



Maple-Brown Abbott Australian Share Fund Wholesale

Monthly Commentary - January 2021

FUND PERFORMANCE (%)¹

	1 month	3 months	1 year	3 years p.a.	4 years p.a.	5 years p.a.	Inception p.a. 31 May 1998
Fund ²	1.5	17.5	-6.3	2.2	3.7	7.9	7.6
Benchmark ³	0.3	11.9	-3.1	7.0	8.3	10.0	8.4

MARKET COMMENTARY

The Australian equity market had a steady start to the year, with the S&P/ASX 200 Index (Total Returns) rising 0.3% in January and outperforming global markets. Local economic data showed signs of recovery, including improvement in the labour market, higher than expected inflation and a robust consumer. The Australian Government 10-year bond yield rose 0.12% to close at 1.09% and the AUD fell slightly against the USD. Commodity prices were resilient, with oil a notable strong performer and iron ore remaining elevated, notwithstanding a sell-off late in the month. Looking at performance by sector, Consumer Discretionary (+5%) was strongest, followed by Communication Services (+3%) and Financials (+2%). Energy (+1%) also outperformed. A-REITs (-4%) was weakest, then Industrials (-3%), Health Care (-2%) and Materials (-1%).

PORTFOLIO COMMENTARY

The portfolio returned 1.5% in January, outperforming the benchmark by 1.2%.

The rotation into 'value' stocks experienced in recent months continued in January, supported by increased economic optimism. This saw many of our out-of-favour cyclical holdings outperform and provided a tailwind to our performance. Our overweight holding in Incitec Pivot (+1.6%) was a significant positive contributor. The stock benefited from rising fertiliser prices, consistent with improvement in agricultural markets and higher energy prices. Our exposure to the major banks was supportive. We were modestly overweight the outperforming sector and further benefited from our focus on the more value-oriented names, which performed better. Our overweight

position in Woodside Petroleum (+8%) contributed positively, aided by strength in the oil price. Our decision not to hold CSL (-4%) was another positive, with the stock impacted by the value rotation. To date, its de-rating has only been modest and we continue to view its 40x price to earnings multiple as excessive.

Our overweight position in Link Administration Holdings (-14%) was a negative contributor to performance. The company has been the target of two takeover offers in recent months, however, the withdrawal of one of the bidders during January created uncertainty around the likelihood of a transaction. Our position in The Star Entertainment Group (-6%) underperformed. The stock should eventually benefit from an emergence from the COVID-19 pandemic but has been volatile in recent months given the imposition of new social distancing measures in New South Wales and uncertainty created by the opening of Crown Sydney. Our decision not to hold growth stocks Afterpay Touch Group (+1.5%) and Wesfarmers (+8%) also detracted. Afterpay Touch continues to defy gravity, with a market capitalisation now exceeding Telstra yet never having made a profit. Wesfarmers has been a beneficiary of COVID-19, driving very strong sales at its Bunnings and Kmart chains. Whilst continued consumer strength is clearly a positive for the stock, we question the premium multiple on which it trades given risks around the sustainability of its current very favourable operating environment.

Please see next page for Outlook

Notes:

- 1 Past performance is not a reliable indicator of future performance. Source: Maple-Brown Abbott Ltd, S&P as at 31 January 2021.
- 2 The Fund's performance relates to wholesale investors only. If you are a retail investor, you can obtain up to date returns at maple-brownabbott.com.au. Total return is based on the movement in withdrawal price per unit plus distributions and is before tax and after all fees and charges. Imputation credits.
- 3 Benchmark: S&P/ASX 200 Index (Total Returns).

WANT TO FIND OUT MORE?

Contact our Client Service team by:

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OUTLOOK

We have been encouraged by the rebound in our relative performance in recent months and that of the 'value' style more generally. Increased optimism around an emergence from the COVID-19 pandemic and associated economic recovery has driven strong performance from out-of-favour cyclicals and other stocks particularly impacted by COVID-19. We hold many such stocks and this dynamic has clearly been supportive to our outperformance.

Whilst the recent rotation towards 'value' has been welcome, we believe it is only in its early stages. The extreme divergence in valuations across the market of which we have previously written was built over many years and the reversion to date has been modest. Many of our out-of-favour holdings remain well below their past highs and we would expect a recovery in earnings to support

their performance. We are also yet to see a material de-rating amongst the well-held growth stocks that drove the market to its last peak. Some segments of the market, such as the hyper-PE technology stocks, have even seen their multiples inflate further. The valuation dispersion between these groups remains at extreme levels that cannot be sustained indefinitely and we believe a further rotation is inevitable. Whilst timing is always difficult and there will undoubtedly be volatility ahead, we would expect the progressive normalisation of economic and social conditions, potentially coupled with higher inflation and bond yields, to be supportive to our relative performance.

For latest Fund factsheet [click here](#).

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Units in the Fund are issued by MBA. Before making a decision whether to acquire, or to continue to hold an investment in the Fund, you should obtain and consider the current PDS and AIB for the Fund available at maple-brownabbott.com.au or by calling 1300 097 995. This information is current as at 31 January 2021 and is subject to change at any time without notice.

WANT TO FIND OUT MORE?

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