



# Maple-Brown Abbott Australian Small Companies Fund

## Monthly Commentary – 31 October 2024

### Fund performance (%)<sup>1</sup>

	1 month	3 months	1 year	2 years p.a.	Since inception p.a. 24 Jun 2022
Fund <sup>2</sup>	1.8	5.5	34.6	16.6	20.7
Benchmark <sup>3</sup>	0.8	3.8	26.6	9.6	10.2

### Market commentary

Over the month, the Australian small caps market increased 0.8%, as measured by the S&P/ASX Small Ordinaries Index. A continuation of moderating inflation globally, in addition to easing financial conditions via global interest rate cuts in countries including New Zealand and Canada, has been supportive for market valuations over the month. The market continues to grapple with the trade-off between positive economic drivers, including declining interest rates and strong employment, and ongoing geopolitical uncertainty. The Australian small cap market outperformed the larger end of the market, as measured by the S&P/ASX 100 Index, for the second consecutive month and is starting to retrace some of the significant cumulative underperformance seen since late 2021 calendar year.

Trading commentary from Australian small cap companies at Annual General Meetings (AGM) during the month point to diverging trends within the Australian economy. Given strong employment and improving wage growth, consumer finance companies are reporting strong loan book growth and low bad debt levels – this is despite cost of living pressures. Retailers are experiencing encouraging trends in the furniture and homewares segments given improving housing turnover, although there are mixed trends in other consumer-related sectors. The travel industry has experienced a challenging environment, with WEB Travel Group (WEB) and Flight Centre (FLT) downgrading earnings expectations on the back of flattening demand and lower airfare prices.

In the resources sector, the gold sector continued to rally over the month with the spot price rising through A\$4,000/oz and providing significant cashflow leverage for producers. Investor demand for gold has buoyed other precious metal prices, including silver, platinum and palladium. The market awaits news regarding further Chinese government stimulus measures which is expected to drive the direction of bulk and base metals commodities over the balance of the calendar year.

### Please see next page for Outlook

#### Notes:

1 Past performance is not a reliable indicator of future performance. Source: Maple-Brown Abbott Ltd, S&P as at 31 October 2024.

2 The Fund's performance is based on the movement in net asset value per unit plus distributions and is before tax and after all fees and charges. Imputation credits are not included in the performance figures.

3 The benchmark is S&P/ASX Small Ordinaries Total Return Index.

### Portfolio commentary

The Fund returned 1.8% over the month, outperforming the benchmark by 1.0%. The Fund continues to generate strong returns since inception (24 June 2022), returning 20.7% and outperforming the benchmark by 10.5% on an annualised basis.

Over the month, key performance contributors included WEB Travel Group (WEB) [not held] and Genesis Minerals (GMD). The Fund benefited from a significant decline in the WEB share price. The company provided a disappointing trading update, pointing to significantly lower earnings than expected, driven by lower margins in their European operations. GMD's share price rallied alongside the gold price over the month, in addition to posting a solid September quarterly result which demonstrated continued progress towards the company's ambitious 5-year targets, and recently upgraded FY25 guidance driven by an earlier than expected restart of their Laverton gold mining operations.

Over the month, key performance detractors included Arcadium Lithium (LTM) [not held] and IPH Ltd (IPH). LTM is a recent inclusion into the S&P/ASX Small Ordinaries Index, and the company agreed to an all-cash acquisition by Rio Tinto (RIO) at a 90% premium to LTM's closing share price on 4 October 2024. Lithium has been a challenged commodity throughout the 2024 calendar year to date, and RIO is betting on a return to higher long-term pricing based on the price paid for LTM, which is a quality operator with a large portfolio of significant growth projects. The IPH share price declined over the month on no specific company announcements. Patent filings in Australia remain challenged, and the market will look to next month's AGM for short-term direction on earnings, which we believe are more resilient than the current share price is implying.

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Signatory of:



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## Outlook

October was the second consecutive month where the Australian small cap market outperformed the larger end of the market, as investor risk appetite returns following a challenging environment over the past few years. There remains a long runway of relative performance in Australian small caps if this segment of the market is to catch-up to comparable levels seen in late 2021. Previous cycles provide a playbook for significant Australian small cap outperformance coming out of challenged economic conditions, and we see potential for this to be an underlying theme going forward.

We are starting to see some of the catalysts for Australian small cap outperformance materialise, including easing financial conditions via interest rate cuts by many global central banks. While Australia is behind most of the world in the interest rate cycle, cuts are being priced in from the first half of the 2025 calendar year which should be supportive.

The decisive US election result in early November has removed an overhang for investors. In addition, the pro-business/pro-growth stance by the Trump presidency is expected to be supportive for riskier asset classes, including Australian small caps.

Cost of living pressures are becoming a major political issue with 'big business' on the radar. This was demonstrated during the month with Woolworths Group (WOW) announcing a surprisingly weak profit margin outcome for the first quarter of FY25 as the company sought to offer customers lower prices via greater promotional activity and more value through rewards programs.

For latest Fund factsheet [click here](#).

An important catalyst we are looking for is the need for Australian small cap earnings to accelerate and find a level above that of large cap companies. The AGM season will be an interesting signpost, although it may be too early given the rather tepid trading updates by many companies in late October. The macroeconomic backdrop clearly remains challenging in many sectors, and companies performing well on the earnings front are doing so via internal initiatives, including product expansion, market penetration and cost-out initiatives.

Quality companies with strong moats have been well sort after by investors given the ability to grow earnings in a challenging macro-environment. However, valuation multiples for these stocks are now trading at the upper end/above historical ranges. While this is a watchpoint, our focus remains on earnings and the Fund continues to own structural growth stories where we see significant medium-term upside to market earnings expectations. However, select company position sizes are being trimmed as valuation is capped out. This capital is being recycled into new stock positions, many of which are under-appreciated cyclical companies that are now in the 'Improving Fundamentals' segment of the earnings lifecycle.

The Fund remains well positioned with regards to its core pillars of earnings delivery and sustainability factors. Going forward we see solid earnings potential, better than benchmark sustainability characteristics and a superior risk profile for the stocks held in the Fund.

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