



Maple-Brown Abbott Australian Small Companies Fund

Monthly Commentary – 31 March 2024

Fund performance (%)¹

	1 month	3 months	1 year	Since inception p.a. 24 Jun 2022
Fund ²	6.1	8.2	18.0	21.8
Benchmark ³	4.8	7.5	13.8	12.1

Market commentary

The Australian small caps market rose strongly in March, with the S&P/ASX Small Ordinaries Total Return Index increasing 4.8% during the month.

Investor attraction to the smaller end of the market, driven by a stronger earnings growth outlook and valuation discount, continued to drive positive sentiment in the space. Resources names were solid contributors during the month, in particular the gold space. Australian gold miners are benefiting from a record gold price (in both USD and AUD terms) despite disappointing production guidance for the March quarter from a number of producers given elevated rainfall in parts of Western Australia. Energy and Rare Earths stocks also performed well during the month on the back of stronger oil prices and government support for the rare earths sector respectively.

March saw more mergers and acquisitions (M&A) activity in the small cap space, which continues at a rapid pace across many sectors of the market.

Portfolio commentary

The Fund returned 6.1% over the month, outperforming the benchmark, and recovering the underperformance seen during the previous month. We felt the portfolio was unfairly treated during reporting season given the better earnings performance seen as compared to the market, and the recovery in March is vindication of the 'earnings drives share prices' philosophy that we have. The Fund continues to generate strong returns since inception (24 June 2022), returning 21.8% and outperforming the benchmark by +9.4% on an annualised basis.

Over the month, the key stock contributors included Life360 (360) and Spartan Resources (SPR). Life360 announced a strong quarterly result, however the significant share price move was predominantly driven by the company's announcement to start serving advertisements to non-subscription customers, creating a new revenue stream. Given a user base of ~60 million customers, and a peer set that generally earns in the range of US\$3-5 per annum per user, this represents a significant potential revenue stream for 360 at very high margins. Spartan Resources rose on the back of strong sentiment towards the gold sector given the surge in the gold price. The company also announced further strong drilling results from its Never Never prospect, in addition to a 1.6-1.9Moz exploration target for the deposit (current resource is 0.95Moz).

Over the month, the key stock detractors included Tyro Payments (TYR) and Propel Funeral Partners (PFP). Tyro fell on a lack of company-specific news, although investors continue to question the company's growth outlook given a subdued Total Transaction Volume (TTV) performance in the first half of FY24. We believe the company is well placed to continue to take market share in the payments industry, and recent positive sentiment in the retail and hospitality sectors should flow through to the company over time. Likewise, Propel underperformed during the month with no new news announced by the company. The stock has been a very strong performer this year, and likely struggled during the month given it is a very defensive exposure in a market that was rotating towards growth names.

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 March 2024.

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 S&P/ASX Small Ordinaries Total Return Index (Benchmark).

Want to find out more?

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Outlook

Small cap sentiment is improving rapidly, and company earnings outlooks appear stronger than at any point over the past two years. This period has seen the largest level of underperformance for small caps versus large caps (ASX100) since the Global Financial Crisis in 2008, as investors sought out defensive earnings in large and liquid companies. Importantly, March saw small caps outperform their large cap counterparts for the first time this cycle, and we believe this could be the start of a catch-up period.

While absolute valuations have recovered somewhat and look in line with historical levels, the earnings outlook is improving, and we are finding many new investment opportunities in the space where the market is underestimating the medium-term earnings potential of the company. This has seen some rotation in the portfolio towards these new ideas, which have been funded by the sale of stocks that are at or near the top of the earnings lifecycle.

M&A activity continues, with a number of new takeover bids for small cap companies. This is across all sectors of the market, with March seeing Genex (renewable energy), Virgin Money UK (bank), McGrath (real estate) and MMA Offshore (ships) receiving takeover bids (among others). Many of the bidders are based offshore, with the weak AUD potentially a factor in their timing and thoughts around valuations.

Interestingly, some of the M&A bids are already starting to look like they will be unsuccessful, including the bids for APM, Boral

and Superloop. Companies with a strong growth outlook are pushing back on hostile bids with good success and support from existing shareholders. It is also noteworthy to see signs of life in the IPO market, which is encouraging given the number of quality small cap businesses expected to de-list through M&A activity. The successful listing of Metals Acquisition Ltd has seen another North American copper miner list on the ASX (Capstone Copper), and Tasma Ltd will list towards the end of April, following an unsuccessful attempt at an IPO late last year.

Small cap resources have been the positive story of 2024 so far, driven by an improving macro-economic outlook and price rises across many different commodities. While gold, copper and uranium are rising from a position of strength and the prices marking new cyclical highs, lithium, oil and rare earths are recovering from significant downturns in 2023. Small cap resources companies provide significant leverage across the mining cycle, however companies are still falling short of production targets and cost estimates continue to rise for new projects, which means we prefer diversity in the stock mix.

The Fund remains well positioned with regards to its core pillars of earnings delivery and sustainability. Going forward we see solid earnings potential, better than benchmark sustainability characteristics and a superior risk profile for the stocks held in the Fund.

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

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