

Macquarie Australian Small Companies

Quarterly Investment Option Update

30 September 2022

Aim and Strategy

To outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term (before fees). It aims to provide capital growth and some income. The option provides exposure to an actively managed and diversified portfolio of Australian small cap equities through securities listed, or expected to be listed, on the Australian Securities Exchange. The option may also provide exposure to equity issued by Australian entities on offshore exchanges, derivatives (including options, future, warrants and forwards) and cash.

The investment manager aims to build a portfolio of equities that are exposed to a wide range of factors driving share market performance. The process seeks to identify companies which rank highly on the investment manager's quantitative screens and which may exceed market expectations over the long term.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Overview

Investment Category	Australian Shares
Suggested Investment timeframe	5+ years
Relative risk rating	7/ Very High
Investment style	Quantitative
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100.0	92.35
Cash	0.0	7.65

Sector Allocation	%
Energy	7.44
Materials	21.76
Industrials	11.28
Consumer Discretionary	9.13
Consumer Staples	4.68
Health Care	3.16
Financials	12.23
Real Estate	8.15
Information Technology	6.54
Communication Services	7.94
Utilities	0.00

Top Holdings	%
News Corporation	2.20
Spark New Zealand Ltd	2.00
IPH Ltd	1.86
Elders Limited	1.80
Johns Lyng Group Ltd	1.80
CSR Limited	1.74
Centuria Capital Limited	1.71
Perseus Mining Ltd	1.62
Nufarm Limited	1.61
loof Holdings Limited	1.53

Investment Option Commentary

The key contributors to relative performance for the quarter included overweight positions in New Hope Corporation (NHC), Liontown Resources (LTR), and Lovisa Holdings (LOV).

New Hope Corporation (NHC) outperformed as coal prices rose, driven by the global energy crunch and continued supply constraints.

Lithium prices continue to remain strong with further positive outlook for the sector as supply is expected to remain tight, benefiting Liontown Resources (LTR) which outperformed for the period.

Affordable jewellery retailer Lovisa Holdings (LOV) had a strong quarter, boosted by the company's addition into the S&P/ASX 200 Index as part of the September rebalance.

The key detractors from relative performance included overweight positions in Centuria Capital (CNI), Grange Resources (GRR), and Aussie Broadband (ABB).

Specialist listed property fund (REIT) manager Centuria Capital (CNI) underperformed as the impact of higher interest costs was felt across the property sector with many companies flagging distributions to be flat or to fall in FY23.

Iron ore company Grange Resources (GRR) underperformed after reporting double-digit losses across key financial metrics in its half-year results. Management blamed the weak performance on soaring energy costs and volatility in iron ore prices.

As at 30 September 2022, the largest overweight positions in the Fund were News Corporation (NWS), Spark New Zealand (SPK), and IPH Ltd (IPH).

Market Commentary

Despite a volatile quarter for markets globally, the Australian equity market finished the quarter relatively flat, with the S&P/ASX 300 Accumulation Index ending the quarter 0.45%. The S&P/ASX Small Ordinaries Accumulation Index slightly underperformed its larger cap peers, returning -0.47% for the quarter.

A rebound in Australian equities in July and August driven by improving investor sentiment unravelled in September when markets globally lost further ground. Investors were burdened by the same issues plaguing markets throughout most of 2022 including persistent inflation, ongoing and aggressive rate hikes, and concerns over a global recession. Markets have also been impacted by ongoing political concerns as the Russian and Ukraine conflict, and tensions mounted between the USA and China.

In sector news, the best performing sector for the quarter was Energy (+12.4%), driven by the relative strength in commodity prices. Industrials (+9.2%) was another outperformer. REITs (-6.8%) was one of the weakest performers, impacted by upward movements in yields.

A key focus for domestic investors during the quarter was the August reporting season, which sees most listed companies announce financial results and earnings guidance. Overall, the Australian market enjoyed a stronger than expected reporting season with most companies cautiously optimistic about their revenue outlook despite facing several headwinds and volatile markets over the last six months. Many companies commented on the strength of the Australian consumer, noting high levels of savings and the robust nature of the household balance sheet as a positive. However, companies also noted many common challenges, including increasing costs impacting margins, and supply chain issues leading to high levels of inventory. Some of the better results included IT companies Altium (ALU) and Wisetech Global (WTC) which were both up more than 15% for the month.

Commodities had a weak quarter, despite energy prices remaining elevated relative to long term averages. Brent oil fell by 22.8% to US\$88/bbl as COVID impacts linger and supply increased. Iron ore fell by 20.3 to US\$98/Mt, driven by delays due to bans on Russian shipments and a combination of over-supply and soft demand respectively. Gold decreased by 8.0% to US\$1,672 per ounce as rising global interest rates remain a headwind.

Ongoing rate hikes also impacted bond yields, with Australian 10-year yields increasing 0.23% to 3.89% and in the US, 10-year yields rising by 0.82% to 3.80%. The AUD depreciated against the USD by 6.8% to end the quarter at US\$0.64.

At the time of writing this report, the RBA cash rate is 2.60% after the RBA raised the rate by a less-than-expected 0.25% on Tuesday 4th October 2022.

Outlook

Volatility is likely to remain elevated as markets grapple with higher interest rates, a slowing global economy and potential falls in corporate earnings. Rising geo-political tensions add to the uncertainty.

However, markets have fallen significantly, offering increasing valuation support at current levels. Any signs that central banks are looking to temper interest rate rises would likely see a strong rebound in investor sentiment.

Availability

Product name	APIR
Signature Super*	AMP0962AU

*Closed to new investors

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