Market commentary

The Australian equity market had a solid quarter, with the S&P/ASX 200 Total Return Index rising 4.0%. Performance lagged global equity markets, which surged on optimism around artificial intelligence (AI) and de-escalation of the US-Iran conflict. The S&P 500 was up a remarkable 15% (in USD terms) for the quarter, closing near record highs. Bond yields tended to rise globally, with the US Government 10-year up 0.12% to close at 4.44%. Australia was an outlier, with the 10-year Government yield falling 0.26% to 4.72%, as risks to economic growth saw the market pare back interest rate expectations. Commodity prices were mixed. Beneficiaries of the US-Iran conflict such as oil and aluminium gave back their gains and gold fell further on higher US interest rate expectations. Copper was the exception, with price gains reflecting its connection to the AI thematic. Looking at performance by sector, Consumer Discretionary (+19%) performed best, then Information Technology (+17%) and AREITs (+13%). Energy (-17%) was weakest, then Utilities (-7%) and Health Care (-6%).

Fund performance Commentary

The Fund returned 2.6%* in AUD terms for the quarter, underperforming the Benchmark (S&P/ASX 200 Total Return Index) by 1.4%.

Our energy holdings were among the main detractors from performance, including overweight positions in Woodside Energy (-20%) and Santos (-9%). The Brent oil price fell 30% over the quarter to close at US$73 per barrel – broadly in line with pre-war levels. While the Strait of Hormuz was reportedly 'open' at the end of the quarter, vessel traffic was a fraction of pre-war levels. We have also been wary that the energy market was being overly optimistic around a return to stability in the Middle East, a view reinforced by the re-escalation of the conflict in July. Our overweight holding in Orora (-27%) underperformed. The company issued a trading update during April, in which it downgraded earnings guidance for the Saverglass business unit. Saverglass has a major manufacturing facility in the United Arab Emirates, which has been cut off by the closure of the Strait of Hormuz and has had to suspend production. The company also flagged demand and mix headwinds, which it attributed to consumer pressures, including those from the conflict. While we are confident these headwinds will abate over time, ongoing geopolitical instability creates near term risks. Our decision not to hold Macquarie Group (+26%) and Wesfarmers (+24%) also detracted.

Our overweight position in McMillan Shakespeare (+33%) was a key positive contributor to performance. The company provided a trading update during the quarter, at which it revealed strong growth in novated lease volumes. Rising electric vehicle (EV) demand in response to the US-Iran conflict has been a tailwind, with novated leases providing attractive tax benefits on EV purchases. While these tax benefits were due to end in 2027, the May Federal Government Budget proposed a tapered extension to the policy which should support novated lease demand over the medium term. Our overweight position in Treasury Wine Estates (+28%) outperformed. The company provided a third quarter trading update, showing strong demand growth in China and signs of improvement in the US. The company also held a strategy day during the quarter, at which it outlined an ambitious simplification program and guided to earnings improvement in FY27. Our underweight exposure to the major banks also supported relative performance. The sector underperformed due to rising housing sector headwinds, including tax reform in the May Federal Budget. Our positioning within the sector was also positive, having been materially overweight ANZ Group (1%), which was the best performing bank.

For the financial year the portfolio returned 11.7%, outperforming the Benchmark (S&P/ASX 200 Total Return Index) by 5.6%. Key drivers of outperformance include our underweight exposure to the banks, which de-rated on emerging risks to the outlook and broad valuation concerns, and our avoidance of highly rated technology stocks, many of which were impacted by AI disruption fears. Notwithstanding recent weakness, our overweight exposure to the energy sector was also supportive over the year. Other key positives were our mining and related holdings such as South 32, Rio Tinto, Dyno Nobel and Aurizon and our decision to move overweight in Woolworths. Looking ahead, we are cautious of the risks posed to global equity markets from elevated AI-stock valuations, from which Australia is not immune. We also observe that some segments of the local market look very expensive, notably banks and select miners. That said, we do continue to see value in a range of defensive and other industrial stocks, alongside the energy sector. We also believe that our investment style is well suited to manage any volatility that may emerge from current market distortions.

*All returns are net of fees. Past performance is not a reliable indicator of future return

Commentary on select portfolio holdings

Endeavour Group (EDV) is a good-quality defensive business. It is the leading liquor retailer in Australia, operating the category-killer Dan Murphy's and BWS chains, and the largest hotel operator. The stock has underperformed materially over the last three years, impacted by concerns around both cyclical and structural pressures on liquor consumption, share loss in liquor retail and the risk of adverse regulatory changes for the gaming industry. It is trading on an earnings multiple below the market average and well below that of similar defensives. While we have been surprised by the persistence of weak liquor demand, we expect this headwind to moderate over time. We are also encouraged by the recent change in management and believe there is significant opportunity to regain market share, reduce costs and ultimately improve margins for the retail business. Further, we believe the market has taken an overly pessimistic view on the risks of gaming regulation, with any changes likely to be modest and long dated.

