBA raised the rate by 0.25% on Tuesday 2nd May 2023.

Outlook

With central banks continuing to hike interest rates, investor focus will be on potential earnings downside as economic growth slows. Markets continue to monitor for further 'unexpected consequences' of central bank actions.

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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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