



# Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary – 30 September 2023

## Fund performance (%)<sup>1</sup>

	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 <sup>2</sup>	-2.2	-1.2	11.5	8.8	4.5	4.7	8.6
Benchmark <sup>3</sup>	-2.7	-1.0	9.8	5.7	3.4	4.1	N/A

## Market commentary

The Australian equity market had a weak month, with the S&P/ASX300 Total Return Index excluding property falling 2.5%. Equity markets were weak globally, impacted by sharp increases in bond yields, reflecting concerns that inflation was becoming entrenched and that interest rates would have to remain higher for longer. The US Government 10-year yield increased 0.50% to close at 4.59%, the highest since 2007. The Australian Government 10-year also rose sharply, up 0.46% to 4.48%. Local economic data was mixed, with slowing retail sales growth contrasting continued strength in the labour market, rising house prices and an uptick in August CPI. Commodities tended to do well, including gains in iron ore and oil. Looking at performance by sector, Energy (+2%) was strongest, followed by Financials (-2%) and Consumer Staples (-2%). Interest rate sensitive sectors were weakest, led by Information Technology (-8%) and Health Care (-6%).

International equities performed poorly, with the MSCI AC World Index falling 4.1% in US dollar (USD) terms. Of the major regions, Japan (-2%) was best, followed by Asia ex-Japan (-3%), Europe (-4%) and the USA (-5%). The Australian dollar (AUD) edged lower against the USD, increasing the AUD return of the MSCI AC World Index to -3.8%.

A-REITs were very weak, with the S&P/ASX 300 A-REIT Total Return Index falling 8.7%. Fixed interest was also down, with the Bloomberg Australian Composite Bond Index falling 1.5%.

## Portfolio commentary

The Trust returned -2.2% in September, outperforming its benchmark by 0.5%.

The Trust's Australian equities holdings returned -0.5%, outperforming the market index. Our overweight position in Seven Group Holdings (+12%) was a key positive contributor to performance. Following an excellent full year result in August showing strong momentum in key business and a much improved balance sheet, the stock continued to outperform in September as the market reappraised the discounted multiple on which it traded. Our overweight position in Incitec Pivot (+7%) also performed well. The key driver was a sharp increase in ammonia prices, with the Tampa price rising 47% over the month, supported by elevated supply outages. The company also provided a trading update during the month, at which it detailed better than expected performance from its key explosives division. Our overweight holding in Healius (-18%) detracted from performance. Following a soft full year result in August, the market has focused on near-term headwinds and balance sheet risks. While we acknowledge these risks, we expect a recovery in pathology volumes to support earnings over the medium term, underpinning the current valuation.

The Trust's international equities holdings returned -4.0%, modestly below the international market index in AUD terms.

The Trust's A-REIT holdings returned -9.5%, below the A-REIT index. Office-exposed REITs were among the hardest hit, including our holdings in Mirvac Group (-12%) and GDI Property Group (-16%).

The Trust's fixed interest holdings returned -1.4%, modestly above the bond market index.

The Trust's exposure to alternative assets, through its holding in the Maple-Brown Abbott Global Listed Infrastructure Fund (GLIF), returned -4.6%. Soft performance reflected sector wide headwinds associated with rising 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 2023.
- 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

Markets remain volatile. The sharp increase in bond yields during the month highlights the significant uncertainty that exists around the persistence of inflation and the central bank rate tightening cycle. Economic risks are also elevated. While the US economy has remained fairly resilient to date, pressures are building and history shows that ‘soft landings’ are rare. In Australia, there are signs that the economy is slowing, but inflation remains high. The stagflation scenario, whereby we have low or negative growth alongside high inflation, remains firmly in play. We remain cautious that markets are not pricing in these risks, nor have they fully adjusted to the ‘new normal’ whereby inflation and interest rates will remain structurally higher than what we have seen in recent years.

While the extreme divergence in valuations across and between markets that existed prior to the pandemic has retraced somewhat, we believe we are still in the process of normalisation. It seems unlikely we will see a return to the conditions that drove markets over the past decade and inflated the prices of many ‘growth’ stocks. In our view, it is more likely we will see a stock picker’s market in which past excesses continue to be addressed, an environment that should suit our investment approach.

We are underweight the A-REIT asset class. However, it continues to present select opportunities, with many of the diversified, office and retail REITs trading at discounted valuations despite having good longer-term prospects.

We have become somewhat more positive on the fixed interest asset class, with bond yields having returned to more ‘normal’ levels.

We believe the outlook for global listed infrastructure is positive. Our focus remains on attractively valued infrastructure assets with inflation protection, low cashflow volatility, high standards of management and strong ESG performance.

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

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