Ansell (ANN) is a global manufacturer and distributor of protection solutions (primarily gloves), holding the number 1 or 2 position in its key market segments. While the disruption caused by US tariffs has weighed on sentiment, operational performance has remained robust. The restructuring program undertaken following the pandemic, together with the integration of Kimberly-Clark's Personal Protective Equipment division, has delivered record margins in the Industrial division and a steady recovery in the Healthcare segment. Notwithstanding the execution risk from a recent change in CEO and CFO, we expect to see further improvement as the company continues to pivot away from commoditised product categories into higher value specialised areas such as surgical, mechanical protection, and life sciences cleanroom environments. ANN also offers defensive characteristics through its valuation (mid-teens PE) discount to most healthcare sector peers and strong balance sheet.

^All companies mentioned are for illustrative purposes only and are not a recommendation to buy or sell any particular security

Review and Strategy

Economic Review[1]

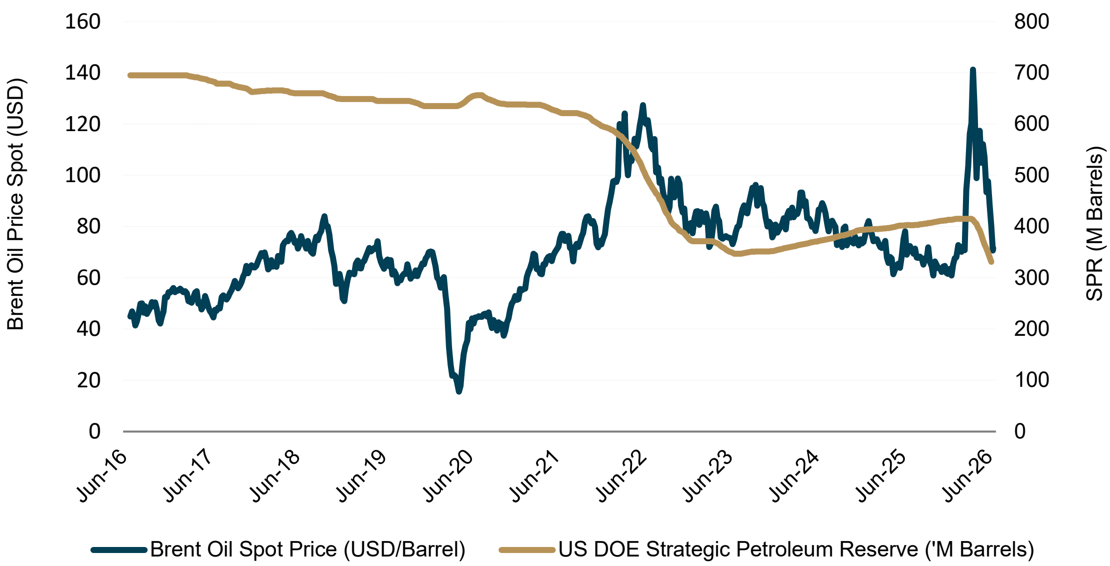
The MSCI AC World Index rose by 14.9% in USD terms over the June quarter as the market took solace in the apparent 'cease-fire' in the Middle East as well as the continued exuberance of the ongoing artificial intelligence (AI) cycle. Information Technology was the best performing sector rocketing 39% higher as semiconductor stocks drove the Taiwanese country index 49% and the Korean index 88% higher in USD terms within just the past quarter. Meanwhile Energy was the worst performing sector declining by 13% as oil prices drifted back towards levels last seen before the commencement of 'Operation Epic Fury' at the end of February 2026.

[1] GDP data is based on March quarter-on-quarter growth rates.

With ongoing elevated levels of inflation and the dramatic impact of the recent energy shock, most central banks kept an eye towards tightening policy rates. The European Central Bank and the Bank of Japan increased rates by 25 basis points during June with both banks expecting higher energy prices to feed into food, goods and services inflation, as well as having a negative impact on confidence and economic activity. Rates held flat in the US and new Federal Reserve Chair Kevin Warsh's first meeting was dubbed a 'hawkish pause', with the curt press release stating the committee 'will deliver price stability'. The People's Bank of China kept its loan prime rate unchanged, holding a 'moderately loose' setting as producer prices rose while weak demand and external shocks continue to weigh on the economy.

