

Macquarie Australian Small Companies Fund

Monthly report – 31 August 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	\$348.0m
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](https://www.macquarie.com.au/unit_prices)

*Read the Product Disclosure Statement for more details on fees and costs.

Fund performance to 31 August 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.53	0.48	-1.31	1.79
3 months (%)	3.77	3.61	2.22	1.39
1 year (%)	4.10	3.26	-1.12	4.38
3 years (% pa)	9.24	8.29	3.00	5.29
5 years (% pa)	8.51	7.50	2.40	5.10
Since inception (% pa)	10.63	9.23	3.00	6.23

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)

Austbrokers Holdings Limited

CSR Limited

News Corporation

Nufarm Limited

Webjet Limited

Top 3 stock attribution (alphabetical)

Chalice Gold Mines Limited

Iress Limited

News Corporation

*Italics denotes underweight

Bottom 3 stock attribution (alphabetical)

Centuria Capital Limited

loof Holdings Limited

Webjet Limited

*Italics denotes underweight

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Fund highlights

The Fund returned 0.48% (post-fees) for the month, outperforming the benchmark which returned -1.31%.

The key contributors to relative performance included an overweight position in News Corporation (NWS) and underweight positions in Chalice Mining (CHN) and Iress (IRE). Chalice Mining underperformed after the eagerly anticipated scoping study for its Gonneville project proved to be predicated on questionable production grade and commodity price assumptions.

The key detractors from relative performance included overweight positions in Webjet (WEB), Insignia Financial (IFL) and Centuria Capital (CNI). Webjet underperformed for the period after releasing an update that showed a slight slowdown in the company's projected growth in FY 2024 and revealing it has no plans to reinstate its dividend.

Market overview

In August, the Small Ordinaries (-1.3%) underperformed the broader market (ASX200 -0.7%). This was largely driven by Health Care (-4.8%), Financials (-4.4%) and Industrials (-3.3%) which all underperformed. However, it wasn't all doom and gloom, with Consumer Discretionary (+3.0%) outperforming supported by higher sales, earnings, and guidance – discretionary spending has proven to be much more resilient than expected.

Official interest rates remained steady in August however central bank rhetoric remained hawkish, especially earlier in the month when Jerome Powell reiterated that inflation in the US remains too high and interest rates will be raised further if needed, especially if demand continues to be stronger than expected. However, towards the end of the month, US data confirmed a softening in the jobs market, which still remains strong but increases the case the Fed is close to its terminal rate. Underlying inflation continued to moderate.

In Australia, August reporting season results overall were better-than-expected with the number of companies matching or bettering the consensus of analyst expectations exceeding those that did not. Although this is a backward-looking statistic, it contradicts the gloomy expectations most investment analysts had leading into results season. One of the key surprises this reporting season was confirmation that operational leverage was still unfolding in the industrial sector. Despite rising input (labour) costs, industrial companies are delivering ever higher sales while margins, though falling, remain at the highs seen after the GFC. Analysts appeared to have been blind-sided by both the resilience of retail spending and the seemingly obvious rise in interest charges.

Despite results tending to beat forecasts, company guidance continued to be cautious. Upgrades were rare; the skew of post-report earnings changes was almost 2:1 favouring downgrades. On a 12-month forward PE basis the overall market remains neutrally valued however the anxiety leading into reporting season has now abated along with relief that the RBA is most likely at its terminal rate this cycle. Ahead lies an update to the economic growth numbers for 2Q 2023 and AGM season where many companies again update their profit guidance. Given the neutral valuation, Australian shares have scope to rally provided the economic pulse does not slow too rapidly.

Commodity prices were mixed in August, with Brent Oil rising US\$0.30 to US\$85.86/bbl and Iron Ore prices rising US\$6.50 to \$117.50/Mt. Gold was down, falling by US\$23 to US\$1,948.

Bond yields were also mixed in August, with Australian 10-year bond yields selling off 2 bps to 4.03%, trading relatively flat as the RBA remained unmoved on the cash rate. However, US yields rose 14 bps to 4.09% as the Fed continued their more hawkish tone. The RBA continued to hold interest rates steady at its September meeting.

Outlook

Guidance continued to be cautious going forward and many companies called out the rising interest and labour costs along with economic uncertainty when making projections for the next 12-months. Aggregate earnings are still projected to contract however Industrial earnings (which includes banks and consumer facing stocks) are projected to climb while Resource earnings are expected to decline.

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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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