MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Global Emerging Markets Equity Fund

Monthly Commentary – 31 March 2024

Fund performance (%) [1]

	1 month	3 months	1 year	Since inception. 29 Jun 2022 p.a.
Fund [2]	1.6	8.1	9.4	6.1
Reference Benchmark [3]	2.3	7.1	11.0	7.5

Market commentary

Global emerging markets moved higher again in March, gaining 2.5% in USD terms.

In Asia, Taiwan and South Korea were strong outperformers, as the continued euphoria in the artificial intelligence (AI) thematic translated to decent gains across Asia's semiconductor supply chain companies. The Indian equity market corrected in the month following concerns 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. However, India's economic data remained solid as the country's fourth quarter 2023 GDP grew at 8.4% year-on-year (which was better than market expectations). China's healthcare sector sold off on heightened geopolitical risk following the vote on the US Biosecure bill in Congress to restrict Chinese Pharmaceutical company activity in the US, while 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%.

Outside Asia, the Latin America region underperformed broader emerging markets primarily driven by a weak Brazil equity market. The Brazil market was driven lower by a sharp selloff in index heavyweights which included state owned energy producer Petrobras, and miner Vale. Petrobras' share price fell significantly due to uncertainty over the tenure of the current CEO and the company's dividend policy. Vale underperformed with iron ore prices declining double digits in the month. Brazil's central bank cut the Selic rate 50bps (as expected) with market expectations of a similar cut in the near term. Mexico was a strong outperformer, helped by a stronger currency. In Turkey, local elections were held at month end which saw Turkey's main opposition party CHP dominate against Recep Tayyip Erdogan's AK Party, in particular in the major cities of Istanbul and Ankara. In a continued shift towards orthodox monetary policy, Turkey's central bank unexpectedly raised the benchmark cash rate 500bps to 50%, as inflation remained uncomfortably above the central bank target. South Africa outperformed the emerging market benchmark, led by a rebound in economic activity. South Africa's fourth Quarter GDP rebounded to growth from a negative third quarter GDP, while the PMI Manufacturing Index rebounded to expansion in February. The South African Rand was one of the best performing emerging market currencies.

As mentioned, Taiwan (+7.9% in USD terms) and Korea (+5.2%) were both in the top gainers in March, driven by the AI and semiconductor theme. The commodity-heavy countries of Peru (+10.4%) and Colombia (+10.2%) made the most gains. Egypt, with a 38% devaluation of the Egyptian pound was the weakest country (-32.9%). As mentioned, of the major markets, Brazil was -1.8%, while the smaller eastern European markets of Greece and Hungary fell 2.7% and 2.9% respectively.

Information Technology was the standout gainer with an 8.0% rise in USD, driven by TSMC and Samsung. Communication Services (+4.1%) and Materials (+4.1%) were the other large gainers. Laggard sectors were Health Care (-1.7%) and Real Estate (-1.6%), both driven lower by the Chinese market.

Portfolio commentary

The Fund returned 1.6% for the month, underperforming the reference benchmark by 0.7%.

The single largest positive contributor was Mexican microfinancer Gentera which reported 4Q23 results late in February. Despite some short-term negative impact from hurricane Otis, Gentera still achieved 21% YoY loan growth with market-beating guidance for 2024. Gentera, along with positive contributions from Grupo Aeroporto del Pacific and Vesta drove Mexico to be the largest positive contributor by country for the month.

At the sector level, Industrials was the largest positive contributor, driven by ZTO Express. ZTO Express is the largest and lowest cost delivery company in China. The industry has been under pressure in recent months with increased capital spend from competitors. ZTO Express, being the lowest cost with largest network, holds a formidable barrier to entry for these competitors and during the month reported 2023 results that included a shift to focus on profitability and healthy volume growth and importantly for us, an increased dividend payout ratio.

The single largest detractor for the month was NetEase following a weaker than expected earnings result. The weaker earnings were driven by the loss of a key game and an increase in marketing spend to defend the market share against rival Tencent. The fall in NetEase, combined with VIPShop, lead to China being the largest detractor by country for the month.

At the sector level, Communication Services was the weakest, driven by the fall in NetEase and not holding Tencent (another Chinese online gaming company) that rallied through the month.

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 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.

Want to find out more?
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Outlook

For the first time since the beginning of 2022, Emerging markets (excluding China) are seeing a sustained lift in the outlook for earnings per share in USD terms. On balance, companies across the universe are reporting growing earnings, led by the smaller markets like Greece, Mexico and the Philippines. Of the larger markets, Brazil and in particular India are showing strong fundamentals. Korea is as well, but this is largely Samsung and SK Hynix. At the same time, after maintaining fiscal and monetary discipline through the COVID period, these countries are generally left with positive real interest rates (for instance, Brazil and Mexico both have >6% real rates today – Australia has +0.3% real rates), which leaves room to stimulate in any economic downturn, or even just to lower rates as inflation continues to slow.

The thorn in the side for global emerging markets continues to be China. The Chinese government has released a series of smaller measures to stimulate the economy and throughout the first quarter, stepped in to support the flailing stock market. This appears to have set a floor under the domestic market for now, though we note the broad Chinese market continues to see a fall in expected earnings and a continuation of the declining return on equity that has been in place for the last decade. To put that into context, consensus estimates currently forecast a 12% recovery in earnings for China in 2024. Only three months ago this forecast was close to +17% (and 2023 delivered growth was <2%). While China may appear cheap compared to its history today, we remain selective in our holdings.

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.

Want to find out more?

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