MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Asian Investment Trust

Monthly Commentary – 31 October 2023

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]	-3.4	-6.7	23.7	5.6	3.0	4.7	8.9
Benchmark [3]	-2.0	-6.8	14.7	-2.1	1.6	4.4	7.5

Market commentary

Equity markets finished broadly lower as geopolitical tensions in the Middle East and the global interest rate outlook weighed on investor sentiment. Government bond yields increased over the month with the US government 10-year yield approaching 5% by month end. Despite the conflict in Gaza, the benchmark Brent crude oil price fell from recent highs finishing below USD 90 per barrel, while gold prices rose. Within Asia, high inflation data saw central banks in Indonesia and the Philippines hike benchmark rates. The Reserve Bank of India left rates on hold although comments from officials suggested inflation remained uncomfortably high with key risks to consumer prices being extreme weather in India and higher crude oil prices. Meanwhile Chinese authorities announced a series of stimulatory policy measures including an increase in the 2023 fiscal deficit target and the issuance of RMB 1 trillion sovereign wealth bonds to fund disaster recovery projects and infrastructure investments. China's third quarter GDP was a surprise beat at 4.9% year-on-year, with officials confident of achieving its 5% growth target. Geopolitical tensions between the US and China increased somewhat as the US government announced further curbs on the supply of advanced semiconductor chips, although the latest measures were less stringent than feared. Despite the latest US restrictions, the Chinese technology sector finished little changed versus the prior month.

Regionally, the best performing markets during the month were Malaysia (-0.1%), Taiwan (-1.7%) and Hong Kong (-2.1%) in USD terms, while the worst performing markets were Indonesia (-8.3%), South Korea (-7.0%) and the Philippines (-5.7%). On a sector basis, the best performing sectors were Health Care (+1.6%), Information Technology (-1.8%) and Consumer Staples (-2.7%), while the worst performing sectors were Industrials (-7.7%), Materials (-7.6%) and Real Estate (-6.4%).

Portfolio commentary

The Trust returned -3.4% in AUD terms for the month, underperforming the benchmark by 1.4%.

At a stock level, the Trust's overweight position in Chinese mobile game producer NetEase was a positive contributor to performance. The company benefited from strong demand in its newly launched mobile games, along with the regulator approving more games for release. Another positive contributor to performance was Chinese mobile handset manufacturer Xiaomi. The recovery in the Chinese smartphone market, new product launches, as well the end of the company's inventory destocking cycle, will aid earnings growth going forward. Also assisting performance was Chinese dairy company Yili. It reported results late in the month which showed faster growing fresh milk volumes and good cost control.

A key detractor from performance was Chinese internet company Baidu. The weak macroeconomic conditions in China have impacted the company's advertising revenue and cloud business. Another detractor from performance was Korean automotive parts marker Hyundai Mobis. The company's earnings result was largely in line with expectations but share price weakness was consistent with the selloff in the global automotive supply chain on challenging near term demand outlook. Other detractors were the holdings in China insurer Ping An Insurance. While the company's insurance premium growth was solid, Ping An's earnings result was negatively impacted by impairments to its asset management business, in particular the exposure to Chinese real estate.

Please see next page for Outlook

Notes:

1 Past performance is not a reliable indicator of future performance. Source: Maple-Brown Abbott Ltd, MSCI as at 31 October 2023.
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 Benchmark: MSCI AC Asia ex-Japan Net Index AUD.

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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 US interest rate rises, COVID-induced macro slowdowns 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. This is in contrast to other parts of the world, where profitability is higher than historic averages which is likely to slow after a rapid rise in interest rates.

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 likely to remain elevated for some time, 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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