MAPLE-BROWN ABBOTT

INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Australian Share Fund Retail

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. 31 May 1986
Fund [2]	-3.8	-6.8	1.6	13.5	4.4	5.9	8.9
Benchmark [3]	-3.8	-7.2	3.0	8.9	4.3	7.2	9.1

Market commentary

The Australian equity market had a weak month, with the S&P/ASX 200 Total Return Index falling 3.8%. Performance was consistent with global markets, which fell in response to geopolitical instability and rising interest rate expectations. The US Government 10-year yield increased 0.29% to close at 4.88%, reflecting a robust US economy and expectations of rising US bond issuance. Similarly, the Australian Government 10-year yield rose 0.44% to close at 4.93%. Local economic data also showed resilience, with better than expected retail sales, a surprise fall in unemployment and a re-acceleration of inflation in the third quarter. Commodities were mixed, with gold notably stronger, oil weaker and iron ore remaining elevated. Looking at performance by sector, Utilities (+2%) was best, followed by Materials (-1%) and Communication Services (-3%). Interest rate sensitive sectors were weakest, including Information Technology (-8%), Health Care (-7%) and Industrials (-6%).

Portfolio commentary

The Fund returned -3.8% in October, performing in line with the benchmark.

Our overweight holding in Rio Tinto (+4%) was a key positive contributor to performance. Iron ore miners performed well over the month, with commodity prices remaining elevated and the announcement of further fiscal stimulus in China improving sentiment. Our overweight position in Origin Energy (+4%) outperformed. The stock is currently under takeover offer from a consortium led by Brookfield, which underpinned the share price. The deal also received clearance from the Australian Competition and Consumer Commission during the month, reducing risks around completion. The key remaining hurdle is shareholder approval at the 23 November scheme meeting, which cannot be assumed given public dissent from key shareholders. We note that the offer price was increased subsequent to month end, but the required shareholder support remains uncertain. Our decision not to own CSL (-7%) also contributed positively. Higher bond yields were a headwind, disproportionately impacting the value of growth stocks such as CSL. CSL is also being judged as a potential loser from the growth in GLP-1 anti-obesity drugs. Specifically, its Vifor business, which produces drugs to treat chronic kidney disease, may see reduced demand.

Our overweight holding in Alumina (-18%) detracted from performance. Environmental challenges continue to delay the approval of their mine plan, resulting in negative free cash flow. While this creates uncertainty around the stock, we believe the environmental risks can be managed, and a resolution is likely. Our overweight position in Healius (-21%) contributed negatively. Medicare data released during the month showed continued weakness in pathology volumes, reinforcing market concerns around the outlook for the stock. Given elevated debt levels, rising interest rates provided an additional earnings headwind. While we acknowledge that risks exist, we expect a recovery in pathology volumes to support earnings over the medium term, underpinning the current valuation. Our overweight holding in Incitec Pivot (-13%) also detracted, likely relating to market uncertainty around the sale process for the fertiliser division.

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 2023.

2 The Fund's performance relates to retail investors only. If you are a wholesale investor, you can obtain up to date returns at maple-brownabbott.com.au. Total return is based on the movement in withdrawal price per unit plus distributions and is before tax and after all fees and charges. Imputation credits, foreign income tax offsets and entry fees, are not included in the performance figures.

3 Benchmark: S&P/ASX 200 Total Return Index.

Want to find out more?
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Outlook

Markets remain volatile. Further increases in bond yields during the month highlight the significant uncertainty that exists around the persistence of inflation and the central bank rate tightening cycle. While the US economy continues to perform strongly, economic risks are elevated and history shows that 'soft landings' are rare. In Australia, economic signals are mixed, but inflation remains high and further rate increases from the Reserve Bank of Australia appear likely. We remain cautious that markets are not fully pricing in these risks, nor have they fully adjusted to the 'new normal' whereby inflation and interest rates will remain structurally higher than what we have seen in recent years.

In this environment, we are adding to defensive holdings where valuations are attractive. We continue to see appeal in the energy and broader resources sector, given discounted valuations, pristine balance sheets and the likelihood of some protection from inflation. We also see valuation support among the major banks, although acknowledge the sector faces heightened risks.

While the extreme divergence in valuations across the market that existed prior to the pandemic has retraced somewhat, we believe we are still in the process of normalisation. It seems unlikely we will see a return to the conditions that drove markets over the past decade and inflated the prices of many 'growth' stocks. In our view, it is more likely we will see a stock picker's market in which past excesses continue to be addressed, an environment that should suit our investment approach.

For latest Fund factsheet click here.

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