



MAPLE-BROWN ABBOTT

INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Australian Share Fund Wholesale

Monthly Commentary – 31 October 2021

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. 31 May 1998
Fund ²	-0.8	2.6	35.8	8.2	6.3	8.3	8.0
Benchmark ³	-0.1	0.5	28.0	11.9	9.6	10.9	8.7

Market commentary

The Australian equity market had a steady month, with the S&P/ASX 200 Index (Total Return) returning -0.1%. Global markets were strong, with Australia a material underperformer. Local economic data was somewhat improved, with the emergence of NSW and Victoria from lockdowns and greater confidence in a broader reopening supporting both activity and sentiment. The growing risk of inflation was a focus of markets, with Q3 annual CPI growth of 3% marking the second consecutive quarter at or above the RBA's target of 2-3%. The Australian Government 10-year yield rose 0.59% to close at 2.08%, its highest level since early 2019. This contrasted with global bond markets which were relatively steady and likely contributed to the divergence in equity markets performance. The Australian dollar (AUD) also strengthened against the US dollar. Commodity prices were mixed, with oil seeing another sharp rise and aluminium easing from elevated levels. Iron ore was broadly steady. Looking at performance by sector, Information Technology (+2%) was strongest, followed by Health Care (+1%) and Financials (+1%). Materials (0%) was in line with the market. Industrials (-3%) was weakest, followed by Energy (-3%) and Consumer Staples (-2%).

Portfolio commentary

The Fund returned -0.8% in October, underperforming the benchmark by 0.7%.

Our overweight holding in Orica (+10%) was a positive contributor to performance. Sentiment has improved towards the stock, following a positive trading update in late September that largely de-risked FY22 earnings. Improving explosives market conditions have provided an additional tailwind. Our overweight holding in Origin Energy (+7%) outperformed. The company gave a trading update at its AGM, maintaining guidance for the Energy Markets division but flagging higher than anticipated profitability from its Queensland LNG JV due to both higher oil and spot LNG prices. They subsequently

announced the sale of a 10% stake in the LNG JV to global energy investor EIG, reducing their interest to 27.5%. The transaction was well-received by the market, with the sale proceeds of A\$2.1bn removing any remaining balance sheet risk and providing flexibility for investment in growth or capital management. Our overweight holding in Ampol (+9%) also contributed positively. The company entered into a binding Scheme Implementation Agreement to acquire NZ fuel retailer Z Energy at a price consistent with the offer made in August. The deal has strategic appeal and is expected to be materially Earnings per Share accretive. The stock also benefited from improvement in refining margins consistent with tightness in global energy markets.

Our overweight holding in The Star Entertainment Group (-18%) was the main detractor from performance. The stock was impacted by media reports of money laundering at the Sydney casino, raising concerns that Star could face similar regulatory probes to competitor Crown. In our view, there was little new information in these reports and engagement with Star's Board suggested that practices had been reformed and that heavy handed company-specific regulation was unlikely. Our overweight holding in Brambles (-7%) detracted. Underperformance reflected softening expectations around the near-term outlook as the market continued to digest the higher transformation costs detailed at the September investor day. The stronger AUD created an additional headwind. Our overweight holding in Woodside Petroleum (-3%) underperformed, consistent with weakness in the Australian energy sector but somewhat at odds with the strength in oil prices and energy stocks globally. Our decision not to hold growth stocks including Macquarie Group (+9%), CSL (+2%) and Xero Limited (+8%) also detracted. Growth stocks tended to outperform over the month, which was somewhat surprising given the sharp rise in bond yields which disproportionately impacts stocks with longer dated cash flows.

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 October 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 Return).

Want to find out more?

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Signatory of:



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Outlook

We have been encouraged by the rebound in our relative performance over the past year and that of the 'value' style more generally. Increased optimism around an emergence from the pandemic and an economic recovery, along with expectations of higher inflation and interest rates, has driven strong performance from many out-of-favour cyclical and led to increased scrutiny around valuations for many of the premium-rated growth and yield stocks.

Notwithstanding the recent rotation towards value, the valuation dispersion across the market remains extremely elevated. While there will undoubtedly be more volatility ahead, this gives us confidence that the opportunity for 'value' to outperform is significant. The eventual normalisation of social and economic conditions is also likely to support our relative performance.

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

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Want to find out more?

Contact our Client Service team by:

Email: mba@unitregistry.com.au

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