US GDP increased by 0.5%[1] for the March quarter as investment, net exports, government spending and consumer spending boosted the economy. The Euro area experienced modest declines as net exports, inventories and fixed capital formation fell. Japanese GDP improved by 0.5% as consumer spending and net exports helped to offset a contraction in business investment. Growth in China remained steady at 1.3% as fixed asset investment rebounded and industrial production remained positive, though the government noted the continuing 'imbalance between strong supply and weak demand'.

A prolonged Middle East conflict could strain strategic oil reserves and reignite energy price volatility



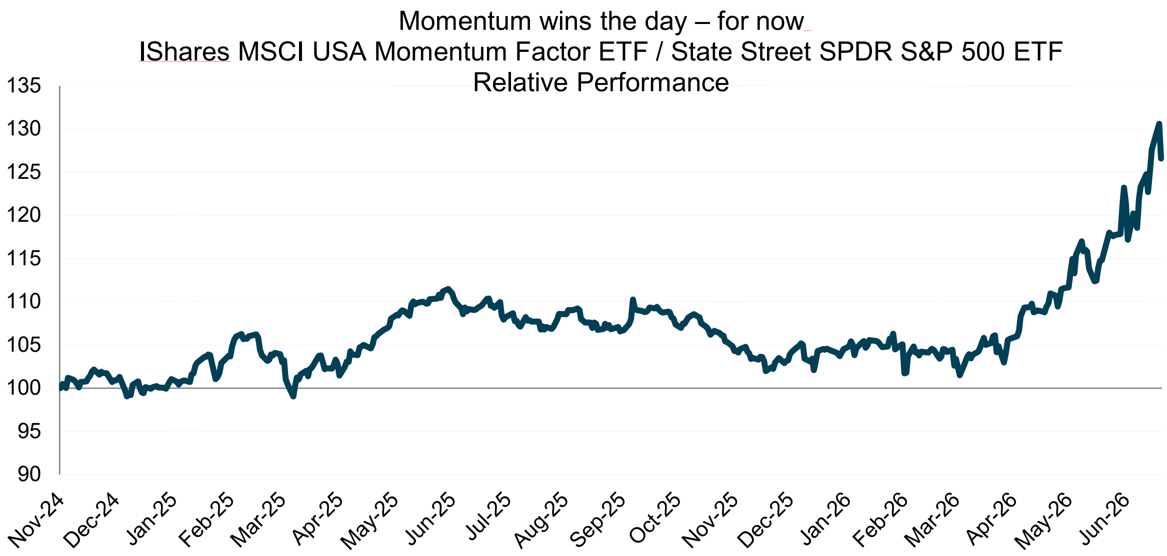
Source: Bloomberg

Economic activity in Australia moderated with GDP growth of 0.3%. Business investment in data centres was the largest contributor to growth, while consumer and government consumption was subdued. Poor weather had a negative impact on mining production and exports. The Reserve Bank of Australia (RBA) raised the cash rate once during the quarter due to concerns about the risk of inflation during a supply side shock in an environment with limited spare capacity. The cash rate is now at a level that the RBA considers to be somewhat restrictive. With a potentially drawn-out process to restore global oil supply and inventories to pre-conflict levels, the RBA considers there to be material upside risks for inflation and downside risks for growth.

Australian Equities

Momentum Wins the Day – For Now

Major markets once again reached all-time highs during the quarter, although they mostly closed below those highs by the end of the quarter. This was again a remarkable outcome during a quarter where news was dominated by the Iranian "excursion," which by the end of June seems to have lurched to a compromise settlement. Truth be told, the "excursion" has had a limited impact on markets overall and during the period of the conflict the financial news has been dominated by "everything" artificial intelligence (AI). Over the quarter there were extraordinary price moves in chip makers including Intel (+200%), Samsung Electronics (+100%) and SK Hynix (+200%) while other momentum related stocks in the AI space have contributed to the enormous outperformance of the Bloomberg (S&P 500) momentum index.

