## Market commentary

The Australian equity market had a weak quarter, with the S&P/ASX 200 Total Return Index falling 2.8%. Australia underperformed global markets, which fell modestly on concerns around the US economy. Bond yields fell globally, with the US Government 10-year yield down 0.36% to close at 4.21%. In contrast, Australian yields only rose 0.02% to close at 4.39%, reflecting a more stable economic backdrop. The February company reporting season was a key focus during the quarter, producing some outsized share price moves despite earnings broadly in line with expectations on average. Looking at performance by sector, defensives tended to outperform. Industrials (+3%) was best, followed by Utilities (+2%) and Communication Services (+2%). Information Technology (-18%) was weakest, then Health Care (-9%) and A-REITs (-7%).

## Fund performance Commentary

The Fund returned 0.2%, outperforming the S&P/ASX 200 Total Return Index (Benchmark) by 3.0%.

Our holding in Nine Entertainment Co. (+25%) was the largest positive contributor to performance. The key driver was a takeover offer for Domain Holdings Australia, in which Nine holds a 60% stake, from US property firm CoStar. The initial offer price of $4.20 per share was later raised to $4.43, a 42% premium to the prior closing price, valuing Nine's stake at $1.7bn. The Domain board has indicated its support for the offer and CoStar has been granted exclusive due diligence. Nine also delivered a better-than-expected half-year result in February, with a trading update that showed signs of cyclical improvement in the advertising market. The portfolio holds a smaller direct position in Domain Holdings Australia (+70%), which was also among the top contributors. Our position in Sims (+24%) performed very strongly. Several factors supported its share price over the quarter, including potential benefits from US tariffs on steel imports, a solid half year result which showed improvement in US scrap margins and the acquisition of US competitor Radius Recycling by a subsidiary of the Toyota Group, a sign of positive sentiment towards the sector. Our holding in QBE Insurance Group (+18%) also contributed positively. The company delivered its full-year result in February, with earnings ahead of market expectations and a relatively upbeat outlook for premium growth.

Our overweight position in Ampol (-17%) detracted from performance. The company delivered a weak full-year result, impacted by weak regional refining margins, outages at the refinery, depressed international trading profits and higher interest costs. While this is disappointing, the more stable parts of the business are performing as expected and a recovery in refining should further support profit growth. Our overweight holding in Treasury Wine Estates (-12%) underperformed. Sentiment towards the stock has been impacted by weak US wine data and mixed reports around Chinese demand following the removal of tariffs on Australian wine. We continue to have confidence in the strength and long-term growth potential of Treasury's brands and see current valuations as compelling. Our overweight holding in Incitec Pivot (-13%) also contributed negatively. The company has experienced some operational disruptions at its Phosphate Hill fertiliser plant, as well as seeing adverse weather impact demand for both explosives and fertiliser. While unwelcome, management believe the lower demand is a timing issue that will reverse in the second half, with expectations over the full year broadly unchanged.

## Australian Equities review

### The pause that refreshes, or...

The March quarter saw considerable economic and political turmoil following the inauguration of President Trump and unsurprisingly markets responded accordingly. What has been surprising however is that it is the US market that has seen weakness while European markets have strongly outperformed, notwithstanding a host of uncertainties relating to American economic and political relationships with Europe. Valuation differentials were, however, very much in favour of Europe and so in that sense relative price movements are easily justified. Our market had a soft quarter (S&P/ASX 300 Total Returns fell 2.9%) but this does mask a larger ~9% fall in the index from the peak in mid-February to the low in mid-March, before a small recovery later in the quarter.

