

Macquarie Australian Small Companies

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

The Fund 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.

The fund follows a quantitative strategy which utilises a risk-controlled approach to identify mis-priced securities. To achieve this, the Fund will utilise a set of systematic and event driven strategies. The systematic strategies aim to capture Quality, Momentum, and Value characteristics that have historically generated reliable excess returns in the Australian market.

Investment Option Performance

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

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

Sector Allocation	%
Energy	4.41
Materials	13.34
Industrials	12.44
Consumer Discretionary	11.18
Consumer Staples	6.43
Health Care	8.30
Financials & Property ex LPTs	9.27
LPTs	11.52
Information Technology	10.18
Telecommunication Services	3.76

Top Holdings	%
Austal	2.63
Service Stream	2.63
Spark New Zealand	2.62
Charter Hall Long WALE REIT	2.58
Credit Corp Group	2.56
Saracen Mineral Holdings	2.56
ResMed	2.46
IDP Education	2.25
Atlas Arteria	2.22
Growthpoint Properties	2.05

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100%	96.79%
Cash	0%	3.21%

Investment Option Commentary

The largest contributors to relative performance included overweight positions in Megaport (MP1), Aural (ASB) and Beach Energy (BPT).

Cloud technology company Megaport reported strong FY19 results in August seeing revenue increase 78% YoY, driven by increased global demand for direct cloud connectivity. Oil stock Beach Energy benefitted from the global oil price spike in September due to an attack on major Saudi oil processing facilities. Investor confidence was further boosted by stable FY19 result as management upgraded production target and free cash flow forecasts.

The greatest detractors from relative performance included overweight positions in Cleanaway Waste Management (CWY), Chorus (CNU) and InvoCare (IVC). The share price of waste management company, Cleanaway, fell sharply after the company released full year earnings result, largely due to management downgrading FY20 expectations, driven by a modest reduction in revenue expectations.

As at 30th September 2019, the largest overweight positions in the Fund were ResMed (RMD), Atlas Arteria (ALX) and Spark New Zealand (SPK).

Market Commentary

The ASX Small Ordinaries Index and the S&P/ASX 300 Accumulation Index both rose in the September quarter, finishing up 3.11% and 2.55%.

Global markets fell sharply in August as trade tensions ramped up with both China and the US increasing tariffs. Markets partially recovered in September, supported by monetary stimulus from a number of central banks and a more optimistic outlook on trade negotiations. Long-term interest rates bounced after sustained falls. This change in sentiment saw a sharp rotation in factor performance with Value stocks outperforming defensive, quality names. In local currency terms, the impact of global volatility was felt more in Emerging Markets than Developed Markets, which fell 5.93% and 0.56% respectively. China had a weak quarter as trade and technology disputes intensified, with the Shanghai Composite Index ending down 4.59%. In the US, the equity market rose slightly with the S&P 500 finishing up 0.42%. Global industrial production and manufacturing data continue to flag a slowing global economy as the effects of the trade dispute start to bite.

Australian stocks reported moderate gains, supported by ongoing monetary easing. The top performing industry, Food & Staples, was up 15.22% whilst Communication Services was down 6.46%. The quarter was dominated by the August reporting season which resulted in more earnings downgrades than upgrades. Industrials generally posted solid results despite weak sales while Resources were disappointing with higher costs the driver. Solid results from retailers surprised the market leading to strong post-result gains.

The commodity market experienced volatility during the quarter. Gold prices posted strong gains in July and August on the back of increased risk aversion and falling interest rates but fell in September due to a temporary spike in global bond yields. Iron ore prices continued to retrace after a sharp decline in July, finishing the quarter at US \$93/mt. Oil prices were weak, with Brent falling in two consecutive months before rising slightly in September on the back of increased Middle East volatility.

In domestic economic news, the RBA cut the cash rate by a further 0.25% to a historical low of 1.00% in an effort to stimulate the economy, with possibility of a further rate cut in Q4. The Q2 GDP grew in line with consensus, rising 0.5% QoQ and the Q2 current account lifted to a surplus. Wage growth continued to stall but employment growth remained solid. The impact of a slowing construction sector may impact employment numbers in the coming period.

Outlook

Economic data continues to be mixed. Global economic conditions remain uncertain and equity markets remain focused on central bank policy and US-China trade tensions. In Australia, the upcoming Annual General Meeting (AGM) season will provide further insights as to the effectiveness of recently implemented fiscal and monetary stimulus.

Availability

Product name	APIR
Signature Super	AMP0962AU*

* Closed to new members

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