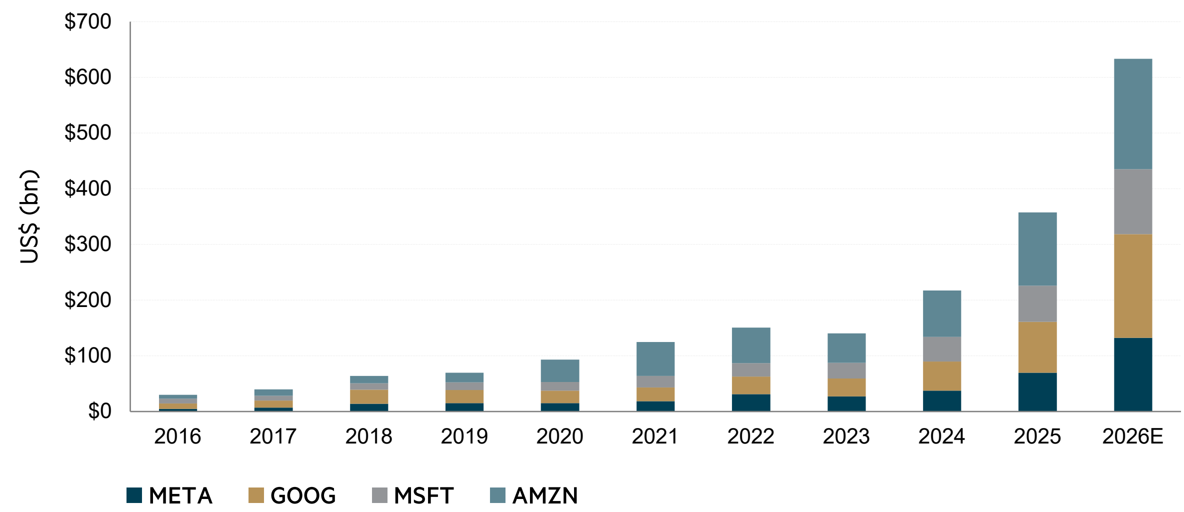


Note: Relative chart normalised with factor 100 = 4 November 2024 (eve of US election)

Source: Bloomberg, data to June 2026.

Amid this AI boom and with comparisons being made with the Tech Bubble of 2000, market commentators have taken comfort in the fact that the stocks associated with the AI thematic are profitable, and in cases highly profitable. While bubbles (and in our view this is a bubble) are usually associated with considerable price earnings (PE) multiple expansions, that is by no means always the case and there are many examples of earnings led bubbles, with the GFC (Global Financial Crisis) being notable. In these instances, earnings grow at an unsustainable rate, keeping PE multiples appearing reasonable while earnings continue to inflate. In the lead up to the GFC, resources, financials, and builders (in the US particularly) were among the sectors leading the market higher before earnings collapsed bringing markets down with them. These risks are particularly prevalent in companies in cyclical industries, including chip manufacturers. Driving earnings higher in the AI complex has been the inexorable increase in capital expenditure by US hyperscalers (Alphabet, Meta, Microsoft, and Amazon) in recent years. This has the effect of turbo-charging earnings in the near term as the spend is recognised as revenue by NVIDIA, TSMC and other chip makers while at the same time only being recognised as depreciation over future years by those companies investing heavily. Whether this spending can continue to grow at pace and whether the purchasers will earn an acceptable return on their investment is a key debate within markets at present and goes to the central issue of the sustainability of earnings (and whether a bubble is forming).