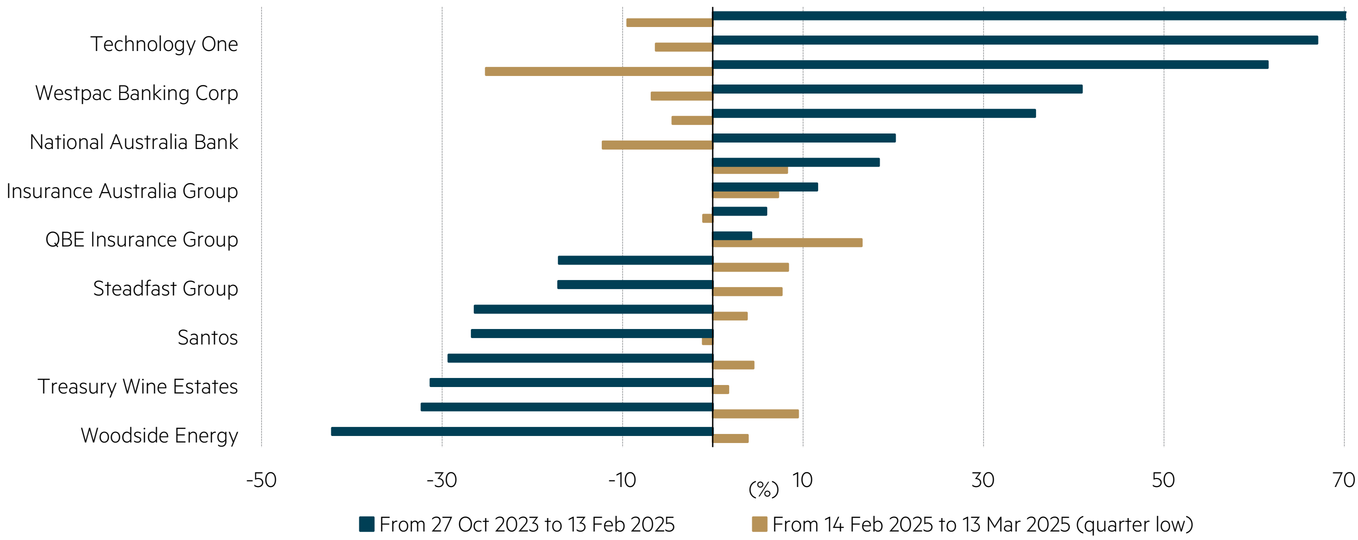
| | FY1 PE | Quarterly Return |
|---|---|---|
| S&P 500 | 20.3 | -4.3% |
| NASDAQ | 23.4 | -8.1% |
| FTSE 100 | 12.1 | 6.1% |
| France CAC 40 | 14.3 | 5.8% |
| Germany DAX | 14.7 | 11.3% |
| Nikkei 225 | 17.8 | -10.0% |
| Hang Seng | 10.1 | 16.1% |
| Hang Seng China Enterprises | 9.6 | 17.6% |

Source: Bloomberg.

As noted in the December quarterly, our market produced strong returns in 2024 against a background of falling earnings, rising ~30% from the low seen end October 2023 to the high during this February. As we have been highlighting, these gains were generated by a narrow group of stocks (tech, financials and select industrials), where valuations became particularly stretched. This left the market vulnerable to price weakness and it was these stocks which led the way down in the correction we saw during February/March. Similarly, we saw a recovery in some of the laggards, particularly in selected defensive and resource names. Financials and Tech drove market returns from 2023 lows

