MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Australian Sustainable Future Fund

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. 16 Sep 2009
Fund [2]	-3.9	-8.6	0.4	12.9	4.9	6.4	6.2
Benchmark [3]	-3.8	-7.3	2.5	8.7	4.3	7.2	7.0

Market commentary

The Australian equity market had a weak month, with the S&P/ASX 300 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 -3.9% in October, underperforming the benchmark by 0.1%.

Our overweight holding in Rio Tinto (+4%) was a key positive contributor to performance. Rio is aligned with our sustainable investment theme of low carbon future, with around 35% of group revenue coming from aluminium and copper, ‘future facing’ metals vital to the clean energy transition. Strong performance over the month largely reflected its iron ore exposure, with sentiment improving due to the announcement of increased fiscal stimulus in China. Our overweight position in Inghams Group (+11%) outperformed. The company released a trading update with profit guidance during the month, which exceeded market expectations. First half underlying earnings are expected to be around $71m, more than double the prior corresponding period. The stark recovery in profitability reflects Inghams’ ability to recover higher costs through price increases and very strong demand for poultry in an environment where consumers are increasingly looking for value. 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 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 G8 Education (-11%) also detracted. The company provided a trading update at its investor day, showing a modest deterioration in centre occupancy. In our view, momentum should improve next year, supported by increased government funding, and note that the announced divestment of a group of loss-making centres will provide a near term boost to earnings.

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 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.

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Sustainable future case study

ResMed Inc.

During October we added ResMed Inc. (RMD) to the Fund, a company that contributes to our Health and Wellbeing sustainable investment theme. RMD manufactures and distributes medical devices and related software for healthcare markets, and is a market leader in medical devices for obstructive sleep apnea (OSA). OSA is a serious medical condition that affects an estimated 5% of Australians and has flow-on detrimental impacts to a number of health outcomes. Positive airway pressure machines, such as the ones produced by RMD, provide OSA sufferers with better sleep quality and alleviate other risk factors.

Health outcomes for its customers is RMD's most material area of positive impact, however we also note steps the company is taking to reduce its environmental impact, such as redesigning product packaging to be more resource efficient and diverting waste from landfill. Notwithstanding these positive developments, as a medical device company we are most interested in its approach to product safety. RMD has stringent practices to maintain high standards in this area, with a market leading record. This has helped it gain market share from competitor Philips, which was forced to recall a suite of products due to safety concerns. With the prevalence of OSA increasing over time we see continued societal benefit from RMD's products both in Australia and globally.

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 see valuation support among the major banks, although acknowledge the sector faces heightened risks. A number of market segments with strong sustainability performance are also well placed, including providers of essential services, food and infrastructure and enablers of decarbonisation.

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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RIAA's RI Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that Maple-Brown Abbott Australian Sustainable Future Fund adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product. The Certification Symbol is a Registered Trademark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and Maple-Brown Abbott Australian Sustainable Future Fund's methodology, performance and stock holdings can be found at www.responsiblereturns.com.au, together with details about other responsible investment products certified by RIAA.*

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Want to find out more?

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