

Macquarie Australian Shares Fund

Monthly report – 31 May 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	\$352.7m
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 May 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-2.95	-3.00	-2.53	-0.47
3 months (%)	-1.28	-1.43	-0.89	-0.54
1 year (%)	4.90	4.27	2.90	1.37
3 years (% pa)	13.18	12.51	11.43	1.08
5 years (% pa)	9.33	8.69	7.47	1.22
Since inception (% pa)	11.60	10.24	6.92	3.32

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
Austbrokers Holdings Limited
Premier Investments Limited
Qantas Airways
QBE Insurance

Top 3 stock attribution (alphabetical)

AGL Energy
<i>National Aust. Bank</i>
WiseTech Global Ltd

*Italics denotes underweight

Bottom 3 stock attribution (alphabetical)

Perseus Mining Ltd
Premier Investments Limited
Super Retail Group Ltd

*Italics denotes underweight

Macquarie Australian Shares Fund

Monthly report – 31 May 2023

Fund highlights

The Fund returned -3.00% (post-fees) for the month, underperforming the benchmark by -0.47%.

The key contributors to relative performance included an underweight position in Wesfarmers (WES), overweight position in AGL Energy (AGL), and an underweight position in NAB (NAB). National Australia Bank underperformed after the company reported weaker-than-expected net interest margin in their 1H FY 2023 results and expectations for further margin expansion decreased.

The key detractors from relative performance included an overweight position in Premier Investments (PMV), overweight position in Super Retail (SUL), and an overweight position in Perseus Mining (PRU). Super Retail saw share price weakness following a disappointing trading update, while Perseus Mining underperformed as the gold price fell during the period.

Market overview

Australian shares retreated -2.5% (S&P/ASX200) in May as central banks continued to lift interest rates with hawkish rhetoric. Despite stubborn services and rent inflation, the RBA's decision to lift rates by a further 25bps in early May caught markets, surprisingly, by surprise. Economic data (unemployment, wages, retail trade) point to a looming economic slowdown and an increasing risk of recession.

Resources (-3.9%) and Financials (-3.2%) dominate the ASX and both sectors were weak in May. Softening global demand combined with an insipid China recovery (which has been services rather than manufacturing based) has dragged industrial commodities lower – a negative for Australian miners. May's mini-reporting season for banks unveiled more evidence that net interest margins are peaking putting further pressure on future profits and bank share prices. Consumption emerged as the weakest area in the market, with intra-month trading updates across both Consumer Discretionary (-6.1%) and Staples (-4.6%) highlighting that increasing cost of living pressures have started to weigh into consumer behaviour. Despite bond yields increasing, enthusiasm for generative AI has ignited a dramatic recovery in long duration technology stocks and this extended to Australian listings which rallied 11.6%.

Housing prices continued their 2023 rebound with a national May rise of 1.8% in dwellings. In Sydney, Australia's largest property market, the rebound is now close to 5% since the end of summer but, much like the bifurcation of recent US market returns, the rebound is skewed towards a narrow base (lower turnover) of higher-end listings. Despite how intangible these gains are on a wider basis they create further havoc for the RBA as it tackles the grippier aspects of inflation while trying to avoid a sharp economic contraction. May saw a steady stream of retailers skewed towards middle and low-income earners reporting difficult trading conditions as consumers cut their spending as cost-of-living expenses increase and their confidence falls. Along with the April retail sales numbers which printed lower than expected, there is growing evidence that the lagged impact of the RBA's rate rises is starting to impact spending even before the bulk of pandemic-era fixed-rate mortgages are scheduled to roll over into significantly more costly arrangements. However, even though inflation is falling it remains high at 7% and with the official cash rate at only 4.10% (the RBA acknowledging this is consistent with a "neutral" setting) it is difficult to assume that further rate rises are not ahead.

