MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Global Emerging Markets Equity Fund

Monthly Commentary – 30 April 2024

Fund performance (%) [1]

	1 month	3 months	1 year	Since inception. 29 Jun 2022 p.a.
Fund [2]	-1.8	6.1	7.4	4.7
Reference Benchmark [3]	0.9	9.8	11.8	7.7

Market commentary

Global emerging markets moved higher again in April, gaining 0.4% in USD terms, 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.

In Asia, 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 was 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.

Outside Asia, Turkey was a standout with a 14% gain (in USD terms). The market strength was supported by foreign investor inflows as investors are positive on the Government's pledge to maintain orthodox economic policy. Turkey's central bank left the policy rate on hold at 50% with officials expecting inflation growth to moderate some time in the second half of 2024. Brazil was an underperforming market on a combination of interest rate outlook and concerns of Government influence in State-owned enterprises. For example, at Brazilian state-owned energy company Petrobras, there was a disagreement between the government and the Board on the size of the extraordinary dividend and choice of CEO. The South African equity market was helped by broadly improving macroeconomic conditions and stronger commodity prices.

Turkey (+14.1%) and China (+6.6%) were the top gainers by country in April. Hungary also gained 5.2%, largely driven by OTP Bank. Egypt again fell furthest (-11.8%) following the devaluation of the Egyptian pound in March. Of the larger markets, Indonesia fell 8.5% with sharp weakness across the domestic banking sector following reported results from the banks that warned on challenging credit conditions and an unexpected hike from the central bank that will tighten liquidity. The Philippines fell 5.8%, dragged down by property stocks after a reversal in the market perception of rate cuts. South Korea fell 5.8%.

By sector, Communication Services (+5.3%) and Consumer Discretionary (+4.3%) lead the market, driven by the Chinese internet companies. Utilities was +3.1%, with broad gains in Chinese and Indian utility companies. Information Technology was the key laggard (-3.9%) dragged by the previously mentioned profit taking in AI beneficiaries. Health Care (-1.8%) and Consumer Staples (-1.1%) were the only other sectors to finish in the negative.

Portfolio commentary

The Fund returned -1.8% for the month, underperforming the reference benchmark by 2.7% in AUD terms.

The single largest positive contributor was Mexican airport operator Grupo Aeroportuario del Pacifico (GAP). GAP reported 1Q24 results that, despite only growing 2% year-over-year, beat consensus expectations. An expected fall in traffic due to aircraft engine recalls for airline customers was not as bad as feared and at the same time, retail spending within airports surprised to the upside.

At the sector level, Health Care was the largest contributor for the month, driven by CR Sanjiu, a Chinese cold and flu medicine provider. CR Sanjiu reported surprisingly strong results with higher-than-expected sales and improving margins from its recent KPC Pharmaceuticals acquisition, confirming our investment thesis.

Taiwan was the largest contributor by country. This was driven in part by our holding in TSMC, but also our underweight allocation to the country when it was negatively impacted from the sell-off in AI-related companies.

The single largest detractor from performance was the overweight position in Indonesian 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. Across the Fund, the Financials sector was the largest detractor for the month, driven by Bank Rakyat in Indonesia, combined with BTG Pactual and Banco do Brasil in Brazil. The latter names were impacted by market concerns over a rising rate environment slowing potential capital market transactions in Brazil in 2024.

China was the largest detractor by country for the month. While our underweight allocation to this outperforming market was a negative, our stock selection was more costly. Online gaming company NetEase is one of the largest positions in the portfolio and it fell in April as its new game launch was met with mixed reviews. Despite the setback, the game pipeline remains strong and its ability to grow revenues from its existing portfolio should see an ongoing expansion in profits. Additionally, not holding Tencent (a competitor to NetEase), which did rally, was the other largest detractor in China.

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 30 April 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?
Contact our Client Service team by:
T 1300 097 995
E mba@unitregistry.com.au
W maple-brownabbott.com

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. South Korea is as well, but this is largely led by 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 +0.7% 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 in context, consensus estimates currently forecast a 12% recovery in earnings for China in 2024. At the beginning of the year, 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?

Contact our Client Service team by:

T 1300 097 995

E mba@unitregistry.com.au

W maple-brownabbott.com