MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Australian Small Companies Fund

Monthly Commentary – 30 November 2024

Fund performance (%) [1]

	1 month	3 months	1 year	2 years p.a.	Since inception p.a. 24 Jun 2022
Fund [2]	2.7	8.3	29.2	17.0	21.3
Benchmark [3]	1.3	7.3	19.9	7.7	10.4

Market commentary

Over the month, the Australian small caps market increased 1.3%, as measured by the S&P/ASX Small Ordinaries Index, with small industrials outperforming small resources. The smaller end of the market underperformed the larger end, as measured by the S&P/ASX 200 Index, by 2.5%, reversing some of the outperformance in both September and October.

Equity markets were buoyed by clarity regarding the US election with the next Trump presidency expected to be supportive for economic growth. On the domestic front, both consumer sentiment and business confidence improved. Wages increased less than the previous quarter with labour force data showing jobs surprising to the downside which implies an easing labour market. Headline consumer inflation came in softer with government subsidies while national house prices were little changed over the month.

A key takeout from the recent AGM and trading updates from consumer facing companies has been that consumers are looking for value. The Black Friday and adjacent December sales periods will be a clear indicator as to whether consumers are responding to promotional activity and the desire of companies to clean inventory lines with greater discounting – early indications so far in early December have been positive.

Over the month, key stock contributors to the S&P/ASX Small Ordinaries Index performance included Sigma Healthcare (ACCC approval for the Chemist Warehouse merger), Pinnacle Investment Management (offshore private markets and multi-manager provider acquisitions), HMC Capital (data centre IPO), in addition to a bounce in the travel exposed companies, including WEB Travel Group and Corporate Travel Management.

Portfolio commentary

The Fund returned 2.7% over the month, outperforming the benchmark by 1.4%. The Fund continues to generate strong returns since inception (24 June 2022), returning 21.3% and outperforming the benchmark by 10.9% on an annualised basis.

Over the month, key performance contributors included Pro Medicus (PME) and SRG Global (SRG). During the month, Pro Medicus announced a game-changing US$330m multi-product cloud contract with Trinity Health's US nationwide network which was more than double the size of their previously announced largest contract. In addition, the company announced an upgrade and extension to their existing NYU Langone contract including a transition to the cloud, and at the AGM indicated that results to date were tracking ahead of budget. Pro Medicus' market share of the US radiology imaging market is in the high single digits with a potential inflexion point for future contract awards happening. SRG Global announced contract awards across water, transport, health and resources which adds $700m to their contract order book. These awards highlight the broad diversification across the SRG Global business and increases our confidence in the earnings profile for FY25 and beyond.

Over the month, key performance detractors included GQG Partners (GQG) and Boss Energy (BOE). The GQG Partners' share price was impacted by adverse developments regarding the US Department of Justice and Securities Exchange Commission launching a case against Adani Group executives, resulting in in material share price retracements for several Adani listed entities which are key holdings across the GQG funds. This is expected to have, at least, a short-term impact on the fund manager's flow expectations. We have subsequently reduced the Fund's position until we have greater clarity regarding the flow trajectory going forward. Boss Energy is one of the most shorted stocks listed on the ASX and underperformed in sympathy with Paladin Energy which has recently experienced ramp-up issues with the market assuming a similar fate for Boss Energy. In addition, the spot uranium price pulled back over the month. We continue to remain supportive of the uranium industry with strong demand fundamentals from new nuclear reactor builds, life extensions and Artificial Intelligence while the supply environment continues to remain constrained.

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 30 November 2024.
2 The Fund'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 Small Ordinaries Total Return Index.

Want to find out more?
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Outlook

As the 2024 calendar year wraps up, absolute returns for equity markets have been impressive. However, we have been underwhelmed with the performance of the Australian small caps market relative to their larger counterpart given the number of tailwinds as risk appetite returns to the space after a challenging few years.

Globally, the Trump presidency's pro-growth stance with tax cuts and reduced regulation is expected to be stimulatory for economic activity. This is further supported by easing financial conditions with inflation continuing to moderate and interest rates being reduced by the US Federal Reserve and other global central banks. In addition, there are hopes that geopolitical tensions with Russia/Ukraine and the Middle East are showing signs of easing.

Domestically, the RBA has remained more hawkish given stickier inflation although interest rate cuts are expected to come through from mid-2025 onwards which should be supportive for the Australian small caps market. In addition, consensus earnings growth forecasts are expected to bounce strongly at the smaller end of the market over the next couple of years.

We believe there remains a long runway of superior relative performance in small caps if the sector is to catch up to comparable levels seen in late 2021. Previous cycles provide a playbook for significant small cap outperformance coming out of poor economic conditions, and we see potential for this to be an underlying theme in the domestic market over the coming years.

We continue to see structural growth companies delivering on earnings despite many being priced for perfection with ever increasing valuation multiples. While we are wary of this, our focus remains on earnings and the Fund continues to own structural growth stories where we see significant medium-term upside to market earnings expectations. However, some of these position sizes are being trimmed as valuation in select segments are being capped out. This capital is being allocated into new positions, many of which are under-appreciated cyclical companies that are now in the 'Improving Fundamentals' segment of the earnings lifecycle.

The Fund remains well positioned with regards to its core pillars of earnings delivery and sustainability factors. Going forward we see solid earnings potential, better than benchmark sustainability characteristics and a superior risk profile for the stocks held in the Fund.

For latest Fund factsheet click here.

Want to find out more?

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