



Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary – 31 August 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	-0.7	-2.3	-1.9	4.5	4.4	5.0	8.6
Benchmark ³	-0.8	-2.2	-7.4	3.3	3.9	5.2	N/A

Market commentary

The Australian equity market had a good month, with the S&P/ASX300 Index (Total Return) excluding property rising 1.5%. Australia outperformed global markets, which fell following hawkish commentary from the US Federal Reserve. Interest rate expectations increased, with the US Government 10-year bond yield rising 0.5% to 3.1% and the Australian Government 10-year yield up by a similar amount. Australia's equity market outperformance reflected a better than feared reporting season, with Australian companies showing resilience against cost pressures, rising interest rates and a weakening consumer. Strength from the resources sector also supported the Australian market, somewhat at odds with commodity prices which were generally weaker. Looking at performance by sector, Energy (+8%) was strongest, followed by Materials (+4%) and Communication Services (+2%). Consumer Staples (-2%) was weakest, followed by Utilities (-2%) and Financials (-1%).

International equities were weak, with the MSCI AC World Index falling 3.7% in US dollar (USD) terms. Of the major regions, Asia ex-Japan (0%) was best, followed by Japan (-3%), the USA (-4%) and Europe (-6%). The Australia dollar (AUD) weakened during the month, increasing the AUD return of the MSCI AC World Index to -2.0%. A-REITs performed poorly, with the S&P/ASX300 A-REIT Index (Total Return) falling 3.6%. Fixed interest was also soft, with the Bloomberg Australian Composite Bond Index down 2.5%.

Portfolio commentary

The Trust returned -0.7% in August, outperforming the benchmark by 0.1%.

The Trust's Australian Equities holdings returned 1.7%, exceeding the market index. Stock performance over the month was heavily influenced by earnings releases. Our overweight holding in Brambles (+8%) performed very well. The company's full year result was well received, with both 2022 earnings and 2023 guidance above market expectations. The Americas business was the highlight, with pallet shortages and high inflation leading to positive pricing dynamics. Our overweight holdings in energy companies Woodside Energy Group (+7%) and Origin Energy (+6%) also contributed positively. Sentiment

towards the energy sector improved during the month, despite weakness in the oil price. This reflected further dislocation in LNG prices, which spiked to nearly US\$70/mmbtu (Metric Million British Thermal Unit) on constrained supply in the lead up to European winter. Solid earnings results from energy companies further supported the sector. Our overweight holding in The Star Entertainment Group (-9%) was a negative contributor to performance. Despite releasing a full year result in line with expectations, the stock continues to be impacted by probity concerns, with regulatory reviews being conducted in both NSW and Queensland. Our overweight holding in Orica (-8%) also detracted. The company announced an acquisition and capital raising that was poorly received by the market. While management claim the deal will be earnings per share accretive, the market was wary that the majority of the capital raised will be used to fund higher working capital requirements and debt reduction.

The Trust's international equities holdings returned -3.0%, underperforming the AUD return of the international market index. Hedging proved a drag on performance, given the depreciation of the AUD. The Trust's A-REIT holdings returned -3.6%, in line with the A-REIT index. Our holding in Scentre Group (+4%) was a key positive contributor, with the stock supported by a half year result above expectations. The Trust's fixed interest holdings returned -1.8%, exceeding 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 -1.8%. Holdings in UK regulated utilities were weaker over the month as a UK 'cost of living' crisis continued to develop. While UK regulation is effectively independent from the government and structured in a transparent and economic way, there is concern that UK consumers will have trouble paying significantly higher energy bills.

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 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.

Want to find out more?

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Outlook

We have been encouraged by the improved relative performance from our Australian equities portfolio in recent times 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 cyclical and led to increased scrutiny around valuations for some of the premium-rated growth stocks. The Russian invasion of Ukraine 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 trading 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](#).

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