Macquarie Australian Small Companies Fund

Monthly report – 30 September 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	$326.9m
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 September 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-3.42	-3.47	-4.04	0.57
3 months (%)	0.58	0.43	-1.94	2.37
1 year (%)	9.69	8.87	6.85	2.02
3 years (% pa)	8.80	7.86	2.57	5.29
5 years (% pa)	7.83	6.83	1.63	5.20
Since inception (% pa)	10.36	8.96	2.74	6.22

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
Karoon Gas Aust.
Leo Lithium Ltd

*Italics denotes underweight

Bottom 3 stock attribution (alphabetical)

Boss Resources Limited
Helloworld Travel Ltd
New Hope Corporation Limited

*Italics denotes underweight

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Fund highlights

The Fund returned -3.47% (post-fees) for the month, outperforming the benchmark which returned -4.04%.

The key contributors to relative performance included an overweight position in Karoon Energy (KAR) and underweight positions in Leo Lithium (LLL) and Chalice Mining (CHN). KAR outperformed as the energy producer benefitted from rising oil prices during the period.

The key detractors from relative performance included underweight positions in Boss Energy (BOE) and New Hope Corporation (NHC) and an overweight position in Helloworld Travel (HLO). Travel company HLO saw reversals in September as the travel sector faced headwinds including higher bond yields and fuel prices.

Market overview

September saw rising bond yields triggering a global retreat in equity markets with the Australian Small Ordinaries falling -4.0%. 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, was pronounced. Small cap stocks fell more than the broader index (ASX200 -2.8%) despite small energy stocks (+15%) responding strongly to the higher oil price. Smaller consumer discretionary companies (-7.1%) tend to have less affluent customers and are experiencing greater headwinds as these consumers cut back their discretionary budgets. While REITs (-7.8%) also pulled back strongly on the back of higher yields. Both sectors are more heavily weighted in the small ordinaries compared to the broader index.

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

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