



# Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary – 31 August 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>	-0.8	2.1	8.6	9.0	5.5	5.2	8.6
Benchmark <sup>3</sup>	-0.2	3.0	7.7	6.2	4.4	4.6	N/A

## Market commentary

The Australian equity market had a soft month, with the S&P/ASX 300 Total Return Index excluding property falling 0.9%. Global markets were weak, with rising bond yields a headwind. The US Government 10-year yield increased 0.14% to close at 4.09%, on more hawkish commentary from the US Federal Reserve. In contrast, the Australian 10-year yield edged lower to 4.03%, on signs of softening economic data and speculation the Reserve Bank of Australia may have finished its tightening cycle. The Australian dollar (AUD) fell against the US dollar (USD). Commodity markets were generally robust, with iron ore holding up above US\$100/t and oil experiencing modest gains. The August company reporting season was a key feature of the month. Results were broadly in line with expectations, however cautious outlook statements saw a decline in aggregate consensus earnings forecasts. Looking at performance by sector, Consumer Discretionary (+6%) was strongest, followed by Energy (+1%) and Communication Services (-1%). The Utilities sector was weakest (-4%), followed by Consumer Staples (-3%) and Industrials (-2%).

International equities were weak, with the MSCI AC World Index falling 2.8% in USD terms. Of the major regions, the US (-2%) was best, then Japan (-2%), Europe (-4%) and Asia ex-Japan (-6%). The AUD fell against the USD, increasing the AUD return of the MSCI AC World Index to 1.1%.

A-REITs performed well, with the S&P/ASX 300 A-REIT Total Return Index rising 2.2%. Fixed interest was sound, with the Bloomberg Australian Composite Bond Index rising 0.7%.

## Portfolio commentary

The Trust returned -0.8% in August, underperforming its benchmark by 0.6%.

The Trust's Australian equities holdings returned -2.2%, underperforming the market index. Company earnings results were the key drivers of stock performance over the month. Our overweight holding in Ampol Ltd (+8%) performed well, following the release of a solid half-year result. While earnings were in line with expectations, having pre-announced in July, the market was impressed with the result

## 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 August 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.

composition, strong cash conversion, higher dividend and upbeat outlook. Regional refining margins also strengthened markedly over the month, supporting the near-term earnings outlook and a reminder of the tightness in refining capacity that we expect to endure over the medium-term. Our overweight position in Brambles Industries (+6%) also contributed positively. Again, financial results were the driver, with earnings above expectations due to strong price growth in a rational competitive environment. Our overweight holding in Alumina Ltd (-25%) was a key detractor for the month. The company released a disappointing half-year result, with cost growth the key issue. Cost overruns were explained in part by the need to mine lower grade bauxite in Western Australia due to ongoing delays in the environmental approval of their mine plan. While this continues to create uncertainty around the stock, we believe the environmental risks can be managed and a resolution is highly likely. Our overweight holding in Coles Group (-11%) also contributed negatively. Coles released a weak full-year result, with a sharp increase in theft from stores constraining earnings. While this is in part a failure of management, the new CEO has a plan in place to address the issue. Pleasingly, sales momentum remains solid, supported by inflation and population growth.

The Trust's international equities holdings returned 0.2%, below the international market index in AUD terms. Regional weightings and currency hedging weighed on performance.

The Trust's A-REIT holdings returned -1.6%, below the A-REIT index. The main drag on performance was our decision not to hold the premium-rated industrial REIT Goodman Group (+14%), which outperformed following a solid full-year result at which it flagged further growth in data centres.

The Trust's fixed interest holdings returned 0.8%, 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 -1.6%. Most of GLIF's listed infrastructure holdings were weaker over August, with rising US bond yields a headwind for the sector.

## 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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