

Macquarie Australian Shares Fund

Monthly report – 30 June 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 | \$370.5m |
| 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 30 June 2023

| | Total Fund return (gross) | Total Fund return (net) | Benchmark return | Total excess return (net) |
|-------------------------------|---------------------------|-------------------------|------------------|---------------------------|
| 1 month (%) | 1.84 | 1.79 | 1.76 | 0.03 |
| 3 months (%) | 0.41 | 0.26 | 1.01 | -0.75 |
| 1 year (%) | 16.24 | 15.53 | 14.78 | 0.75 |
| 3 years (% pa) | 12.98 | 12.31 | 11.12 | 1.19 |
| 5 years (% pa) | 9.17 | 8.52 | 7.16 | 1.36 |
| Since inception (% pa) | 11.66 | 10.30 | 6.99 | 3.31 |

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
Austbrokers Holdings Limited
Lend Lease Group
Qantas Airways
QBE Insurance

Top 3 stock attribution (alphabetical)

AGL Energy
Austbrokers Holdings Limited
NRW Holdings

*Italics denotes underweight

Bottom 3 stock attribution (alphabetical)

Fortescue Metals
Premier Investments Limited
Qantas Airways

*Italics denotes underweight

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Fund highlights

The Fund returned 1.79% (post-fees) for the month, outperforming the benchmark by 0.03%.

The key contributors to relative performance included overweight positions in AUB Group (AUB), AGL Energy (AGL) and NRW Holdings (NWH). AGL Energy outperformed following significant updates after announcing improved energy plant availability. AUB Group saw a reversal after last month's trading update.

The key detractors from relative performance included overweight positions in Qantas (QAN) and Premier Investments (PM) and an underweight position in Fortescue Metals (FMG). Qantas underperformed despite providing an update that Group domestic capacity was now back to pre-COVID levels and that data showed that consumers continued to prioritise travel over other spending categories.

Market overview

The Australian market rallied 1.8% in June, more than recovering its May losses and finishing up 1% for the June quarter. Inflation expectations, interest rates and commodity prices remained the main driver of returns.

Materials (+4.8%) was the strongest sector as miners recovered on the back of stimulus in China and stronger iron ore and coal prices while Health Care (-6.6%) was the weakest sector, dragged down by CSL which issued a rare negative trading update. Australian Technology (+3.5%) stocks joined the worldwide enthusiasm for AI companies and are the best performing sector over the last 12-months (up 38.1%). Listed Property (0.0%) continues to struggle with Dexous and several large superannuation funds revising down the valuations of their commercial real estate portfolios.

Domestically, disinflation continued in June with growing evidence that the RBA's rate hikes are now meaningfully impacting household and consumer behaviour. Much to the surprise of markets, the RBA lifted the official cash rate by a further 25bp citing increased wariness of wages growth. While headline inflation continued to trend down, the less volatile elements (core inflation) remained largely unchanged from a year ago and household rents and energy prices continue to rise. Of concern to the RBA is the tightness of the labour market and unit labour costs where growth has now spiked (ignoring the aberration of the pandemic) to a multi-decade high.

Fiscally, the Federal budget has a greater surplus than what was expected only 2-months ago – boosted by greater tax revenues from a stronger labour market and higher commodity prices. The budget strength is a natural economic stabiliser on excessive demand and takes some pressure away from the RBA shouldering all the disinflationary burden. The RBA paused its tightening agenda in July.

Australian equities have underperformed global equities all year driven by a US bull-market which has shrugged off any earlier concerns of banking contagion. Most of the gains are underpinned by seven big US technology companies (the "magnificent seven") which extended their gains by a further 8% in June. Despite the dramatic inversion of the US Treasury curve, the risks of a US recession have receded following a spree of positive economic data releases in the second half of June. This has sparked a wider-based rally in the US as expectation grows of "immaculate disinflation", a scenario where no recession will unfold.

Since the start of this year, investing in companies with recent outperformance (and avoiding recent underperformers) while at the same time choosing companies that have historically lower volatility and more predictable earnings has been the rewarded. Not surprisingly this describes the "magnificent seven" mentioned above. The traditional Growth and Value dichotomy has not been a feature of style investing this year. While Value's post pandemic run has stalled, Growth stocks have not necessarily outperformed - which is not surprising when interest rates are high and there is a meaningful risk of recession.

Commodity prices were mixed in June, with Brent Oil up US\$2.24 to US\$74.90/bbl and Iron ore prices rising US\$13.50 to \$113.50/Mt. Gold fell by US\$52 to US\$1,912.

Bond yields diverged during June, with Australian 10-year bond yields slipping 42 bps to 4.02% and US yields rising 18 bps to 3.81%. Following the RBA's 25bp hike in early June, the cash rate in Australia is now 4.10%.

Outlook

The August reporting season is now only weeks away and the current complacent neutral valuation setting will be tested by further trading guidance (or lack there-of) as companies deal with greater costs and the potential for a slowing economy. Currently, measures of equity fear such as the Australian VIX have returned to pre-pandemic levels which is an unusual situation given inflation is high and the increasing chance of recession. Expect large reactions to small surprises.

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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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