

Macquarie Australian Small Companies

Quarterly Investment Option Update

31 December 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	3.68
Materials	19.05
Industrials	14.16
Consumer Discretionary	14.31
Consumer Staples	4.54
Health Care	5.64
Financials ex LPTs	9.12
Information Technology	9.49
Telecom Services	5.05
Utilities	1.02

Top Holdings	%
Service Stream	2.29
Charter Hall Group	2.23
Oz Minerals Limited	2.19
Charter Hall Long WALE REIT	2.12
Spark New Zealand Ltd	2.09
EML Payments Limited	2.07
Atlas Arteria Group	2.06
Credit Corp Group Limited	2.01
Brickworks Limited	1.77
Beach Energy Limited	1.72

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

Investment Option Commentary

The largest contributors to relative performance for the quarter included an overweight position in NRW Holdings Ltd (NRW), and underweight positions in AP Eagers Ltd (APE) and Smartgroup Corporation Ltd (SIQ).

NRW Holdings Limited (NRW) returned 40.2% for the quarter. The share price reached record highs in November when investors reacted positively to news that the Industrials company will acquire BGC Contracting for an equity value of \$116m. BGC Contracting provides services to the resources, energy and infrastructure sectors across three businesses – Mining, Construction and DIAB Engineering.

The greatest detractors from relative performance included an overweight position in Evolution Mining (EVN), and underweight positions in IOOF Holdings Ltd (IFL) and Perseus Mining Ltd (PRU).

Gold miner Evolution Mining (EVN) posted negative returns for the quarter (-16.1%), largely impacted by the softer gold price observed over the quarter as investors sought out riskier assets. The share price of EVN also suffered following the company's annual general meeting in November, at which shareholders dealt the board a first strike regarding its remuneration report.

As at 31 December 2019, the largest overweight positions in the Fund were Service Stream Ltd (SSM), Charter Hall Group (CHC), and Oz Minerals Ltd (OZL).

Market Commentary

The S&P/ASX Small Ordinaries Accumulation Index finished the quarter up 0.76%. This was largely in line with the broader S&P/ASX 300 Accumulation Index which returned of 0.71%.

The Australian market lagged all other major developed markets over the quarter and was the only major market to fall for the month of December. Developed markets lagged emerging markets for the quarter, with the MSCI World index and MSCI Emerging Markets index finishing the quarter up 7.6% and 9.6% respectively (in local currency terms). Geopolitical news continued to be dominated by the on-going US-China trade dispute, Brexit negotiations, unrest in Hong Kong, and renewed tensions in the Middle East. Brexit looks set to finally happen in Q1 2020, after 3 years of on-off negotiations. This comes after the UK Conservative party won a snap election by a landslide, giving Prime Minister Boris Johnson a clear mandate. Over the quarter, there was increased optimism surrounding the US-China trade dispute, which was thrown into doubt in November when President Donald Trump signed two pro-democracy human rights bills supporting Hong Kong. Despite this, the US and China struck a "Phase 1" trade deal to avoid further tariff hikes. The deal was notably skinny. US tariffs enacted on 1st September will be reduced to 7.5%, while the Chinese Government has committed to increasing the purchase of US products.

Growth sectors such as Health and Technology took the lead as top performing sectors for the calendar year, benefitting from a sustained decline in long-term interest rates. However there continues to be questions raised globally about stretched valuations in Technology stocks. Notable failed IPOs like WeWork indicated a potential 'turning of the tide' on sentiment in such names. Banks were the worst performing sector for the quarter (-9.3%), with the sector struggling on the back of weak operating trends, capital raisings and governance issues.

On the commodities front, oil prices returned 11.3% for the quarter after OPEC members agreed to cut annual production by 500,000 barrels. Gold was softer this quarter (3.0% vs 9.1% in Q3) as risk appetite increased and safe haven flows receded. Iron ore prices were relatively flat for the quarter (-1.1%).

In domestic economic news, the RBA cut the cash rate from 1.0% to 0.75%. Despite this, the low interest rate environment has failed to boost the retail sector, which continues to disappoint. The turnaround in the housing market pressed ahead, with housing values in Sydney and Melbourne going from strength to strength.

Outlook

Global economic conditions remain mixed and uncertain, with rising tensions between the US and the Middle East and ongoing trade tensions between the US and China. In Europe all eyes will be on the expected exit of the UK from the European Union and its impact to trade in the region and abroad. In Australia, significant focus will be on helping those in need following the recent bush fires.

Availability

Product name	APIR
SignatureSuper	AMP0962AU*

* Closed to new members

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