



Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary – 30 September 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	-4.7	-2.3	-6.0	2.2	3.1	3.9	8.5
Benchmark ³	-4.6	-1.8	-10.1	1.3	2.8	4.0	N/A

Market commentary

The Australian equity market had a poor month, with the S&P/ASX 300 Index (Total Return) excluding property falling 5.8%. Markets were weak globally, impacted by commentary from the US Federal Reserve indicating that it would prioritise inflation control over economic growth, increasing the prospect that the US would enter recession. The US Government 10-year bond yield increased 0.7% to 3.8% and the Australian Government 10-year yield increased 0.3% to 3.9%. Commodity prices were softer, including for oil and iron ore, impacted by recession fears. The Australian dollar (AUD) also fell sharply against a surging US dollar (USD). Looking at performance by sector, Materials (-3%) was best, followed by Energy (-4%) and Health Care (-5%). Utilities (-14%) was weakest, followed by Information Technology (-10%). Financials (-7%) also underperformed.

International equities had a very weak month, with the MSCI AC World Index falling 9.6% in USD terms. Of the major regions, Europe (-9%) was best, followed by the USA (-9%), Japan (-10%) and Asia ex-Japan (-13%). The weaker AUD increased the AUD return of the MSCI AC World Index to -3.6%. A-REITs also performed poorly, with the S&P/ASX300 A-REIT Index (Total Return) falling 13.6%. Fixed interest was soft, with the Bloomberg Australian Composite Bond Index down 1.4%.

Portfolio commentary

The Trust returned -4.7% in September, underperforming the benchmark by 0.1%.

The Trust's Australian Equities holdings returned -6.2%, modestly below the market index. Our resources holdings were amongst the top contributors to performance, including overweight positions in Woodside Energy Group

(-3%) and Rio Tinto (-1%). This came despite commodity price headwinds and was largely due to the relatively lesser impact of rising bond yields on valuations as compared to industrial companies. Overweight positions in general insurers including Insurance Australia Group (-1%) and QBE Insurance Group (-4%) also outperformed. Again, interest rates was the key driver, with insurers positively leveraged to rising rates. Our overweight position in Link Administration Holdings (-32%) was a key negative contributor to performance. Link was impacted by the termination of Dye and Durham's takeover proposal for the group, following an announcement from the UK Financial Conduct Authority that its UK subsidiary was likely to be liable for substantial compensation payments due to its role in the collapse of the Woodford Equity Income Fund. Our overweight position in Alumina (-16%) also detracted, with aluminium smelter curtailments in China further depressing sentiment.

The Trust's international equities holdings returned -5.8%, underperforming the AUD return of the international market index. Hedging proved a material drag on performance, given the depreciation of the AUD. The Trust's A-REIT holdings returned -10.7%, exceeding the A-REIT index. An underweight exposure to industrial REITs, including the premium-rated Goodman Group (-20%), was a key contributor to our relative performance. Trust's fixed interest holdings returned -1.2%, 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 -6.7%. Holdings in UK regulated utilities fell sharply during the month and were amongst our worst performing positions. This largely reflected macro factors, including the UK's expansionary 'mini-budget' and energy price caps that will be expensive for the government.

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 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. The global economic recovery from the lows of the pandemic, supported by extraordinary fiscal and monetary stimulus, saw strong performance from many out of favour cyclicals and resource stocks. It also heralded the re-emergence of inflation which in turn raised expectations for interest rates. This tended to favour the value style, as it disproportionately impacted the valuations of premium-rated growth stocks with longer-dated cash flows. 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.

The Russian invasion of Ukraine accelerated these trends, with dislocation in energy and agricultural commodity markets further feeding inflation and increasing the likelihood of central bank policy interest rate rises. This comes despite signs that the global economy is already starting to slow, raising the risk of recession. Valuations remain critical in this market, with the prospect of structurally higher inflation and interest rates likely to expose stocks trading on excessive multiples. We also observe that valuation dispersions, both within and between equity markets, remain elevated. 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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