US Hyperscaler capex – 2016-2026E

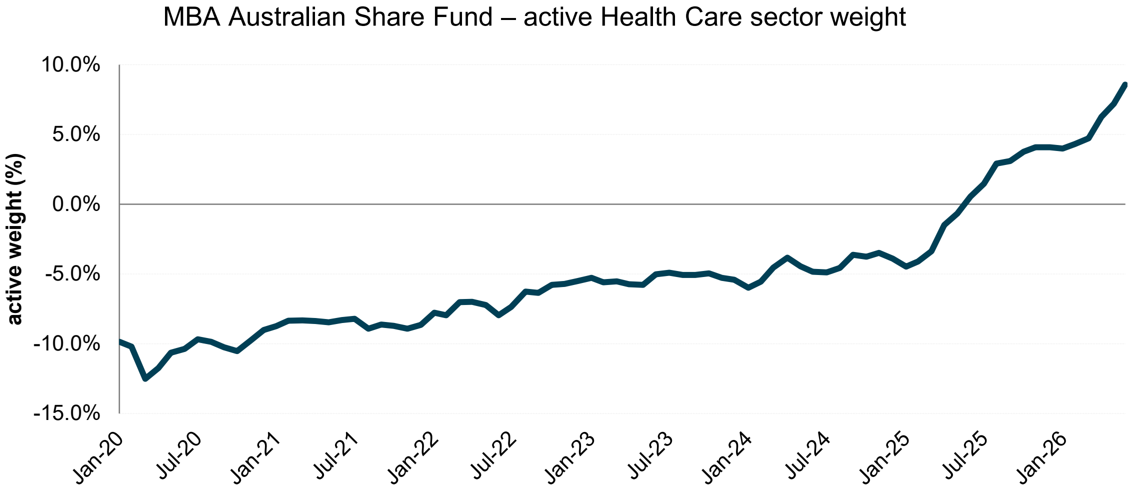


Source: FactSet consensus data

The Australian market has lagged international markets through this period of exceptional strength given that our market lacks direct exposure to the AI thematic, and to compound that has a fair exposure to software as service companies which have been hard hit by the threat that AI poses to their operating models. We expect that the Australian market may thus prove to be more resilient when the inevitable correction comes. What the local market does have is a significant resource exposure and copper and aluminium stocks have been notable beneficiaries of the electrification thematic associated with data centre rollouts. This is a sector that could come under pressure should the AI thematic prove to be a bubble.

We have written regularly regarding the stretched valuations currently enjoyed by Australian banks, and since March we have finally seen a ~10% correction of the sector relative to the rest of the market, nevertheless leaving the sector still looking exceptionally expensive. Developments during this quarter increase our concern regarding the outlook for the sector with housing related tax changes in the Budget adding pressure to a sector already struggling under the burden of higher interest rates and rising building costs. Uncertainty has enveloped the housing market, and banks are reporting a sharp drop-off in mortgage applications while auction clearance rates have fallen sharply. With mortgages being banks' major asset class, revenue will come under pressure, and competitive forces are likely to increase. In addition, after a period of exceptionally low bad debt charges in the business book, the May bank reporting season saw early signs of emerging challenges, albeit from a low base. A recent profit warning from Judo Bank was further confirmation of an emerging trend. Commonwealth Bank remains the most expensive major bank in the world and the sector retains a premium rating that in our view is unlikely to be sustained longer term.

In a market where both banks and resources have performed well over the past few years, industrials (ex-financials) have been the clear laggard, none more so than the healthcare sector. The sector peaked at ~14% of the benchmark in early 2020 and ended June at ~ 6% after precipitous declines in the share prices of CSL and Cochlear in particular. The trajectory of the sector highlights the risk of assuming that overvaluation can be sustained for the long term with both earnings and multiples coming under pressure for these sector leading stocks. While considerable uncertainty remains as to what sustainable earnings might look like, multiples have compressed so much that our funds are well overweight the sector.



Source: MBA, FactSet, data to June 2026.

The medium-term risk return trade-off for equity investors at this point in the cycle appears particularly poor, notably for the US market which has enjoyed an extended period of outsized returns. Exceptional earnings growth is being capitalised at well above average multiples and a period of well below average returns seems highly likely to follow. The Australian market has been a laggard and should be less variable in the event of a market correction, particularly with industrials (ex-financials) now trading more in line with historical averages. Our portfolio continues to have a strong defensive tilt given that valuations for this segment of the market are relatively attractive, which is often the case when investors are in a more exuberant frame of mind.

Responsible Investment

In this quarterly report we discuss the outcomes of Maple-Brown Abbott's proxy voting activities during the 12 months to 30 June 2026 and make some observations about our approach to proxy voting more generally. Over the period Maple-Brown Abbott exercised all proxy votes at every shareholder meeting for companies in our portfolio. Proxy voting is a fundamental aspect of our stewardship and broader responsible investment approach, being one of the key levers we use to influence decisions which directly impact the performance and sustainability of companies we invest in. Active participation in proxy voting ensures the interests of our clients are safeguarded and promotes and fosters accountability within companies.

This year we had fewer occasions on which to vote against management recommendations than in prior periods. We attribute this in part to a year in which our portfolio companies generally performed well and where there were fewer governance or remuneration concerns that typically prompt a vote against a recommendation. It also reflects a significant increase in engagement activity, spanning a broad range of ESG issues from governance to modern slavery and climate change. We believe this more active dialogue between boards and investors has contributed to improved outcomes, particularly in areas such as remuneration structures and board/management composition, reducing the need to register our concerns through our proxy votes.

When casting votes, our decision is informed by the recommendation of proxy advisors and by our own research and engagement with the company. Our approach is outlined in our Proxy Voting Policy, which includes guidance on our voting principles and has been designed to optimise our ability to affect outcomes in the companies we invest in.

For latest Fund factsheet click here.

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Responsible Investment Leader 2024

A proud RIAA member

Signatory of: PRI Principles for Responsible Investment

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