



Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary – 31 July 2023

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	1.8	0.8	8.6	10.1	5.3	5.5	8.7
Benchmark ³	1.9	2.3	7.0	7.0	4.3	4.9	N/A

Market commentary

The Australian equity market had a strong month, with the S&P/ASX 300 Total Return Index excluding property rising 2.8%. Performance was consistent with global markets, which were buoyed by signs of easing US inflation and broader economic resilience, building hopes of a 'soft landing'. Bond yields rose over the month, with the US Government 10-year yield increasing 0.14% to 3.95%, following a 0.25% hike in the fed funds rate. Yields in Australia rose more modestly, with the 10-year yield up 0.03% to 4.05%, reflecting a pause in the RBA's rate tightening cycle. This followed some signs of a slowing economy, including a CPI report below expectations, and softening retail sales. Commodity prices tended to rise over the month, supported by improved US economic sentiment, with oil the standout. Looking at returns by sector, cyclical outperformed. Energy (+8%) was best, then Financials (+5%) and Information Technology (+5%). Health Care (-1%) was weakest, followed by Consumer Staples (-1%) and Materials (+1%).

International equities performed very well, with the MSCI AC World Index returning 3.7% in US dollar (USD) terms. Of the major regions, Asia ex-Japan (+6%) was best, then the US (+3%), Europe (+3%) and Japan (+3%). The Australian dollar (AUD) rose against the USD, reducing the AUD return of the MSCI AC World Index to 2.4%.

A-REITs were strong, with the S&P/ASX 300 A-REIT Total Return Index rising 3.9%. Fixed interest was sound, with the Bloomberg Australian Composite Bond Index rising 0.5%.

Portfolio commentary

The Trust returned 1.8% in July, underperforming its benchmark by 0.1%.

The Trust's Australian equities holdings returned 3.6%, exceeding the market index. Energy holdings were among our top positive contributors to performance, including an overweight position in Woodside Energy Group (+10%). The key driver was the oil price, with Brent crude rising 13% to close

at US\$85/barrel. Strength in oil reflected improved sentiment towards the US economy and oil demand outlook, coupled with expectations that OPEC restraint will see continued tightness in market supply. Our overweight exposure to the banks was another positive, including positions in ANZ Group Holdings (+9%) and National Australia Bank (+8%). The sector performed well globally, supported by hopes that central bank tightening was nearing an end and inflation will moderate without a severe bad debt cycle. Our overweight holding in Ansell (-10%) detracted from performance. The company delivered disappointing FY24 earnings guidance during the month. Sales remain soft as customers continue to run down excess inventories of medical gloves and other protective equipment built during the pandemic. Underlying margins are also softer, with FY23 having been supported temporarily by the write back of an accounting accrual. While this is disappointing, ANN has implemented an efficiency program aimed at offsetting these headwinds.

The Trust's international equities holdings returned 1.3%, below the international market index in AUD terms, reflecting manager underperformance within regions.

The Trust's A-REIT holdings returned 3.8%, modestly below the A-REIT index. Retail REITs tended to outperform, including our overweight holding in Scentre Group (+6%).

The Trust's fixed interest holdings returned 0.6%, 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 0.8%. Brazilian toll road holding Ecorodovias was our strongest performer over July (up 26%), following a solid half-year result. Like-for-like traffic in the first half was 8% above pre-COVID levels and tolls saw strong inflation driven increases.

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 2023.

² The Trust'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

While there is increasingly a view that we are nearing, if not already at, an end to the central bank tightening cycle and that the US will achieve a soft landing and avoid recession, there remains significant uncertainty around this outcome.

Inflation remains well above central bank target ranges and the emergence of high services inflation may prove harder to abate and require further rate rises. Even if rates don't move higher, it will be many months before the full effect of past rate rises is felt, creating risks to company earnings. 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.

The extreme divergence in valuations both across and between equity markets that existed prior to the pandemic has contracted somewhat, however, it remains elevated and we believe we are still in the early stages of a process of normalisation. It also seems very unlikely that 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 equities 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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