MAPLE-BROWN ABBOTT

INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary – 31 July 2022

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]	3.3	-2.6	0.8	4.3	4.7	5.2	8.7
Benchmark [3]	3.8	-2.8	-4.8	3.4	4.4	5.5	N/A

Market commentary

The Australian equity market had a strong month, with the S&P/ASX 300 Index (Total Return) excluding property rising 5.6%. Australia modestly underperformed robust global markets, which were spurred by a retreat in bond yields. Whilst inflationary pressures continued to build both here and abroad, weak economic data from the US curtailed expectations about the likely trajectory of interest rates. This saw the US Government 10-year yield fall 0.3% to close at 2.6% and the Australian Government 10-year fall 0.6% to close at 3.1%. This was despite a 0.75% increase to the funds rate by the US Federal Reserve and a 0.5% increase to the cash rate by the RBA. Local economic data was mixed, with strength in the labour market contrasting further softening in housing. Q2 CPI reported an increase of 6.1% year on year. The Australian dollar also edged higher against the US dollar. Commodity markets were generally weaker, including falls in prices for oil and iron ore. Looking at performance by sector, Information Technology (+15%) performed best, followed by Financials (+9%) and Consumer Discretionary (+9%). Materials (0%) was weakest, followed by Energy (+2%) and Utilities (+3%).

International equities were very strong, with the MSCI AC World Index rising 7.0% in USD-terms. Of the major regions, the USA (+9%) was best, followed by Japan (+6%) and Europe (+5%). Asia ex-Japan (-1%) materially underperformed. The stronger AUD reduced the AUD return of the MSCI AC World Index to +5.4%. A-REITs rebounded sharply, with the S&P/ASX300 A-REIT Index (Total Return) rising 11.8%. Fixed interest also performed well, with the Bloomberg Australian Composite Bond Index rising 3.4%.

Portfolio commentary

The Trust returned 3.3% in July, underperforming the benchmark by 0.5%.

The Trust's Australian Equities holdings returned 3.4%. After strong outperformance in recent months, July saw a modest reversion in our relative performance. The main driver was value-style headwinds, associated in particular with the decline in bond yields. Our overweight holding in QBE Insurance Group (-5%) was a key detractor. QBE is particularly leveraged to interest rates, with a softening of rate expectations the main driver of its underperformance. Concerns around the global growth outlook also impacted commodity markets and saw several of our energy holdings underperform, including Woodside Energy Group (0%), Viva Energy (-8%) and Ampol (-2%). Our overweight holding in Link Administration Holdings (+16%) was a key positive contributor to performance. Having been under takeover offer from Dye and Durham since December last year, share price performance flagged in recent months due to a downward revision to the bid price and market concerns around Dye and Durham's commitment to the deal. Prospects for a transaction improved materially during the month, with Dye and Durham re-raising their bid to $4.81 and gaining the support of the Link board. Our overweight holding in Nine Entertainment Co. (+13%) also contributed positively. There was improved sentiment towards media and consumer stocks during the month, likely reflecting the moderation in interest rate expectations and its potential impact on discretionary consumption. Nine further benefited from outperformance of Domain Holdings Australia, in which it holds a 59% stake.

The Trust's international equities holdings returned 3.8%, underperforming the AUD return of the international market index. Underperformance largely reflected regional weightings, including an overweight exposure to Asia ex-Japan and underweight exposure to the USA. The Trust's A-REIT holdings returned 9.0%, underperforming the A-REIT index. While the whole sector benefited from a moderation in bond yields, growth-oriented REITs on premium multiples tended to benefit more and our underweight exposure to these stocks impacted our relative performance. The Trust's fixed interest holdings returned 2.7%.

The Trust's exposure to alternative assets, through its holding in the Maple-Brown Abbott Global Listed Infrastructure Fund (GLIF), returned 4.4%. Getlink, operator of the channel tunnel and one of the fund's largest holdings, was up 16% in local currency terms. Getlink reported a solid first half result during the month, benefiting from a recovery in travel volumes. Its new Eleclink electricity interconnector linking the UK and France is also performing strongly and well placed given high and volatile electricity prices.

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 July 2022.

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 improved relative performance from our Australian equities portfolio over the past 18 months or so and that of the value style more generally. Many economies have recovered strongly from the lows generated by the pandemic, and this has seen supply constraints flow through to higher commodity prices and higher inflation, together with rising interest rates. In turn, this has driven strong performance from many out-of-favour cyclicals and led to increased scrutiny around valuations for some of the premium-rated growth stocks. More recently, the Russian invasion of Ukraine has accelerated some of these trends, with dislocation in energy and agricultural commodity markets further feeding inflation and increasing the likely trajectory of interest rate rises. While these trends have been evident across markets, the relative performance of our international equities portfolio has been constrained by regional weightings, with an underweight exposure to the strongly performing USA and overweight exposure to Asia ex-Japan a material headwind.

Despite the rotation we have seen towards value, the valuation dispersion within equity markets remains elevated. We also observe that the valuation dispersion between regions is unusually large. The prospect of sustained high inflation and structurally higher interest rates is also likely to be supportive to the value investment style. While markets remain volatile, this gives us confidence that the opportunity for our Australian and international equities portfolios to outperform is significant.

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

We are underweight the fixed interest asset class. Despite yields having risen materially in recent months, they remain below long-run averages. Should inflation exceed expectations, downside risks exist.

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.

Want to find out more?

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Signatory of:

Principles for Responsible Investment