



MAPLE-BROWN ABBOTT

INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Australian Share Fund Wholesale

Monthly Commentary - February 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 | 3.5 | 6.4 | 6.2 | 3.7 | 4.4 | 9.1 | 7.7 |
| Benchmark ³ | 1.5 | 3.0 | 6.5 | 7.4 | 8.1 | 10.7 | 8.4 |

MARKET COMMENTARY

The Australian equity market had a good month, with the S&P/ASX 200 Index (Total Returns) rising 1.5%. Australia underperformed global markets in local currency terms. The month started strongly, driven higher by positive news flow from the February company reporting season and broader economic optimism. However, fears around inflation led to a sharp rise in global bond yields later in the month, causing equities to retrace. Local bonds were particularly hard hit, with the Australian government 10-year yield closing the month at 1.88%, its highest level in almost 2 years. The AUD also strengthened against the USD. Higher commodity prices accompanied the improved economic sentiment, with iron ore pushing above US\$170/t and oil rising sharply to pre-pandemic levels. Looking at performance by sector, Materials (+7%) was strongest, then Financials (+5%) and Energy (+2%). Information technology (-9%) was weakest, followed by Utilities (-8%) and Consumer Staples (-5%).

PORTFOLIO COMMENTARY

The portfolio returned 3.5% in February, outperforming the benchmark by 2.0%.

Improving economic conditions and an associated increase in expectations for inflation and interest rates supported a further rotation into cyclicals and other 'value' stocks. This shift, often called the 'reflation trade', was a key driver of the market and provided a tailwind to our performance. Our exposure to the major banks was a significant positive contributor to performance. We were overweight the sector, which benefited from the improving outlook and value rotation. We also had our holdings focused in the more value-oriented names, which materially outperformed. Our overweight

position in BHP Billiton (+13%) contributed positively. The company released a solid half year result, with a dividend above expectations, and the stock further benefited from strength in iron ore and oil prices. Our decision not to hold CSL (-3%) and Wesfarmers (-8%) was also supportive, given the broader rotation away from growth stocks. Both companies also released financial results during the month and, whilst current performance is strong, there were some concerns around the outlook.

Our overweight holding in Orica (-18%) was a significant detractor from performance. The company updated the market on half year profit expectations, warning of several headwinds including trade relations with China, COVID-19 demand disruptions, a stronger AUD and SAP software implementation costs. The company also announced a transition in CEO. We believe the reaction to the announcement was excessive, given the temporary nature of the issues. Significant value should be realised over the longer term as explosives supply-demand balance is restored, cost outs from SAP are delivered and synergies from the recent EXSA acquisition are realised. Our overweight holding in Coles Group (-14%) underperformed. Having experienced elevated sales during the COVID-19 pandemic, Coles has seen a marked slowdown in recent months. The focus has now turned to the prospect of negative sales growth in coming quarters, as it 'cycles' peak sales levels, and the potential impact on earnings. Coles was also impacted by the rotation from defensives into cyclicals. Our overweight holding in Spark Infrastructure Group (-7%) also detracted. Whilst delivering a good full year result at which it provided long-term distribution guidance ahead of market expectations, this was overwhelmed by the reflation trade and rotation away from defensives.

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 28 February 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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Signatory of:



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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. Expectations of higher inflation and rising bond yields have further supported the rotation towards 'value' and some growth and yield stocks are now starting to come under pressure. These trends have clearly been supportive to our performance.

Whilst the recent value rotation 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 28 February 2021 and is subject to change at any time without notice.

WANT TO FIND OUT MORE?

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Email: mba@unitregistry.com.au

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