

Macquarie Australian Small Companies

Quarterly Investment Option Update

30 June 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 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.

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	97.04
Cash	n/a	2.96

Sector Allocation	%
Energy	6.90
Materials	22.99
Industrials	9.45
Consumer Discretionary	8.84
Consumer Staples	4.99
Health Care	4.44
Financials	11.83
Real Estate	10.81
Information Technology	6.30
Communication Services	10.46
Utilities	0.00

Top Holdings	%
Spark New Zealand Ltd	2.12
Centuria Capital Limited	2.09
News Corporation	2.04
Elders Limited	1.80
Johns Lyng Group Ltd	1.70
CSR Limited	1.66
Ardent Leisure Group Limited	1.65
Viva Energy Group Ltd	1.64
Technology One Limited	1.58
Perseus Mining Ltd	1.55

Investment Option Commentary

The key contributors to relative performance for the quarter included overweight positions in New Hope Corporation (NHC) and Viva Energy Group (VEA), and an underweight position in Lake Resources (LKE).

Lithium miner Lake Resources (LKE) underperformed on the resignation of its CEO as well as general weakness in lithium stocks as recent strong gains were reversed. This comes as investors digest reports that an abundance of investment in exploration and production facilities could see the lithium price slide in the medium term.

The key detractors from relative performance included overweight positions in Centuria Capital (CNI) and Johns Lyng Group (JLG), and an underweight position in Beach Energy (BPT).

Johns Lyng Group (JLG), a provider of integrated building services, underperformed as the company was impacted by a number of factors, despite favourable operating conditions. Valuation concerns, insider selling and crowded positioning were identified as drivers of share price weakness.

Oil and gas producer Beach Energy (BPT) outperformed off the back of rising oil prices due to global supply concerns as the conflict in Ukraine intensified.

As at 30 June 2022, the largest overweight positions in the Fund were Spark New Zealand (SPK), Centuria Capital (CNI) News Corporation (NWS).

Market Commentary

The Australian equity market continued its volatility into the second quarter of the year, with the S&P/ASX Small Ordinaries Accumulation Index ending the quarter down 20.39%. Small caps underperformed their large cap counterparts, with the S&P/ASX 300 Accumulation Index down 12.22%.

A move to tighter monetary policy pushed up real yields and pressured valuations. In Australia, the Reserve Bank lifted the cash rate from 0.1% at the start of the quarter, to 0.85% by the end of the quarter. At the time of writing, the cash rate was lifted a further 0.5% to 1.35% at July's policy meeting. Investors flocked to defensive assets as rising inflation fears fueled concerns of a slowdown in economic growth.

In sector news, the best performing sector for the quarter was Energy (+2.43%), driven by the relative strength in commodity prices. Consumer Staples (-4.66%), while negative, was the second-best performing sector, benefitting from its defensive characteristics that investors typically seek out in periods of increased volatility. Materials (-31.63%) and Information Technology (-27.86%) were the weakest performers.

Commodities had mixed performance during the quarter. Brent oil increased by a modest 5.6% to US\$114/bbl driven by supply chain pressures, particularly in the northern hemisphere. Iron ore fell by 19.6% to US\$123/Mt, driven by China's ongoing economic downturn and continued COVID restrictions. Gold decreased by 6.4% to US\$1,817 per ounce as rising global interest rates remain a headwind.

Bond yields continued their increase amid higher rate hike expectations and higher inflation. The Australian 10-year yield continued its increase, rising 0.83% to finish the quarter at 3.66%. US 10-year yields also increased by 0.66% to 2.98%.

The AUD depreciated against the USD by 8% to end the quarter at US\$0.69.

Outlook

Markets have been weak in recent months, driven predominantly by a de-rating in valuation and tax-loss selling more recently in June. However, to this point, forward earnings estimates have held up reasonably well. As companies head into the August reporting period, investors will be looking for any broad-based negative earnings revisions as this will be an important driver of market direction in the short to medium term.

Availability

Product name	APIR
Signature Super*	AMP0962AU

*Closed to new investors

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