Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary - February 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]	1.4	2.3	5.4	4.2	4.7	6.7	8.8
Benchmark [3]	0.8	1.6	5.3	5.6	6.3	7.2	N/A

MARKET COMMENTARY

The Australian equity market had a good month, with the S&P/ASX 300 Index (Total Returns) excluding property rising 1.7%. Australia underperformed global markets in local currency terms. The month started strongly, driven higher by positive news flow from the February company reporting season and broader economic optimism. However, fears around inflation led to a sharp rise in global bond yields later in the month, causing equities to retrace. Local bonds were particularly hard hit, with the Australian government 10-year yield closing the month at 1.88%, its highest level in almost 2 years. The AUD also strengthened against the USD. Higher commodity prices accompanied the improved economic sentiment, with iron ore pushing above US$170/t and oil rising sharply to pre-pandemic levels. Looking at performance by sector, Materials (+7%) was strongest, then Financials (+5%) and Energy (+3%). Information technology (-8%) was weakest, followed by Utilities (-8%) and Consumer Staples (-5%).

International equities performed well, with the MSCI AC World Index rising 2.4% in local currency terms. Of the major regions, Japan (+3%) was strongest, then the USA (+3%), Europe (+2%) and Asia ex-Japan (+1%). A stronger AUD reduced the return of the AUD-denominated MSCI AC World Index benchmark to 1.4%. A-REIT's performed poorly, with the S&P/ASX300 A-REIT Index (Total Returns) falling 2.5%. Fixed interest was also weak, with the Bloomberg Australian Composite Bond Index falling 3.6%.

PORTFOLIO COMMENTARY

The Trust returned 1.4% in February, reflecting solid performance from its Australian and international equities exposure.

The Trust's Australian equity holdings returned 3.4%, outperforming the benchmark. Improving economic conditions and an associated increase in expectations for inflation and interest rates supported a further rotation into cyclicals and other 'value' stocks. This shift, often called the 'reflation trade', was a key driver of the market and provided a tailwind to our performance. Our exposure to the major banks was a significant positive contributor to performance. We were overweight the sector, which benefited from the improving outlook and value rotation. We also had our holdings focused in the more value-oriented names, which materially outperformed. Our overweight position in BHP Billiton (+13%) contributed positively. The company released a solid half year result, with a dividend above expectations, and the stock further benefited from strength in iron ore and oil prices. Our decision not to hold CSL (-3%) and Wesfarmers (-8%) was also supportive, given the broader rotation away from growth stocks. Our overweight holding in Orica (-18%) was a significant detractor from performance. The company updated the market on half year profit expectations, warning of several headwinds including trade relations with China, COVID-19 demand disruptions, a stronger AUD and SAP software implementation costs. The company also announced a transition in CEO. We believe the reaction to the announcement was excessive, given the temporary nature of the issues. Significant value should be realised over the longer term as explosives supply-demand balance is restored, cost outs from SAP are delivered and synergies from the recent EXSA acquisition are realised.

The Trust's international equities holdings returned 3.7%, exceeding the benchmark. The Trust's A-REIT holdings returned -2.4%, slightly ahead of the benchmark. The Trust's fixed interest holdings returned -2.3%, also outperforming the benchmark. The Trust's exposure to alternative assets, through its holding in the MBA Global Listed Infrastructure Fund, returned -2.0% for the month. This underperformed the 0.0% return of its benchmark, the RBA cash rate.

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 28 February 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?

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OUTLOOK

We have been encouraged by the rebound in relative performance from our Australian and international equities portfolios in recent months and for the 'value' style more generally. Increased optimism around an emergence from the COVID-19 pandemic and associated economic recovery has driven strong performance from out-of-favour cyclicals and other stocks particularly impacted by COVID-19. Expectations of higher inflation and rising bond yields have further supported the rotation towards 'value' and growth and yield stocks are now starting to come under pressure. These trends have clearly been supportive to our performance.

Whilst the recent value rotation has been welcome, we believe it is only in its early stages. The extreme divergence in valuations across the market of which we have previously written was built over many years and the reversion to date has been relatively modest. Many of our out-of-favour holdings remain well below their past highs and we would expect a recovery in earnings to support their performance. We are also yet to see a material de-rating amongst the well-held growth stocks that drove the market to its last peak. Some segments of the market, notably technology, have even seen their multiples inflate further. The valuation dispersion between these groups remains at extreme levels that cannot be sustained indefinitely and we believe a further rotation is inevitable. Whilst timing is always difficult and there will undoubtedly be volatility ahead, we would expect the progressive normalisation of economic and social conditions, potentially coupled with higher inflation and bond yields, to be supportive to the relative performance of our equities portfolios.

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. Notwithstanding the sharp rise during February, prevailing yields remain low by historical standards and are highly unlikely to provide a positive real return over most timeframes. Should inflation emerge, downside risks exist.

The global listed infrastructure sector offers long-dated stable cash flows. Whilst parts of the sector have been impacted by COVID-19 and some macro headwinds exist, long-term fundamentals remain strong and its material underperformance against equities over the last 12 months has left valuations compelling. We note particular opportunities in infrastructure sub-sectors such as regulated US electric utilities which will benefit from the deployment of renewable energy generation and toll roads which will benefit from further positive vaccine news and the prospect of societies opening up.

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For latest Fund factsheet click here.

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