MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Asian Investment Trust

Monthly Commentary – 31 March 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]	2.6	6.8	5.0	2.0	8.7	4.3	9.1
Benchmark [3]	2.3	7.1	6.8	-1.9	4.5	3.7	7.9

Market commentary

The Asia ex-Japan region finished the month with a positive return although underperformed developed markets. Taiwan and South Korea were strong outperformers, as the continued enthusiasm in the artificial intelligence (AI) thematic translated into gains across Asia's semiconductor supply chain companies. The Indian equity market corrected in the month following concerns voiced by India's exchange regulator SEBI around stretched valuations in the small-to-mid capitalisation segment of the market, and the ability of managed funds to meet redemption requirements in the event of a stress event. The regulator is considering a proposal to incorporate greater fund disclosure rules to protect unitholders in small capitalisation managed funds. However, India's economic data remained solid as the country's fourth quarter 2023 GDP grew faster than expected at 8.4% year-on-year, while manufacturing PMI remained in expansion. The Hong Kong market was a notable laggard as a number of Hong Kong domiciled companies announced disappointing earnings results. China's healthcare sector was sold off on heightened geopolitical risk following the introduction to the US Congress for voting on the Biosecure Act, which if enacted would prevent US federal agencies from dealing with biotech companies from China. Elsewhere in China the materials sector outperformed significantly due to broadly strong commodity prices. Most Asian central banks left benchmark rates on hold, with the exception of Taiwan which surprised the market with a 12.5bps hike to 2.0%.

Regionally, the best performing markets over the month were Taiwan (+7.9%), South Korea (+5.2%) and Singapore (+3.8%) in USD terms, while the worst performing markets were Hong Kong (-6.5%), Thailand (-1.0%) and the Philippines (-0.4%). On a sector basis, the best performing sectors were Information Technology (+8.1%), Communication Services (+5.3%) and Materials (+2.2%), while the worst performing sectors were Real Estate (-3.8%), Health Care (-2.0%) and Utilities (-1.4%).

Portfolio commentary

The Trust returned 2.6% in AUD terms for the month, outperforming the benchmark by 0.3%.

A positive contributor to performance was in Hong Kong listed conglomerate First Pacific, whose share price strength was driven by strong earnings contribution from its subsidiaries Indofood (dominant instant noodle maker in Indonesia), PLDT (largest telco in the Philippines), Metro Pacific Investments (Philippines infrastructure), and FPM Power (Singaporean utility).

Another contributor was the portfolio's zero exposure to Hong Kong listed Pan-Asian life insurer AIA Group. AIA's share price was weak in the month following their earnings result. Investors' concerns centre on its asset investment yield within the AIA China book given the lower yield environment for that market. The portfolio's overweight position to Samsung Electronics was another positive contributor. The outlook for the global memory chip market continued to improve coming out of the severe downcycle which bottomed during the second half last year. For Samsung Electronics, it was also helped by NVIDIA's announcement during the month to procure more high-bandwidth Samsung memory chips for their AI processors.

A major detractor from performance was the overweight position in Chinese gaming company NetEase despite reporting full-year net income growth of ~45% YoY. During the month the company launched a new game that received a lukewarm response from players. The overweight position in China ecommerce company Vipshop Holdings was another detractor from performance. After a strong December quarter, the current quarter is expected to be softer, impacted by unseasonal weather. Meanwhile, not owning Taiwan electronics contract manufacturer Hon Hai Precision also hurt relative performance. The company benefitted from a significant re-rating over the month as investors seek further AI related plays. Hon Hai's AI server related revenue is expected to grow as over the coming year given its position in component manufacturing.

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 March 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.