MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Australian Value Opportunities Fund

Monthly Commentary – 31 July 2022

Fund performance (%) [1]

	1 month	3 months	1 year	Since inception p.a. 01 Apr 2021
Fund [2]	4.0	-5.2	9.8	10.3
Reference Benchmark [3]	6.0	-6.2	-2.3	5.3

Market commentary

The Australian equity market had a strong month, with the S&P/ASX 300 Index (Total Return) rising 6.0%. Australia modestly underperformed robust global markets, which were spurred by a retreat in bond yields. Whilst inflationary pressures continued to build both here and abroad, weak economic data from the US curtailed expectations about the likely trajectory of interest rates. This saw the US Government 10-year yield fall 0.3% to close at 2.6% and the Australian Government 10-year fall 0.6% to close at 3.1%. This was despite a 0.75% increase to the funds rate by the US Federal Reserve and a 0.5% increase to the cash rate by the RBA. Local economic data was mixed, with strength in the labour market contrasting further softening in housing. Q2 CPI reported an increase of 6.1% year on year. The Australian dollar also edged higher against the US dollar. Commodity markets were generally weaker, including falls in prices for oil and iron ore. Looking at performance by sector, Information Technology (+15%) performed best, followed by A-REITs (+12%) and Financials (+9%). Materials (0%) was weakest, followed by Energy (+2%) and Utilities (+3%).

Portfolio commentary

The Fund returned 4.0% in July, underperforming the reference benchmark by 2.0%.

Our position in Link Administration Holdings (+16%) was a key positive contributor to performance. Having been under takeover offer from Dye and Durham since December last year, share price performance flagged in recent months due to a downward revision to the bid price and market concerns around Dye and Durham's commitment to the deal. Prospects for a transaction improved materially during the month, with Dye and Durham re-raising their bid to $4.81 and gaining the support of the Link board. Our holding in McMillan Shakespeare (+26%) contributed positively, supported by improved sentiment towards the auto sector. Our position in Domain Holdings Australia (+18%) also performed strongly. Lower interest rate expectations was the key driver, both supporting valuations for higher growth companies like Domain and improving sentiment towards the housing sector.

Value-style headwinds, associated in particular with the decline in bond yields, were evident during the month. Our holding in QBE Insurance Group (-5%) contributed negatively. QBE is particularly leveraged to interest rates, with a softening of rate expectations the main driver of stock weakness. Concerns around the global growth outlook impacted commodity markets and saw several of our resource holdings detract, including Rio Tinto (-5%), Viva Energy (-8%) and Ampol (-2%). Our position in Sky City Entertainment Group (-6%) also contributed negatively. The stock was impacted by the announcement of a review into Sky City's Adelaide casino by the South Australian regulator, following similar reviews in other states.

At the end of the month, the fund held 35 stocks with a cash balance of 2.1%.

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 July 2022.
2 The 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 credits are not included in the performance figures.
3 The Reference Benchmark is S&P/ASX 300 Index (Total Return).

Want to find out more?
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Outlook

We have been pleased to observe strong performance from the fund since it launched in April 2021. We are also encouraged by the strong rebound that has been seen in the value investment style over the past 18 months. Many economies have recovered strongly from the lows generated by the pandemic, and this has seen supply constraints flow through to higher commodity prices and higher inflation, together with rising interest rates. In turn, this has driven strong performance from many out-of-favour cyclicals and led to increased scrutiny around valuations for some of the premium-rated growth stocks. More recently, the Russian invasion of Ukraine has accelerated some of these trends, with dislocation in energy and agricultural commodity markets further feeding inflation and increasing the likely trajectory of interest rate rises.

Despite the rotation we have seen towards value, the valuation dispersion across the market remains elevated. The prospect of sustained high inflation and structurally higher interest rates is also likely to be supportive to the value investment style. While markets remain volatile, this gives us confidence that the opportunity for value to continue to outperform is significant.

For latest Fund factsheet click here.

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