Macquarie Australian Small Companies

Quarterly Investment Option Update

31 March 2022

Aim and Strategy

The Fund aims 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 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	n/a	96.41
Cash	n/a	3.59

Sector Allocation	%
Energy	9.09
Materials	22.60
Industrials	9.95
Consumer Discretionary	7.08
Consumer Staples	4.04
Health Care	4.93
Financials	13.57
Real Estate	9.70
Information Technology	5.84
Communication Services	9.58
Utilities	0.00

Top Holdings	%
IGO Ltd	2.11
Johns Lyng Group Ltd	2.04
Uniti Group Ltd	2.00
Centuria Capital Limited	1.90
CSR Limited	1.86
New Hope Corporation Limited	1.78
Steadfast Group Ltd	1.74
Healius Ltd	1.68
News Corporation	1.51
Elders Limited	1.48

Investment Option Commentary

The biggest contributors to relative performance for the quarter included overweight positions in New Hope Corporation (NHC), IGO Ltd (IGO), and Champion Iron (CIA).

Lithium and nickel producer, IGO Ltd (IGO), performed strongly due to rising lithium and nickel prices during the period. Investor demand for lithium remains positive, given the strong long-term demand outlook for electric vehicle (EV) batteries.

Champion Iron (CIA) outperformed as iron ore prices rose driven by expectations of eased restrictions on Chinese steelmakers and future stimulus measures from the Chinese government.

The main detractors from relative performance included underweight positions in Lake Resources (LKE) and AVZ Minerals (AVZ), and an overweight position in Healius Ltd (HLS).

Healius Ltd (HLS) underperformed this quarter due to changes in government regulation which allowed rapid antigen testing to be used alongside COVID PCR testing.

Underweight holdings in lithium project developers Lake Resources (LKE) and AVZ Minerals (AVZ) detracted from performance. The strong performance in these names was driven by positive investor sentiment for the lithium price. The Fund has exposure to other lithium miners such as IGO Ltd (IGO) which benefited from this thematic.

As at 31 March 2022, the largest overweight positions in the Fund were IGO Ltd (IGO), Johns Lyng Group (JLG) and Uniti Group (UWL).

Market Commentary

The Australian equity market had a volatile start to the year and the S&P/ASX Small Ordinaries Accumulation Index finished the quarter -4.22%. There was a material divergence between large caps and small caps for the quarter, with the larger S&P/ASX 100 Accumulation Index finishing the quarter +2.99%.

Anticipated movements in interest rates and Russia’s invasion of Ukraine were the key drivers of global equity markets for the quarter. January saw a broad-based equity sell-off across global developed markets as investors braced themselves for tighter monetary policy from central banks, led by the US Federal Reserve signaling an earlier start to quantitative tightening. The key macro event in February was the outbreak of war in Ukraine, which triggered investors to reduce risk. March saw global equity markets rising on hopes of peace talks between Russia and Ukraine while investors also appeared to remain positive on the economic outlook of developed nations despite high inflation and approaching rate hikes. The Australian market outperformed its developed market peers for the quarter, driven by relatively higher exposure to Resources which benefitted from strong commodity prices.

In domestic corporate news, February earnings season was a key focus for investors. Overall, it was a positive reporting season, with more earnings beats than misses. Inflationary pressures and interest rate movement implications were key themes that companies called out.

In sector news, the best performing sectors for the quarter were Energy (+23.6%) and Financials (+10.8%), supported by a broad-based increase in commodity prices. Health Care (-17.3%) and Information Technology (-16.2%) were the weakest performers.

Commodities had a very strong quarter. Brent oil increased 38.7%, driven by global supply concerns and the impacts of sanctions on Russian oil and gas exports. Iron ore lifted 31.9%, supported by a restock ahead of expected future stimulus measures in China. Gold increased 7.6% as investors repositioned into safe-haven assets.

Bond yields jumped as investors increased rate hike expectations amid higher inflation. The Australian 10-year yield materially increased by 1.16% to 2.83% and US 10-year yields also increased by 0.81% to 2.32%.

The AUD was steady against the USD, appreciating marginally by 3c to end the quarter at US$0.751. In the domestic economy, the RBA maintained the cash rate at 0.10%.

Outlook

Over recent months, the Australian equity market has remained resilient despite macroeconomic and geopolitical related volatility. February company earnings season highlighted improving operating momentum in many businesses, as COVID-related impacts moderate. With the Federal election due by May, short-term government policy is likely to be remain supportive for corporate earnings.

Elevated global inflation will continue to be a focus for investors over coming months, as will the ongoing development of the Russia and Ukraine conflict. These are risks that the fund manager will continue to monitor closely.

Availability

Product name	APIR
Signature Super*	AMP0962AU

*Closed to new investors

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