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Macquarie Australian Shares Fund

Monthly report – 30 September 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	$426.0m
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 September 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-2.47	-2.52	-2.84	0.32
3 months (%)	0.30	0.15	-0.77	0.92
1 year (%)	13.08	12.48	13.46	-0.98
3 years (% pa)	12.44	11.79	11.00	0.79
5 years (% pa)	9.10	8.47	6.67	1.80
Since inception (% pa)	11.51	10.16	6.84	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)

Aristocrat Leisure Limited
Austbrokers Holdings Limited
Lend Lease Group
QBE Insurance
Washington H Soul Pattinson & Company Limited

Top 3 stock attribution (alphabetical)

Beach Energy Limited
QBE Insurance
Seven Group Holdings

*Italics denotes underweight

Bottom 3 stock attribution (alphabetical)

Northern Star Resources Ltd
Perseus Mining Ltd
Qantas Airways

*Italics denotes underweight

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Fund highlights

The Fund returned -2.52% (post-fees) for the month, outperforming the benchmark which returned -2.84%.

The key contributors to relative performance included overweight positions in QBE Insurance (QBE), Seven Group (SVW) and Beach Energy (BPT). QBE outperformed as insurers benefitted from higher running yields on their asset base which improves near-term investment results. Insurance is also seen as less discretionary than other forms of spending and should be more durable in a slowing economy.

The key detractors from relative performance included overweight positions in Qantas (QAN), Perseus Mining (PRU) and Northern Star (NST). Qantas underperformed for the period after announcing that CEO Alan Joyce would retire earlier than planned with Vanessa Hudson to replace him. Qantas also remained under pressure with rising oil prices likely to impact profitability given a reluctance to directly pass higher costs onto customers.

Market overview

September saw rising bond yields triggering a global retreat in equity markets with the Australian S&P/ASX200 falling -2.8%. Waning recession risks, higher oil prices and stubborn inflation have all led to an emerging consensus that short term interest rates will stay higher for longer.

In both Australia and the US, the 10-year bond yield sold-off almost half a percentage point and the immediate valuation impact, especially in growth sectors such as technology and pharmaceuticals, was pronounced. Industrial sectors fell hardest with the bond-proxy REITs (-8.6%) falling the most followed by the growth sectors: Information technology (-7.9%) and Health Care (-6.2%). Financials did not follow the trend: insurance companies benefit from higher running yields on their fixed interest heavy assets and the fortunes of the banks (at least in the short term) are positively disposed to the soft landing / high-for-longer consensus.

By comparison, resource sectors were not as impacted, following a 9% spike in the oil price which underpinned strength in Energy companies (+1.6%), the only positive corner of the market in September. The industrial miners also benefited from stronger iron ore (+10%) and smelting coal (+20%) prices. Some of the negativity surrounding China's subdued growth receded over the month as the prospects of another round of stimulus rose.

Inflation continued to dominate the macroeconomic outlook with the monthly series confirming it remains stubbornly above the RBA targets. Headline inflation rose driven mostly by the higher oil price which has led to higher fuel prices at the pump. Services inflation is still rising faster than goods inflation is falling, but excluding the volatile items of fuel, electricity and travel, inflation is slowing. A similar uptick in inflation was experienced around the globe and reinforces the adage that inflation evolves in waves and is rarely conquered quickly. Other economic data led to more equivocal views on economic prospects: retail sales were softer; the jobs market remains tight and consumer credit numbers revealed the growth in housing finance is waning. While the economy is cooling, nothing points towards an imminent recession and justifiably the RBA remains hawkish.

Commodity prices were mixed in September, with Brent Oil rising US$8.45 to US$95.31/bbl and Iron Ore prices rising US$2.00 to $119.50/Mt. Gold was down, falling by US$71 to US$1,871.

Bond yields rose in September, with Australian 10-year bond yields rising 46 bps to 4.49%, amid expectations rates will stay higher for longer to combat persistent inflation. US yields also rose 49 bps to 4.57% as the Fed continued their more hawkish tone. Further rate rises remain on hold (unchanged at the October meeting) with the market almost convinced that the rate rises to-date will continue to slow inflation without derailing the economy.

Outlook

Given the Australian market is less growth orientated and has not had the extraordinary (but narrow) AI focussed rally, seen in the US from October 2022 to July 2023, it is marginally less vulnerable to a further sell-off in US bond yields. Further risks still abound, specifically a stagnant China economy which fuels the demand for Australia's listed miners.

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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