MAPLE-BROWN ABBOTT

INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Global Emerging Markets Equity Fund

Monthly Commentary – 31 October 2023

Fund performance (%) [1]

	1 month	3 months	1 year	Since inception. 29 Jun 2022 p.a.
Fund [2]	-3.4	-7.0	4.7	-1.3
Reference Benchmark [3]	-2.0	-6.5	11.9	1.4

Market commentary

Global equity markets finished the month lower as geopolitical tensions in the Middle East and the outlook for global interest rates weighed on investor sentiment. Global government bond yields increased over the month with the US government 10-year yield approaching 5%. Despite the conflict in Gaza, the benchmark Brent crude oil price fell from recent highs, finishing below USD 90 per barrel, while gold prices rose. Within Asia, high inflation data saw central banks in Indonesia and the Philippines hike benchmark rates. The Reserve Bank of India left rates on hold although comments from officials suggested inflation remained uncomfortably high with key risks to consumer prices being extreme weather in India and higher crude oil prices. Meanwhile Chinese authorities announced a series of stimulatory policy measures including an increase in the 2023 fiscal deficit target and the issuance of RMB 1 trillion of sovereign wealth bonds to fund disaster recovery projects and infrastructure investments. China's third quarter GDP was a surprise beat at 4.9% year-on-year, with officials confident of achieving their 5% growth target for 2023. Geopolitical tensions between the US and China increased somewhat as the US government announced further curbs on the supply of advanced semiconductor chips, although the latest measures were less stringent than feared. Despite the latest US restrictions, the Chinese technology sector finished little changed versus the prior month.

In a challenging month for global equity markets, Poland was a standout, rising 16% following the strong electoral performance by the Civic Platform Party against the incumbent hard right Law and Justice Party. The Civic Platform Party, led by former Polish Prime Minister (2007-2014) and European Council President Donald Tusk, is seen to be more reformist and European Union policy friendly. It is expected Donald Tusk will form a coalition with two smaller parties, and push for the European Union to unlock billions of euros in COVID recovery grants which have been frozen due to a dispute between the previous regime and the European Union. Greece was another outperforming market. Economic growth in Greece is among the highest in Europe, due to a strong recovery in inbound tourism. In the month, credit ratings agency S&P upgraded Greece's sovereign credit rating from junk status to investment grade for the first time since 2010. The conflict in the Middle East weighed on returns in Turkey which significantly underperformed other emerging markets. Turkey's Central Bank also hiked the benchmark rate by 5% to 35% as officials attempt to combat inflation currently around 60%. Within Latin America, the Chile Central Bank slowed the pace of rate cuts as officials are concerned about the weak peso, while in Mexico the government announced a series of tax breaks for companies which relocate manufacturing to Mexico. Mexican industrial production data rose 5.2% year-on-year in October, which was ahead of expectations.

The best performing countries (in USD) across emerging markets were Poland (+16.3%), Egypt (+4.6%) and Hungary (+1.4%). Turkey (-13.0%), UAE (-9.6%) and Chile (-9.1%) were the weakest.

By sector, only Health Care was positive for the month, up 0.7% in USD terms. Industrials (-8.4%), Real Estate (-7.9%) and Materials (-6.3%) were the weakest.

Portfolio commentary

The Fund returned -3.4% after fees for the month, underperforming the reference benchmark by 1.4%.

At a stock level, the portfolio's position in Chinese mobile game producer NetEase was the largest positive contributor to performance. The company benefited from strong demand in its newly launched mobile games, along with the Chinese regulator approving more games for release.

At the country level, South Korea was the largest contributor with the new addition of memory maker SK Hynix outperforming. The sell-off in the Korean electric vehicle battery supply chain makers that we do not hold also contributed positively.

Grupo Aeroportuario del Pacifico (or GAP Airports) was the largest detractor for the month. The Mexican government announced it would review the tariffs and concession model for all airport operators. This was the first time in the almost 25 year history of the concession that the government has adjusted tariffs in the middle of an agreed five year development plan. At month end, negotiations were ongoing but we expect some clarity when another operator, Asur, negotiates their next five year development plan through November. Mexico was the largest detractor by country for the month.

Financials were the largest detractor by sector for the month. A number of names were weak, with Bank of the Philippine Islands (BPI) detracting the most. BPI reported strong third quarter earnings, but guided the market lower on the outlook for the rest of the year. Higher interest rates may slow some short-term corporate loan demand, but we remain long-term holders.

Please see next page for Outlook

Notes:

1 Past performance is not a reliable indicator of future performance. Source: Maple-Brown Abbott Ltd, MSCI as at 31 October 2023.

2 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 and foreign tax credits are not included in the performance figures.

3 Reference Benchmark: MSCI Emerging Markets Net Index AUD.

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Outlook

Despite the negative headwinds facing China, there are many positives across emerging markets today. Emerging economies have generally been ahead of the curve in fighting inflation, helped by moving early with rate rises and limiting fiscal spending through the COVID period. That leaves many emerging market governments and central banks well placed to stimulate for growth, should there be any economic slowdown. At the same time, many emerging economy equity markets are still trading below long-run average valuations. In aggregate, this combination presents us, as active investors, with a myriad of longer-term investment opportunities.

China does appear to be past the cycle trough in terms of economic data. GDP growth for the third quarter of 4.9% beat estimates and leaves China on track to meet their 5% growth target set at the start of the year. While investor sentiment is weak – one can see it in the flows coming out of the Hong Kong Stock Connect mechanism – earnings estimates for the broad market continue to disappoint as analysts already bake a recovery into their numbers. For China to become more attractive, we believe we need to see either the Chinese government successfully put a floor under consumer and business confidence, or for equity market expectations to move lower still. We acknowledge there are select opportunities, but there are also other markets with lower valuations and economies that are better placed today.

As always, we believe a portfolio of well-run companies with sustainable business models that are generating high cash returns on capital and purchased at a substantial discount to our estimate of fair value will outperform over the long term. We continue to seek to take advantage of the opportunities the market is offering us today.

We thank you for your continued trust and confidence as stewards of your capital. Please contact us if you have any questions.

For latest Fund factsheet click here.

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