Maple-Brown Abbott Asian Investment Trust

Monthly Commentary – 31 October 2024

Fund performance (%) [1]

	1 month	3 months	1 year	3 years p.a.	4 years p.a.	5 years p.a.	Since inception p.a. 25 Oct 2002
Fund [2]	-0.2	3.8	16.8	5.6	8.3	5.6	9.2
Benchmark [3]	1.0	5.1	23.7	3.2	3.8	5.7	8.2

Market commentary

Global equity markets were weaker in the month, ahead of key events including the US Presidential election, US Federal Reserve monetary policy meeting and China's National People's Congress (NPC). The increasing prospect of a Donald Trump Presidency (and associated inflationary policies) saw the US 10-year bond yield increase by around 50bps to 4.28%. The strong rally in Chinese equities in September gave way to some profit taking as investors await further details on China's fiscal spending program, expected to be announced at the end of China's NPC meeting in early November. Taiwan was the best performing Asian market in both absolute and relative returns, driven by strength in artificial intelligence beneficiaries. While laggard markets in India and South Korea were negatively impacted by large foreign institutional investor outflows, particularly the former on persistent valuation concerns. India's CPI print was also higher than expected at 5.49% year-on-year, driven by renewed strength in food prices, and potentially delaying a cut in monetary policy rate. Central banks in India and Indonesia left the benchmark rate on hold, whilst the central banks in South Korea, the Philippines, and Thailand cut policy rates by 25bps.

Regionally, the best performing markets over the month were Taiwan (+3.7%), Singapore (-3.3%) and Thailand (-3.9%) in USD terms, while the worst performing markets were India (-8.3%), Malaysia (-8.0%) and South Korea (-7.5%). On a sector basis, the best performing sectors were Information Technology (+2.2%), Financials (-3.1%) and Real Estate (-5.9%), while the worst performing sectors were Energy (-13.1%), Consumer Staples (-10.2%) and Materials (-9.3%).

Portfolio commentary

The Trust returned -0.2% in AUD terms for the month, underperforming the benchmark by 1.2%.

The portfolio's top positive contributor was the overweight position in Korean automotive parts maker Hyundai Mobis. The company reported results which were better than expectations, aided by the recovery in profitability of their module business while their aftersales business remained robust. Another positive contributor was the overweight position to Taiwan Semiconductor Manufacturing Company (TSMC). TSMC also reported a strong set of results, with both revenue growth and margins ahead of expectations. Leading Indian bank HDFC Bank was flat in a weak market and assisted relative performance. The company has de-rated post its merger with mortgage lending parent, HDFC Limited, in part due to lower growth relative to peers, a scenario that is unlikely to prove permanent.

A major detractor from performance was the overweight position in Chinese game developer NetEase. The performance of NetEase's recently launched major games titles have been lacklustre, although earnings are expected to benefit from the relaunch of Blizzard PC titles such as World of Warcraft. The portfolio's overweight holdings in Chinese e-commerce companies Alibaba Group and Baidu also detracted from relative performance, due to profit taking following strong share price performance in September.

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Notes:
1 Past performance is not a reliable indicator of future performance. Source: Maple-Brown Abbott Ltd, MSCI as at 31 October 2024.
2 The Trust'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 and foreign tax credits are not included in the performance figures.
3 The benchmark is MSCI AC Asia ex-Japan Net Index AUD.

Want to find out more?
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Outlook

After a challenging period, the outlook for Asia ex-Japan equity markets has improved markedly and there are several factors that point to better prospective returns.

Firstly, valuations are low. The region remains generally out of favour with investors as a combination of a strong US dollar, weak macro and geopolitical tensions (among other factors) have seen valuations compress to below long-term averages. At a stock level, there are many instances of companies trading well below their intrinsic value. Cognisant of the fact that a key driver of returns is the price one pays, we have a positive view on the region given starting valuations.

Secondly, earnings are set to recover. Earnings growth is returning to the region after a period of subdued profitability. The disappointing Chinese reopening has delayed this process however returns on equity remain low relative to history (consistent with the wider Asia ex-Japan region) and one does not need to make heroic assumptions about future profitability to see better earnings delivered.

Finally, capital allocation in the region continues to improve. It is an underappreciated fact that dividends make up around half the return for the region over the last 20 years. An increase in share buyback activity has been a feature in recent years, and we expect this trend to continue. With some of the strongest balance sheets globally and generally low payout ratios, many companies in Asia ex-Japan can materially increase capital returns to shareholders which would not only boost near term gains, but also lead to a sustainable increase in valuation multiples.

Meanwhile, the tailwinds for a value-oriented investment style remain present. A key feature of growth's dominance during the 2010s was the expanding valuation gap between the cheap and expensive parts of the market. This gap remains wide, and it is highly unlikely that relative valuations will expand from their current starting points to create a similar and sustained effect going forward. With inflation globally unlikely to return to the extremely low levels experienced in the 2010s, there is ample scope for this gap to narrow with higher interest rates seeing richly valued growth stocks come under further pressure.

For latest Fund factsheet [click here.]

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