

Macquarie Australian Small Companies

Quarterly Investment Option Update

31 December 2021

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 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/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

Sector Allocation	%
Energy	6.86
Materials	17.93
Industrials	11.63
Consumer Discretionary	8.18
Consumer Staples	6.82
Health Care	7.44
Financials	12.96
Real Estate	10.76
Information Technology	5.61
Communication Services	8.16

Top Holdings	%
IGO Ltd	2.36
Johns Lyng Group Ltd	2.35
Steadfast Group Ltd	2.09
Charter Hall Group	1.81
Healius Ltd	1.76
Uniti Group Ltd	1.75
Oz Minerals Limited	1.72
Spark New Zealand Ltd	1.59
Aventus Retail Property Fund	1.54
Metcash Limited	1.51

Asset Allocation	Benchmark (%)	Actual (%)
Australian Shares	100.0	96.38
Cash	0.0	3.62

Investment Option Commentary

The biggest contributors to relative performance for the quarter included overweight positions in Johns Lyng Group (JLG), IGO Ltd (IGO), and Oz Minerals Limited (OZL).

Johns Lyng Group announced the acquisition of US-based group Reconstruction Experts. Reconstruction Experts is a provider of insurance-focussed repair services to insurance clients in the US. This business is similar to Johns Lyng domestic operations. An equity raising was held to partially fund the \$200m acquisition.

Copper and gold mining company Oz Minerals Limited (OZL) outperformed this quarter, making gains of 25.4%. This can be partly attributed to rising copper prices, driven by an increase in Chinese copper imports as electricity rationing eased creating a rebound in manufacturing activity. During October, OZL confirmed that it was on track to meet 2021 copper production guidance.

The main detractors from relative performance included overweight positions in Virgin Money UK (VUK), Ardent Leisure Group (ALG) and Whitehaven Coal (WHC).

Thermal coal producer, Whitehaven Coal (WHC), experienced a material share price pullback during the quarter, driven by a retracement in the spot thermal coal price. Following a strong run throughout 2021, the thermal coal price peaked at US\$250/t in October, before ending the year at US\$171/t.

Banking and financial services company Virgin Money UK (VUK) underperformed in the quarter. The weakness followed the announcement of an acceleration in the company's shift to digital, which are posited to be accompanied by higher-than-expected restructuring costs. A strategic partnership with Microsoft will facilitate this business transition creating simpler IT infrastructure, an improved customer experience on a cloud-based platform and the addition of new workstreams.

As at 31 December 2021, the largest overweight positions in the Fund were IGO Ltd (IGO), Johns Lyng Group (JLG) and Steadfast Group Ltd (SDF).

Market Commentary

The Australian equity market made further gains during the final quarter of the year, with the S&P/ASX Small Ordinaries Accumulation Index finishing the quarter up 2.03%. This is a marginal underperformance in comparison to the S&P/ASX 300 Accumulation Index which was up 2.09%. Small Caps therefore had a strong finish to the calendar year, with the S&P/ASX Small Ordinaries Accumulation Index up 16.90%.

The COVID-19 situation remained a key driver of markets in the quarter. The emergence of the Omicron variant led to sharp falls in November, attributed to rising case numbers internationally and the reinstatement of various lockdowns and restrictions. Despite this, December saw generally stable hospitalisation rates and growth in the number of booster shots administered, contributing to a relatively neutral initial reaction from markets. Inflation continued to be a key theme for investors this quarter. The US inflation rate hit a record high of 6.8% at the end of November, resulting from ongoing supply chain delays and rising cost of capital and cost of doing business. Although inflation was on par with expectations in December, the US Federal Reserve has indicated that policy tightening may occur sooner than expected given inflation is less transitory than first thought.

Domestically, company annual general meetings throughout the quarter generally revealed positive market outlooks, although these were prior to the Omicron surge in late December. There was an increase in shareholder resolutions, particularly those regarding climate change. These resolutions, put forward by shareholder groups and activist investors, demand more rigorous reporting and action on emissions. The Australian market ended the quarter a laggard compared to other developed markets, sitting 5.6% behind the MSCI World All Countries Index (+7.1%). MSCI China continued to be the worst-performer, falling 6.2% in the quarter, following a more controlled regulatory environment and ongoing push for 'common prosperity'.

In sector news, Materials (+15.2%) was the highest performing sector followed by REITs (6.9%). The rise in Materials can be attributed to a rebound in iron ore prices and in the US, Joe Biden's signing of a \$1.2 trillion infrastructure investment plan in November. Financials (-6.2%) and Consumer Discretionary (-5.0%) lagged in the quarter.

Commodities were predominantly negative for the quarter. Natural Gas (-39.4%) experienced the largest loss, resulting from concerns about Omicron's impact on oil demand and reports of warmer than expected weather in both the US and Europe. Thermal Coal (-22.2%) and Uranium (-27.2%) were also down this quarter. Cuts to the one-year lending rate by the People's Bank of China contributed to a slight recovery in iron ore prices, however they were still down 6.0% for the quarter.

Bond yields fluctuated slightly during the December quarter, driven by Omicron concerns. The Australian 10-year government bond yield increased by an ample 18 basis points to 1.67%. The US 10-year yield remained flat, falling 1 basis point to 1.51%.

The AUD was steady against the USD, appreciating marginally by 0.4c to end the quarter at US\$0.727. In the domestic economy, the RBA maintained the cash rate at 0.10%.

Outlook

As rules surrounding isolation and testing continue to be relaxed in Australia, economic activity and markets are expected to gradually normalise. However, investor focus remains on the impact of the Omicron variant and potential emergence of further virus mutations.

Domestically, the economic rebound continues to be a key theme for investors, with the easing of restrictions being met with strong consumer and corporate demand. However, ongoing supply chain impacts may weigh on near-term growth. With a Federal election expected in May, government policy will be an important contributor to economic activity in the coming months.

In global markets, inflation above pre-COVID levels will continue to impact investment decisions. As a result, central bank policy should be monitored closely by investors, with higher interest rates likely throughout 2022.

Availability

Product name	APIR
Signature Super*	AMP0962AU

*Closed to new investors

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267



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