MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

# Maple-Brown Abbott Australian Value Opportunities Fund

## Monthly Commentary – 31 October 2023

### Fund performance (%) [1]

| | 1 month | 3 months | 1 year | Since inception p.a. 01 Apr 2021 |
|---|---|---|---|---|
| Fund [2] | -5.1 | -7.4 | 3.6 | 6.9 |
| Reference Benchmark [3] | -3.8 | -7.3 | 2.5 | 3.9 |

### 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 -5.1% in October, underperforming the benchmark by 1.3%.

Our 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 position in Origin Energy (+4%) performed well. 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 position in McMillan Shakespeare (+4%) also contributed positively. McMillan released a trading update during the month, reporting first quarter revenue growth of 29% for its core Group Remuneration Services division. The strong growth was driven by a jump in novated lease sales for electric vehicles, supported by new government tax incentives.

Our 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 holding in Bapcor Limited (-21%) contributed negatively. The company released a first quarter trading update during the month, showing a slowdown in sales momentum and calling out higher cost inflation. While this was disappointing, we believe the business should be fundamentally resilient given the non-discretionary nature of the majority of its sales and the pricing power associated with its strong market position. 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 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 reference benchmark is S&P/ASX 300 Total Return Index.

### 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.**





**Want to find out more?**

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