Maple-Brown Abbott Australian Share Fund Wholesale

Monthly Commentary - May 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]	1.9	6.4	31.8	6.1	6.0	8.0	7.9
Benchmark [3]	2.3	8.5	28.2	9.9	9.9	10.1	8.7

MARKET COMMENTARY

The Australian equity market had a solid month, with the S&P/ASX 200 Index (Total Returns) rising 2.3%, modestly outperforming global markets. Local economic data was generally positive, with particular strength in housing markets and retail. The May Federal Budget was also well received, delivering a greater than expected stimulus and a collection of business tax incentives. The yield on Australian Government 10-year bonds fell modestly and the AUD was broadly steady against the USD. Commodity prices were generally improved, with notable gains in oil and iron ore. Looking at performance by sector, Financials (+6%) performed best, followed by Consumer Discretionary (+4%) and Health Care (+4%). Information Technology (-10%) was weakest, followed by Utilities (-7%). Materials (+2%) and Energy (-2%) also underperformed.

PORTFOLIO COMMENTARY

The portfolio returned 1.9% in May, underperforming the benchmark by 0.4%.

The broad rotation from 'growth' into 'value' that we have seen in recent months wasn't a key feature of markets during May, with sector and stock specific issues driving performance. Technology stocks underperformed consistent with a global sell off, influenced by fears around inflation, interest rates and valuations. Accordingly, our performance benefited from not holding names including Afterpay Touch Group (-21%) and Xero Limited (-6%) and we note that Australian tech stocks remain amongst the most expensive in the world. Our overweight holdings in general insurers QBE Insurance (+11%) and Suncorp (+6%) outperformed, reflecting an improving cyclical outlook for the sector. Our overweight position in Ampol (+12%) also contributed positively. The Federal Government announced a plan to support Australian refineries including Ampol's Lytton, reducing downside earnings risk and ensuring the ongoing viability of the facility.

A number of our 'value' holdings came under pressure during the month, including Incitec Pivot (-14%). The company announced further operational issues at its Waggaman ammonia plant and subsequently delivered a lacklustre half year result. Whilst the operational issues are frustrating and impacting near term performance, their resolution should deliver strong earnings growth supported by the cyclical recovery we have seen in fertiliser prices. Our exposure to the major banks detracted. Whilst we were overweight the strongly performing sector, we were materially underweight to the premium-rated Commonwealth Bank of Australia (+12%) which was the best performing bank. Our holdings in energy names Woodside Petroleum (-5%) and Origin Energy (-5%) underperformed, despite the oil price strengthening to pre-pandemic levels. Our decision not to hold a number of strongly performing growth stocks, including CSL (+7%) and Aristocrat Leisure (+11%), also detracted. CSL benefited from signs of improving foot traffic at US plasma collection centres, having experienced constrained plasma supply during the height of the pandemic. Aristocrat delivered its half year result during the month, with the strong consumer environment driving solid performance from both its US and Australian gaming operations.

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 May 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 times 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 many growth and yield stocks have started to come under pressure. These trends have clearly been supportive to our performance.

While the recent value rotation has been welcome, we believe it is only in its early stages. The extreme divergence in valuations across the market was built over many years and the reversion to date has been relatively modest. Many of our out-of-favour holdings remain 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. The valuation dispersion between these groups remains at levels that are very unlikely to be sustained indefinitely and we believe a further rotation is inevitable. Timing is always difficult and there will undoubtedly be volatility ahead, as was seen during April. However, 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.

WANT TO FIND OUT MORE?

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