MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Asian Investment Trust

Monthly Commentary – 30 April 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. 25 Oct 2002
Fund [2]	1.0	10.6	5.4	2.6	8.7	3.5	9.1
Benchmark [3]	1.7	11.6	9.4	-1.7	4.5	3.5	7.9

Market commentary

The Asia ex-Japan region rose over the month, contrasting falls seen in developed equity markets including Europe, North America and Japan. Stronger than expected US inflation data saw the market reduce expectations of the number of interest rate cuts in 2024. Meanwhile, the Hong Kong and Chinese equity markets were supported by a generally positive quarterly earnings season, with a key highlight being an increase in the number of corporates announcing shareholder-friendly capital management policies. Chinese macroeconomic conditions also improved, with first quarter GDP above the government's 5% target, while late in the month the government announced further supportive policies in property. Weakness in South Korea and Taiwan markets were driven by profit taking in AI beneficiaries. Indonesia was the major laggard in the region, as Indonesia's central bank unexpectedly hiked the benchmark cash rate by 25bps to defend against currency weakness. Indonesian banks were a key underperformer.

Regionally, the best performing markets over the month were China (+6.6%), Hong Kong (+5.2%) and Singapore (+4.0%) in USD terms, while the worst performing markets were Indonesia (-8.5%), the Philippines (-5.8%) and South Korea (-5.8%). On a sector basis, the best performing sectors were Communication Services (+6.7%), Utilities (+4.9%) and Consumer Discretionary (+4.1%), while the worst performing sectors were Information Technology (-3.9%), Health Care (-1.8%) and Energy (+1.2%).

Portfolio commentary

The Trust returned 1.0% in AUD terms for the month, underperforming the benchmark by 0.7%.

A key positive performance contributor was the portfolio's overweight position in mobile game developer Tencent. It benefitted from strong investor flows into the Chinese equity market, while it also announced the release date of a long-awaited and key mobile game, Dungeon and Fighter Mobile. Another positive contributor was the position in Chinese oil & gas developer CNOOC. It announced a solid first quarter earnings result, with the key highlight being an increase in oil production. Kunlun Energy was also an outperformer over the month. It reported full year results at the end of March with continued gas sales volume growth and high LNG terminal utilisation. Furthermore, it improved its dividend payout ratio from ~35% to ~43% with an indication of further improvements to come. Given its status as a centrally run State Owned Enterprise, we believe this was partially driven by new management key performance indicators implemented to improve return-on-equity and market value.

A major detractor from performance was the overweight position in Indonesia micro lender Bank Rakyat. Bank Rakyat's earnings result was weaker than expected due to challenging credit conditions as benchmark rates stayed higher than expected. Another detractor from performance was in Korean automotive parts manufacturer Hyundai Mobis. Its first quarter result was mixed, with slowing revenue growth for its electrification business, while the aftersales segment saw healthy revenue growth and solid operating margins expansion to near historically high levels. Meanwhile Samsung Electronics fell modestly over the period and detracted from performance. DRAM and Nand memory prices are rising which is driving higher earnings.

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Notes:
1 Past performance is not a reliable indicator of future performance. Source: Maple-Brown Abbott Ltd, MSCI as at 30 April 2024.
2 The Trust'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 Benchmark: MSCI AC Asia ex-Japan Net Index AUD.

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Outlook

After a challenging period, the outlook for Asia ex-Japan equity markets has improved markedly and there are several factors that point to better prospective returns.

Firstly, valuations are low. The region remains generally out of favour with investors as a combination of a strong US dollar, weak macro and geopolitical tensions (among other factors) have seen valuations compress to below long-term averages. At a stock level, there are many instances of companies trading well below their intrinsic value. Cognisant of the fact that a key driver of returns is the price one pays, we have a positive view on the region given starting valuations.

Secondly, earnings are set to recover. Earnings growth is returning to the region after a period of subdued profitability. The disappointing Chinese reopening has delayed this process however returns on equity remain low relative to history (consistent with the wider Asia ex-Japan region) and one does not need to make heroic assumptions about future profitability to see better earnings delivered.

Finally, capital allocation in the region continues to improve. It is an underappreciated fact that dividends make up around half the return for the region over the last 20 years. An increase in share buyback activity has been a feature in recent years, and we expect this trend to continue. With some of the strongest balance sheets globally and generally low payout ratios, many companies in Asia ex-Japan can materially increase capital returns to shareholders which would not only boost near term gains, but also lead to a sustainable increase in valuation multiples.

Meanwhile, the tailwinds for a value-oriented investment style remain present. A key feature of growth's dominance during the 2010s was the expanding valuation gap between the cheap and expensive parts of the market. This gap remains wide, and it is highly unlikely that relative valuations will expand from their current starting points to create a similar and sustained effect going forward. With inflation globally unlikely to return to the extremely low levels experienced in the 2010s, there is ample scope for this gap to narrow with higher interest rates seeing richly valued growth stocks come under further pressure.

For latest Fund factsheet click here.

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