MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary - 31 August 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 1988
Fund [2]	2.0	4.1	21.5	6.5	6.8	7.1	9.0
Benchmark [3]	2.0	5.1	20.2	7.9	8.6	8.1	N/A

Market commentary

The Australian equity market had a solid month, with the S&P/ASX 300 Index (Total Return) excluding property rising 2.3%. Australia modestly underperformed global markets in constant currency. Local economic data was mixed, with lockdowns in NSW and Victoria starting to weigh on activity and sentiment. The August company reporting season was a key focus of markets, delivering a robust recovery in corporate earnings somewhat ahead of market expectations. Global bond yields were broadly stable, following the sharp declines in recent months, and the Australian Government 10-year yield fell 2 basis points to close at 1.16%. The AUD edged lower against the USD. Commodity prices were mixed, with softness in oil and a sharp decline in iron ore in response to Chinese moves to curb steel production under emissions reduction policies. Iron ore closed the month below US$160/t, well off its peaks but still at robust levels. Looking at performance by sector, growth and defensive stocks tended to outperform. Information Technology (+16%) was strongest, followed by Consumer Staples (+7%) and Health Care (+7%). Financials (+5%) also outperformed. Materials (-7%) was weakest, followed by Energy (-4%) and Utilities (+1%).

International equities performed well, with the MSCI AC World Index rising 2.5% in USD terms. All major regions performed well, led by Japan (+3%), the USA (+3%), Europe (+2%) and Asia ex-Japan (+2%). The weaker AUD increased the return of the AUD-denominated MSCI AC World Index benchmark to 3.1%. A-REIT's were very strong, with the S&P/ASX300 A-REIT Index (Total Return) rising 6.4%. Fixed interest was steady, with the Bloomberg Australian Composite Bond Index rising 0.1%.

Portfolio commentary

The Trust returned 2.0% in August, performing in line with the benchmark.

The Trust's Australian equities holdings returned 2.1%. Our overweight holding in The Star Entertainment Group (+19%) was a key positive contributor to performance. The company released a sound full year result in difficult operating conditions, with particular strength from its Queensland assets. The stock also benefited from management disclosing plans to release capital through sale and leaseback of property assets, discussions with the NSW Government to increase gaming machine numbers at the Sydney casino and speculation around potential options with Crown Resorts Limited assets. Our overweight holding in Suncorp Group (+12%) outperformed. The company released a full year result well ahead of expectations, with improving underlying performance from both the insurance and banking businesses and some provision releases. The market also reacted favourably to a sharp increase in the dividend, an 8c special dividend and a $250m buyback. Our overweight holding in BHP Group (-15%) was a negative contributor to performance. The company delivered a strong full year result, with cash generation a highlight, but stock performance was largely driven by the weaker iron ore price. The company also announced some strategic changes, including the unification of its dual listed company structure and the sale of its petroleum division to Woodside Petroleum under a scrip deal, both of which were received with some apprehension.

The Trust's international equities holdings returned 2.3%, somewhat held back by our overweight exposure to Asia ex-Japan. The Trust's A-REIT holdings returned 7.6%, with particularly strong performance from our retail-exposed REITs which benefited from improved clarity around a COVID reopening plan. The Trust's fixed interest holdings returned 0.1%, consistent with stability in bond yields.

The Trust's exposure to alternative assets, through its holding in the MBA Global Listed Infrastructure Fund (GLIF), returned 2.3% for the month. Spanish renewable energy company EDP Renováveis was one of the GLIF's best performing holdings, up 14% in local currency terms. This solid performance followed a strong first half earnings result, demonstrating the execution of its Strategic Plan and delivering growth and return metrics exceeding expectations.

Please see next page for Outlook

Notes:

1 Past performance is not a reliable indicator of future performance. Source: Maple-Brown Abbott Ltd, Morningstar as at 31 August 2021.

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 and foreign tax credits are not included in the performance figures. Performance start date from 1 January 1989.

3 The benchmark to 31 May 2008 is the Standard & Poor's Multisector 80 Wholesale Index and from 1 June 2008 is the Morningstar Australia Fund Multisector Growth category average.

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Outlook

We have been encouraged by the rebound in relative performance from our Australian and international equities portfolios over the past year and that of the 'value' style more generally. Increased optimism around an emergence from the COVID pandemic and an economic recovery, along with expectations of higher inflation and interest rates, has driven strong performance from many out-of-favour cyclicals and led to increased scrutiny around valuations for many of the premium-rated growth and yield stocks.

We have observed a moderate reversal in this trend in recent months, fuelled by renewed uncertainty and a risk-off shift in sentiment. Whilst there will undoubtedly be more volatility ahead, the significant valuation dispersion across the market that currently exists gives us confidence the opportunity for 'value' to outperform is significant. The eventual normalisation of social and economic conditions is also likely to support the relative performance of our equities portfolios.

The A-REIT asset class continues to present opportunities. Many of the diversified, office and retail REITs remain at discounted valuations despite having good longer-term prospects, as economic and social conditions normalise.

We are significantly underweight the fixed interest asset class. Prevailing yields are exceptionally low by historical standards and are highly unlikely to provide a positive real return over most timeframes. Should inflation emerge, downside risks exist.

We believe the outlook for global listed infrastructure is positive. Transport infrastructure companies stand to benefit from the eventual easing of social restrictions, albeit with some nearer term risks. We also see opportunities for growth from renewable energy and regulated electric network companies as developed economies accelerate their decarbonisation path.

For latest Fund factsheet click here.

Want to find out more?
Contact our Client Service team by:
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