



MAPLE-BROWN ABBOTT

INVESTMENT MANAGERS SINCE 1984

# Maple-Brown Abbott Pooled Superannuation Trust

Monthly Commentary - December 2020

## FUND PERFORMANCE (%)<sup>1</sup>

	1 month	3 months	1 year	3 years p.a.	4 years p.a.	5 years p.a.	Inception p.a. 31 Dec 1986
Fund <sup>2</sup>	0.8	9.7	1.4	4.1	5.1	6.1	9.2
Benchmark <sup>3</sup>	0.8	2.3	n/a	n/a	n/a	n/a	n/a

## MARKET COMMENTARY

The Australian equity market had a good finish to a volatile year, with the S&P/ASX 300 Index (Total Returns) excluding property rising 1.4% in December. Global markets were generally solid, with Australia outperforming in constant currency terms. Local economic data was improved, including some positive signs from the labour market and strength in retail sales and housing. The Australian Government 10-year bond yield rose 0.07% to close at 0.97% and the AUD rose materially against the USD. Commodity prices were also generally higher, most notably for iron ore which has now pushed above US\$150/t. Looking at performance by sector, Materials (+9%) was strongest, followed by Information Technology (+9%) and Consumer Staples (+2%). Utilities (-5%) was weakest, followed by Health Care (-5%) and Industrials (-2%). Financials (0%) also underperformed.

International equities performed very well, with the MSCI AC World Index rising 4.6% in USD-terms. Of the major regions, Asia ex-Japan (+7%) was strongest, then Europe (+5%), Japan (+4%) and the USA (+4%). The stronger AUD reduced the return of the AUD-denominated MSCI AC World Index benchmark to -0.1%. A-REITs were steady, with the S&P/ASX300 A-REIT Index (Total Returns) rising 0.6%. Fixed interest was soft, with the Bloomberg Australian Composite Bond Index falling 0.3%.

## PORTFOLIO COMMENTARY

The Trust returned 0.8% in December, reflecting fairly steady performance across most asset classes.

The Trust's Australian equity holdings returned 1.6%, outperforming the benchmark. Our resource holdings were significant positive

contributors to performance, including positions in BHP Billiton (+12%) and Sims Group (+19%). BHP was supported by strength in prices for its key commodities including iron ore and oil. Similarly, Sims Group benefited from improved steel scrap demand and prices. Our overweight holding in Metcash (+17%) also performed very well. Metcash's three divisions of grocery, liquor and hardware wholesale have all seen an uplift in demand due to COVID-19 and this drove a very strong half-year result released during the month. Our decision not to hold Fortescue Metals Group (+29%) was a significant negative contributor to performance. Fortescue is particularly sensitive to the iron ore price and has been the biggest beneficiary of the strength noted earlier. Our decision not to hold hyper-PE growth stocks Afterpay Touch Group (+24%) and Xero Limited (+11%) also detracted. We view the valuations on these stocks as incomprehensible, with Afterpay now capitalised at more than Coles Group yet never having made a profit. Of stocks that we hold, QBE Insurance (-15%) contributed negatively. The company provided a disappointing trading update, with earnings impacted by rising re-insurance costs and claims inflation.

The Trust's international equities holdings returned 2.2%, exceeding the benchmark. The Trust's A-REIT holdings returned -0.2%, underperforming the benchmark. The Trust's fixed interest holdings returned 0.1%, outperforming the benchmark. The Trust's exposure to alternative assets, through its holding in the MBA Global Listed Infrastructure Fund, returned -3.7% for the month. This underperformed the 0.0% return of its benchmark, the RBA cash rate.

Please see next page for Outlook

### Notes:

<sup>1</sup> Past performance is not a reliable indicator of future performance. Source: Maple-Brown Abbott Ltd as at 31 December 2020.

<sup>2</sup> The Fund's performance (after tax and fees) is based on the movement in the net asset value per unit which includes all fees and charges and full provision for income tax and capital gains tax on both realised and unrealised capital gains.

<sup>3</sup> Benchmark: CPI +3% p.a. from 1 July 2020.

## WANT TO FIND OUT MORE?

Contact our Client Service team by:

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Signatory of:



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## OUTLOOK

2020 was a year of extreme volatility. The emergence of the COVID-19 pandemic saw the ASX300 Index (Total Returns) fall 36% from peak to trough during February and March, then rebound quickly in subsequent months supported by low interest rates and government stimulus. November marked the next stage of the recovery, with optimism around an effective COVID-19 vaccine and a re-opening of economies driving a surge in global equity markets. The S&P 500 finished the year at all-time highs and the Australian market only 5% off its February peak.

We have previously discussed the significant divergence in valuations that exists within the Australian equity market, with some segments looking attractive and others trading on record multiples. This divergence has been building steadily over the last decade and is a global phenomenon. As value investors, our focus is on stocks evidencing strong valuation support; often out-of-favour stocks that have faced shorter-term challenges but where we believe better long-term prospects are being ignored by the market. Hence, this market dynamic has created significant headwinds for our performance and of the value style more generally. Typically, bear markets result in a change of market leadership – whereby expensive in-favour stocks that drove the market higher underperform and valuation dispersions narrow. This was not seen in the bear market of 2020 nor in the initial rebound.

November saw a significant shift in sentiment, with increased optimism around the economic outlook starting a rotation into

cyclical stocks and particularly those that had been most impacted by the COVID-19 pandemic. Our Australian and international equities portfolios are overweight these segments and hence we achieved very strong outperformance for the final quarter of the year. Whilst we expect ongoing volatility ahead, the valuation dispersion across the market remains at unsustainable levels and we continue to see material opportunity for the value style to outperform as economic conditions normalise.

We are modestly overweight the A-REIT asset class. We note that many of the diversified and retail REITs remain at heavily discounted valuations and should see improved rent collection and earnings as economies reopen.

We are significantly underweight the fixed interest asset class. Despite currently benign inflation, prevailing yields are highly unlikely to provide a positive real return over most, if not all, timeframes.

The global listed infrastructure sector offers long-dated stable cash flows which are particularly attractive in the context of current low bond yields. Within the sector, we observe that transport infrastructure will benefit from economic reopening and lifting of travel restrictions and electric utilities should benefit from the clean energy transition.

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](http://maple-brownabbott.com.au) or by calling 1300 097 995. This information is current as at 31 December 2020 and is subject to change at any time without notice. The ABN for the Fund is 89 672 954 462.

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