Global and US Equities outperformed Australian equities despite a 2% depreciation in the exchange rate (MSCI Global -1.2%, S&P500 +0.2%, NASDAQ +5.8%). Perhaps the most discussed dynamic in the last month has been the relentless rise of a handful of AI related technology companies in the US. Along with Nvidia, which is the dominant producer of the powerful computer chips required in the ever more computationally demanding aspects of AI, these technology companies have rallied over 50% since the start of the year. Consequently, the re-emergence of value has been short-lived, and the momentum trade is now distorted by these (outlier) growth companies. Outside these companies the S&P500 has been flat so the market valuation on forward earnings metrics remains extended and is tenuously predicated on one narrative. By contrast, in Australia the valuation metric remains neutral and the 12% rally this year has been broad-based.

It is not unsurprising that given the numerous contradictions surrounding the recent market strength, it has been an awkward year for systematic investing. Many of the traditional factors that underpin such strategies (e.g., momentum, profitability, value) are delivering below average returns. This is unusual given the lower perception of risk and highlights that it has been a rally where growth has surprisingly trumped value but on a very narrow list of names, thus crueling momentum. To-date the rally has had only a loose connection with profitability.

Commodity prices were generally weak during the month. Brent Oil fell by US\$6.00 to US\$73.54/bbl. Iron ore prices fell US\$5.00 to \$100.00/Mt. Gold also fell by US\$30 to US\$1,952.

Bond yields increased during the period with Australian 10-year bond yields rising 26 bps to 3.60% and US yields seeing similar movement, moving 19 bps to 3.64%. At the time of writing this report, the cash rate is 4.10% after the RBA raised the rate by 0.25% on Tuesday 6th June 2023.

Outlook

As has been the case all year, the RBA's ongoing battle with inflation and the consequences this has for the economy and corporate profits will continue to dominate returns until the August reporting season. Any disruption to the AI narrative risks bursting the US market's rise which will have flow on effects to other equity markets. Expect every company to incorporate some element of AI in their next update to the market.

Macquarie Australian Shares Fund

Monthly report – 31 May 2023

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.

The above information is not personal advice and does not take into account the investment objectives, financial situation or needs of any person. The Fund is designed for investors who are seeking capital growth, intending to use the Fund as a satellite within a portfolio, have a medium to long-term investment timeframe, have a high or very high risk/return profile and require the ability to have daily access to capital. Please review the Target Market Determination available at macquarieim.com/TMD and consider if the Fund may be suitable for you. Investors should consider the offer document relating to the Fund in deciding whether to acquire or continue to hold units in the Fund. The offer document is available by contacting us on 1800 814 523. Past performance is not a reliable indicator of future performance. Future results are impossible to predict. This report includes opinions, estimates and other forward-looking statements which are, by their very nature, subject to various risks and uncertainties. Actual events or results may differ materially, positively or negatively, from those reflected or contemplated in such forward-looking statements. Forward-looking statements constitute the investment manager's judgement as at the date of preparation of this report and are subject to change without notice.

In preparing this document, reliance may have been placed, without independent verification, on the accuracy and completeness of information available from external sources. To the maximum extent permitted by law, no member of the Macquarie Group nor its directors, employees or agents accept any liability for any loss arising from the use of this document, its contents or otherwise arising in connection with it.

Other than Macquarie Bank Limited ABN 46 008 583 542 ("Macquarie Bank"), any Macquarie Group entity noted in this material is not an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these other Macquarie Group entities do not represent deposits or other liabilities of Macquarie Bank. Macquarie Bank does not guarantee or otherwise provide assurance in respect of the obligations of these other Macquarie Group entities. In addition, if this document relates to an investment, (a) the investor is subject to investment risk including possible delays in repayment and loss of income and principal invested and (b) none of Macquarie Bank or any other Macquarie Group entity guarantees any particular rate of return on or the performance of the investment, nor do they guarantee repayment of capital in respect of the investment.

PRRP-MASF-ANZ