**But strong reversal in recent market correction**

**Total Return relative to S&P/ASX 300**

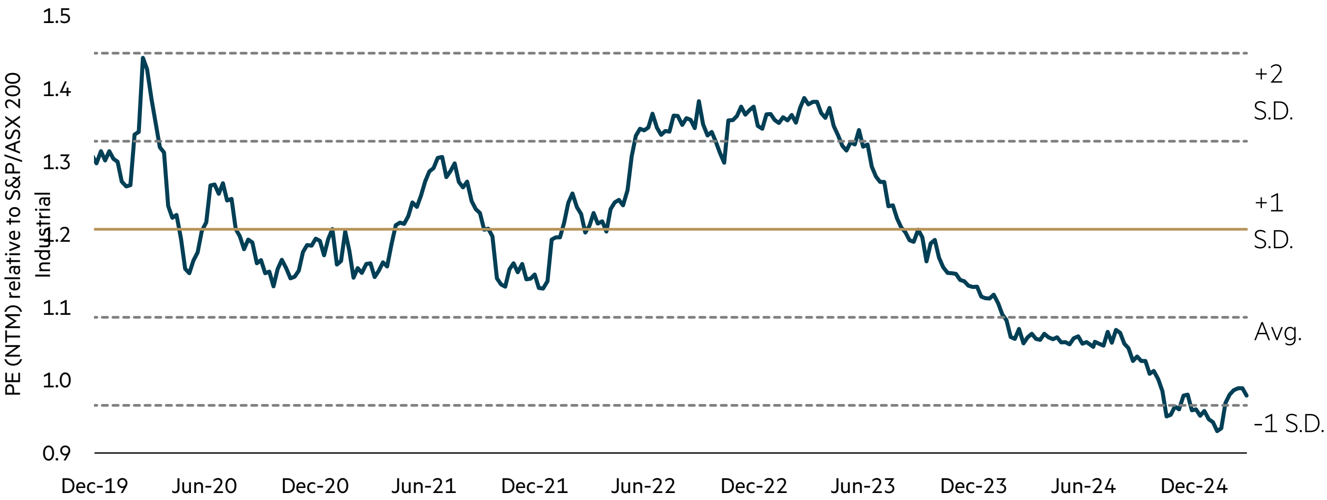



Source: FactSet.

In our view this reflects the extreme valuation differentials that prevailed. This is not to suggest that the valuation differentials have narrowed materially; they have not. By way of example, the chart below highlights that defensive stocks continue to trade at large discounts to historic averages relative to the Industrial benchmark, even after their recent performance bounce.

### Defensive stocks have lagged in a strong market

**Valuations are attractive relative to recent trading history**
**Valuation of major defensive stocks in the ASX 200**




Source: FactSet, data to March 2025. Represents unweighted average next 12 month PE relative to S&P ASX200 Industrials Index of AMC, BXB, COL, CSL, RMD, TLS, TWE and WOW.

The Industrial benchmark incorporates the expensive valuations of key benchmark stocks such as Commonwealth Bank (CBA, 25 PE[1]), Goodman Group (24 PE), Macquarie Group (20 PE) and Wesfarmers (31 PE). These four stocks comprise ~25% of the benchmark. If we include National Australia Bank (15 PE) and Westpac (16 PE), this increases to ~35% of the benchmark (both these stocks are expensive relative to their history although less extreme). These premium valuations clarify why we have significant overweight positions in a number of the more attractively valued defensive stocks and the absence of most of the largest capitalization names in our portfolios.

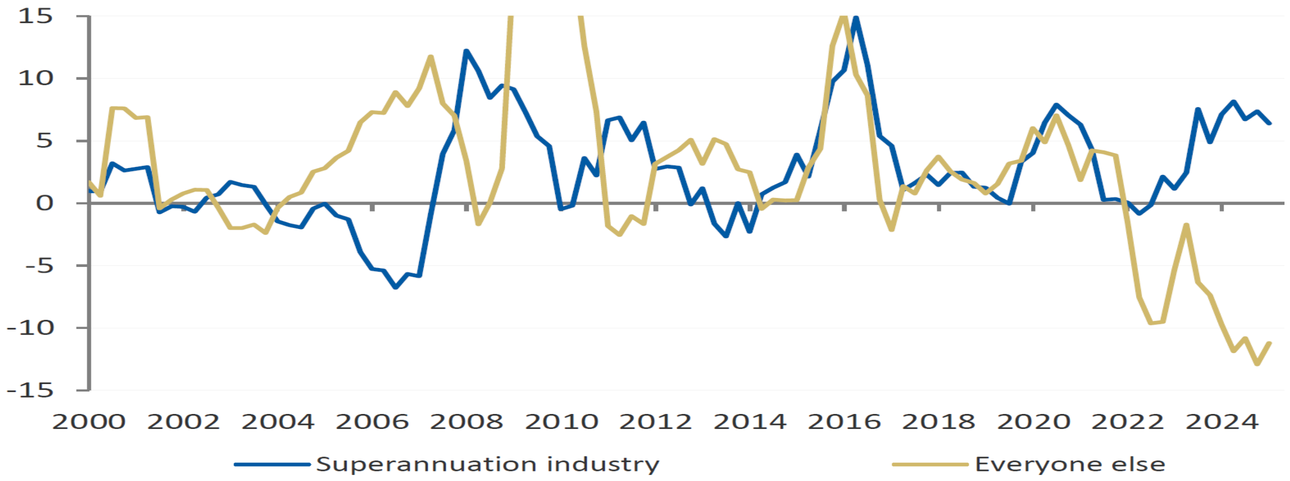
The recent company reporting season was one of the most volatile in history with wild price swings accompanying many results. The fact that the beginning of the market correction overlapped with the heart of the reporting season was a significant contributing factor to volatility. However, it was also notable that in general the premium rated “crowded trades” underperformed relative to the discounted and less well-held stocks. This is after the former group had been strongly re-priced through 2024, often without much in the way of accompanying earnings upgrades necessary to justify the share price gains.

