MAPLE-BROWN ABBOTT

INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Australian Equity Trust

Monthly Commentary – 31 August 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. 31 Dec 1992
Fund [2]	0.0	4.6	13.9	9.7	15.0	8.8	10.8
Benchmark [3]	0.4	5.6	14.6	6.4	11.5	8.1	9.7

Market commentary

The Australian equity market rose modestly, with the S&P/ASX 300 Total Return Index up 0.4%. Markets were volatile, both in Australia and internationally, with a sharp sell-off early in the month on a range of fears including weaker US growth, rising Japanese interest rates, weakness in China and doubts that investment spend on artificial intelligence will deliver a fair return on the vast capital it is attracting. These fears faded as the month progressed, with equities rebounding on renewed optimism around rate cuts in the US. The US Government 10-year bond yield fell 0.15% to 3.91% and the Australian 10-year fell 0.12% to 4.00%. The AUD rose sharply against the USD. Reporting season was a key focus of local markets, delivering results broadly in line with expectations but with sombre outlook commentary driving a reduction in earnings expectations for FY25. Commodity markets were mixed, with softness in oil and iron ore prices but gains in gold. Looking at performance by sector, Information Technology (+7%) was best, followed by Industrials (+4%) and Communication Services (+3%). Energy (-6%) was weakest, followed by Materials (-2%) and Utilities (-1%).

Portfolio commentary

The Trust returned 0.0% over the month, underperforming the benchmark by 0.4%.

Our overweight holding in Ansell (+10%) was a key positive contributor to performance. The company delivered a full year earnings result ahead of market expectations. Solid margin improvement in the second half was the highlight, particularly for the Healthcare division, suggesting that the business is turning the corner after a tough period of industry oversupply. Our overweight position in Brambles (+17%) outperformed. The company delivered a strong result, with earnings above market expectations and FY25 guidance of 8-11% profit growth. The stock was further supported by the announcement of a USD$500m share buyback. Our holdings in major banks ANZ Group (+5%) and Westpac Banking Corporation (+5%) contributed positively. Banking sector outperformance reflected growing optimism around a soft economic landing and benign bad debt cycle. Our overweight holding in ResMed Inc (+10%) also performed strongly. The company delivered a strong full year result, supported by solid market growth, share gains and margin improvement. Concern around the risks posed to ResMed by the growth in use of GLP-1 anti-obesity drugs is also moderating.

Our overweight holding in QBE Insurance Group (-11%) detracted from performance. The company delivered a mixed half year result, with slowing premium growth and higher tax and restructuring charges leading to earnings forecast downgrades. Softening bond yields and a strong AUD were further headwinds to the share price. Our overweight position in Ramsay Health Care (-11%) contributed negatively. The company delivered a soft result, with ongoing weakness in the French business and a sharp increase in interest costs among the negatives. Industry conditions remain challenging, with subdued volumes and margin pressure. However, over time we expect volumes to return, underpinning a recovery in earnings. Our overweight holding in Nine Entertainment Co. (-9%) underperformed. While delivering a result in line with expectations, the advertising market continues to face headwinds. Nine's 60% stake in Domain Holdings Australia (-11%) was an additional drag, with the stock falling on higher FY25 expense guidance. We believe Nine's valuation is compelling, with the stock highly leveraged to a cyclical improvement in the advertising market and a rebound in Domain's market valuation.

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 August 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 credits are not included in the performance figures.

3 The benchmark is S&P/ASX 300 Total Return Index. Up to 31 March 2000 the Benchmark was the All Ordinaries Accumulation index.

Want to find out more?
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Outlook

Global equity markets remain at or near record levels. Within the Australian market, we have seen a rotation into cyclicals, as investors have positioned themselves for a 'goldilocks' scenario whereby we avoid an economic slowdown, inflation falls to acceptable levels and interest rates can be reduced. This rotation came at the expense of defensive sectors such as consumer staples and communication services, as well as resources. The narrative of falling rates also tended to support the valuation of many growth stocks, particularly in the technology sector.

Looking ahead, we are of the view that markets are not fully pricing in the economic and geopolitical risks that exist. The rotation noted above has presented opportunities, however, with many defensive stocks now offering attractive valuations and some protection against equity market uncertainties. We continue to see appeal in the energy sector and certain resources, given discounted valuations and strong balance sheets. That said, we observe that many cyclical, technology and other premium-rated industrial stocks appear expensive and our portfolio remains underweight those segments.

For latest Fund factsheet click here.

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