



MAPLE-BROWN ABBOTT

INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary - 30 September 2021

Fund performance (%)¹

	1 month	3 months	1 year	3 years p.a.	4 years p.a.	5 years p.a.	Since inception p.a. 31 May 1988
Fund ²	-0.5	2.3	22.8	6.3	6.6	6.9	8.9
Benchmark ³	-1.7	1.5	19.6	7.5	7.9	7.8	N/A

Market commentary

The Australian equity market had a soft month, with the S&P/ASX 300 Index (Total Return) excluding property falling 1.9%. Local economic data was mixed, with lockdowns in NSW and Victoria weighing on activity. However, progress in the vaccination program and a detailed government roadmap improved confidence around an economic reopening. Global bond yields rose sharply on growing inflationary pressure and signs the US Federal Reserve may soon taper its stimulus, with the Australian Government 10-year yield up 0.33% to close at 1.49%. The AUD weakened against the USD. Commodity markets were mixed, with a surge in energy prices and continued decline in iron ore the key themes. Looking at performance by sector, Energy (+15%) was the standout performer, followed by Utilities (+3%) and Financials (+2%). Materials (-9%) was weakest, followed by Health Care (-5%) and Information Technology (-4%).

International equities were weak, with the MSCI AC World Index falling 4.1% in USD terms. Of the major regions, Japan (+3%) was the standout, with Asia ex-Japan (-4%), Europe (-5%) and the USA (-5%) all performing poorly. The weaker AUD increased the return of the AUD-denominated MSCI AC World Index benchmark to -3.0%. A-REITs were soft, with the S&P/ASX300 A-REIT Index (Total Return) falling 1.9%. Fixed interest also fell, with the Bloomberg Australian Composite Bond Index returning -1.5%.

Portfolio commentary

The Trust returned -0.5% in September, outperforming the benchmark by 1.2%.

The Trust's Australian equities holdings returned 0.8%, exceeding the benchmark. Our energy holdings were among the key positive contributors to performance, including overweight positions in Woodside Petroleum (+23%) and Origin Energy (+8%). The Brent oil price increased 10% over the month and closed at levels not seen

since 2018. The recent price moves reflect strong demand from reopening economies against a backdrop of constrained investment in production, in part due to decarbonisation trends. Our overweight position in Alumina (+18%) also contributed positively, reflecting a material increase in the alumina commodity price during the month. The price spike has been driven by a range of factors, including a fire at a major alumina plant in Jamaica and the military coup in Guinea, which is a key bauxite producer. Our overweight holding in BHP Group (-12%) was a negative contributor to performance. The weakness in the stock reflected a continued deterioration in the iron ore price during the month. The key driver of price decline was falling Chinese steel demand, due to a combination of factors including emissions reduction policies, power shortages and fears around the residential construction outlook relating to the troubled China Evergrande Group. While well off its highs, the current iron ore price of around US\$120 per tonne is robust by historical standards and remains highly profitable for Australian miners. For the portfolio as a whole, the move in iron ore was positive due to our underweight exposure to other key producers.

The Trust's international equities holdings returned -1.7%. This exceeded the benchmark, reflecting an underweight exposure to the USA, overweight exposure to Japan and portfolio outperformance within key regions. The Trust's A-REIT holdings returned 0.5%, exceeding the benchmark. Stocks leveraged to an economic reopening were amongst the best performers, including Scentre Group (+5%) and GPT Group (+5%). The Trust's fixed interest holdings returned -1.0%, modestly above the benchmark.

The Trust's exposure to alternative assets, through its holding in the MBA Global Listed Infrastructure Fund (GLIF), returned -2.8% for the month. The GLIF's best performing stocks included airport holdings Flughafen Zuerich and Fraport, benefiting from the loosening of travel restrictions in Europe. Regulated utility holdings were among the weaker performers, in part reflecting the increase in bond yields.

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 30 September 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.

Want to find out more?

Contact our Client Service team by:

Email: mba@unitregistry.com.au

Telephone: 1300 097 995

Website: www.maple-brownabbott.com.au

Signatory of:



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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.

Notwithstanding the recent rotation towards value, the valuation dispersion within markets remains extremely elevated. While there will undoubtedly be more volatility ahead, this 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 remain low by historical standards and are 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, offering resilient cash flows and inflation protection. Within the asset class, transport infrastructure companies stand to benefit from the easing of social restrictions and opportunities exist for renewable energy and regulated electric network companies as developed economies accelerate their decarbonisation path.

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

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