CBA was the only of the big four banks to report a full six-month result during February, reporting a solid result but with little growth in earnings. CBA remains a global outlier in terms of large bank valuations with a valuation of ~$250 bn and trading more than three times book value. There have been numerous contributing factors to the almost unprecedented revaluation of CBA over the last year or so, including international buying as investors deserted China in the second half of 2024 and diverted some of those funds to our larger liquid stocks. Domestically, super funds invested significant funds into the Australian market over recent years and this together with ongoing moves from active to passive management has seen the super fund holdings in the banks increase. Active managers have been sellers of banks and appear to have record underweights to the sector with their outperformance being a headwind to performance for most active managers. Renewed investor interest in China and US tech valuations coming under pressure is likely to see a broadening of investor appetite. We are of the view that the next 12 months will be far more challenging for the banks and given their extended valuations we are materially underweight the sector.

[1] All PE data is FactSet FY1 consensus

**Super funds have been large buyers of banks**

**Active managers are significantly underweight the sector**
**Net purchases of banks sector (A$ bn; rolling annual)**




Source: ABS, Morgan Stanley Research. Data to December 2024.

The US market has suffered a set-back and much has been written about the end of the age of US "exceptionalism". Many other markets held up well over the quarter but for reasons already discussed, our market has been a laggard. Market weakness has generally been good for value stocks, even if largely on a relative basis. We see no easy path for US tech stocks to recover their large falls and if this is the case, the broader US market is also likely to remain under pressure, which would impact our market negatively.

With the announcement of Trump's tariffs on 2 April the downturn in the US market accelerated and contagion has spread globally. As is usual in such market moves, there has been considerable volatility with a move to defensive assets. Extreme valuation differentials have begun to narrow but have a long way to go to approach historical averages.

## Responsible Investment

Stewardship is a key pillar of Maple-Brown Abbott's approach to environmental, social and governance (ESG) integration. We engage regularly with the companies we invest in, taking the view that there is greater benefit to influence change as a shareholder rather than simply divest and pass the challenge to a potentially less ESG-focussed investor. Our long-term investment horizon facilitates this approach, as it enables us to take a longer view on ESG risks and engenders stable, influential relationships with the Board and management of our portfolio companies.

Over the course of the past year we met with a range of companies held in our Australian value equity portfolios, with climate risk and decarbonisation again the most discussed topic. Other engagement themes that repeated regularly in our meetings included conduct and culture; data privacy and cybersecurity; and modern slavery.

Our engagements may be triggered by a particular incident or controversy or be undertaken as part of a regular deep dive into ESG risk management

Deep dive ESG meetings were held with portfolio companies including Brambles (BXB), where we discussed decarbonisation, circularity and modern slavery; Treasury Wine Estates (TWE), covering decarbonisation, modern slavery and human capital; Orica (ORI), on decarbonisation, environmental stewardship, and safety performance; and Ansell (ANN), on modern slavery and environmental stewardship.

We also participated in several engagements specifically focussed on companies' climate transition plans, including Origin Energy (ORG), BHP Group (BHP) and National Australia Bank (NAB), and used these meetings to inform our proxy voting activity at subsequent AGMs.

In many cases it may take several years for engagement objectives to be met, however there are other times when outcomes are more immediate.

To supplement our direct engagement, we also participate in collaborative investor initiatives, including Climate Action 100+ and Investors Against Slavery and Trafficking Asia-Pacific (IAST APAC).

Most of our direct engagement meetings cover multiple topics, and insights are fed back into our company research and evaluation. Our engagement priorities are identified through assessment of the most material ESG risks and opportunities at a company and portfolio level, analysis of macroeconomic trends and regulatory focus, real-world impacts, and the responsiveness of the target company.

**For latest Fund factsheet click here.**

## Fund ratings

Recommended Lonsec Research

Zenith RECOMMENDED

Responsible Investment Leader 2024 A proud RIAA member

Signatory of: PRI Principles for Responsible Investment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