Maple-Brown Abbott Australian Sustainable Future Fund

Monthly Commentary – 31 October 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. 16 Sep 2009
Fund [2]	-1.0	4.1	28.1	11.3	16.5	9.2	7.5
Benchmark [3]	-1.3	2.2	24.9	7.6	12.5	8.1	8.1

Market commentary

The Australian equity market had a weak month, with the S&P/ASX 300 Total Return Index falling 1.3%, consistent with soft global equity markets. Bond yields rose sharply, with the US Government 10-year up 0.50% to close at 4.28%, as resilience in the US economy and the perceived inflationary impact of a potential Republican election win pushed out expectations of US interest rate cuts. The Australian Government 10-year also moved materially higher, up 0.53% to close at 4.51%. Local economic data was fair, with continued strength in labour markets and steady momentum in retail sales. Uncertainty around Chinese stimulus and growth was another theme weighing on the local equity market. This was reflected in commodities, notably through a lower iron ore price. There was also a sharp drop in the AUD/USD exchange rate. Looking at performance by sector, Financials (+3%) were strongest, followed by Health Care (+1%) and Communication Services (+1%). Utilities (-7%) was weakest, followed by Consumer Staples (-7%), Materials (-5%) and Energy (-5%).

Portfolio commentary

The Fund returned -1.0% over the month, outperforming the benchmark by 0.3%.

Our overweight position in Alcoa (+6%) was a key positive contributor to performance. Alcoa is a major producer of alumina and aluminium, essential materials for the energy transition and aligned with our sustainable investment theme of Low Carbon Future. The key driver of the stock was rising alumina prices, which have been rallying in recent months due to supply disruptions for several major producers. Alcoa also delivered a strong quarterly result during the month, with earnings above market expectations. Our underweight exposure to the iron ore miners was another positive, including a zero exposure to BHP Group (-7%) which can't be held by the fund due to its fossil fuel operations. Weakness in the sector reflected China concerns and the associated lower iron ore price. Our overweight exposure to the general insurers, including overweight positions in QBE Insurance (+4%) and Insurance Australia Group (IAG) (+2%), contributed positively. The key driver was higher bond yields, which supports investment income, and in the case of QBE the decline in the AUD/USD exchange rate. IAG also gave a trading update at its AGM, reiterating the FY25 guidance given in August. Our decision not to hold James Hardie Industries (-15%), impacted by US housing cycle concerns, and Wisetech Global (-14%), impacted by governance issues, was also supportive.

Our exposure to the major banks detracted, including our modestly underweight positioning and our decision not to hold the premium-rated Commonwealth Bank of Australia (+5%), which was the best performing bank. Our overweight holding in IP law firm IPH Limited (-12%) contributed negatively. The stock has been impacted by concerns around organic growth, due to patent market weakness and market share loss from integrating acquisitions. In our view, valuations are attractive and stabilisation in market share should drive a re-rating. Our overweight position in Nine Entertainment Co. Holdings (-6%) also detracted. Weak advertising market conditions continue to weigh on the stock. The market price of Nine's 60% holding in Domain Holdings Australia also fell over the month, with the departure of its CEO creating uncertainty.

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 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 300 Total Return Index.

Want to find out more?
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Sustainable future case study

Mirvac Group

Mirvac Group (MGR) is held in the fund under our Better Communities sustainable investment theme. As one of Australia's leading property groups, MGR contributes to improved social outcomes in Australia through its development of residential, office and retail property and its sustainable practices.

With housing affordability becoming an increasingly critical issue in Australia, MGR's investment in residential properties that cater to lower and middle-income households can help to alleviate housing stress and support social equity, ensuring that more Australians have access to secure and stable living conditions. MGR places particular emphasis on the well-being of the communities it is involved in developing. It actively collaborates with local stakeholders to ensure that its projects meet the needs of the community including, for example, design considerations such as accessible public spaces and green design.

MGR is committed to achieving net-zero carbon emissions by 2030 and maintains ambitious targets to reduce waste and water consumption across its portfolio. Initiatives to reduce its carbon footprint include the incorporation of renewable energy sources, energy-efficient building designs, and use of sustainable materials. By prioritising low-carbon solutions, MGR is looking to both reduce its own environmental impact whilst setting elevated standards for the construction and real estate industries in Australia. The focus on sustainable design extends into the design of its homes – including energy-efficient appliances, enhanced insulation, and smart technology that optimises resource use – which enhances the liveability of its properties.

Outlook

Global equity markets remain near record levels, supported by the start of the interest rate cutting cycle in the US, UK and Europe, as well as recently announced stimulus in China. Within the Australian market, we have seen a rotation into cyclicals, notably the banks. This reflects a growing consensus view that we will achieve a 'goldilocks' scenario whereby we see continued solid corporate earnings and inflation falls to acceptable levels, allowing interest rates to be reduced. The narrative of falling rates has also supported many growth stocks, particularly in the technology sector. This rotation has come at the expense of defensive sectors such as consumer staples and communication services. Resources have also lagged.

Looking ahead, we are of the view that markets are not fully pricing in the economic and geopolitical risks that exist. In Australia, growth remains very weak but, with inflation still elevated, rate cuts are unlikely in the near term. In the US, economic growth appears stronger and bond markets suggest the trajectory of rate cuts will be slower than expected. Within equity markets, the rotation noted earlier has presented opportunities, with many defensives now offering attractive valuations and some protection against equity market uncertainties. 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. That said, we observe that many cyclical, technology and other premium-rated industrial stocks appear expensive, and our portfolio remains well underweight those segments.

For latest Fund factsheet click here.

SUSTAINABLE PLUS
CERTIFIED BY RIAA

The Certification Symbol is issued by Responsible Investment Association Australasia (RIAA) ACN (641 046 666), AFSL (554110) and signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations and that the Australian Sustainable Future Fund adheres to the operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product. The classification signifies the degree to which sustainability is a consideration and binding investment criteria. The Australian Sustainable Future Fund is assessed against RIAA's Responsible Investment Standard and Assessment Note-Sustainability Classifications. There may be material differences between the definition and methodology of RIAA's classification system and the way the terms 'Responsible'/'Sustainable'/'Sustainable Plus' are used by the product in its own disclosures. For detailed information about RIAA, the Symbol and the Australian Sustainable Future Fund's methodology, performance, stock holdings, remuneration and details about other responsible investment products certified by RIAA, refer to www.responsiblereturns.com.au and our Financial Services Guide.1

1.The Responsible Investment Certification Program provides general advice only and does not take into account any person's objectives, financial situation, or needs. Neither the Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Because of this, you should consider your own objectives, financial situation and if the advice relates to the acquisition, or possible acquisition, of a particular financial product. Certifications are current for 24 months and subject to change at any time.

Want to find out more?

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