MAPLE-BROWN ABBOTT

INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary – 31 October 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	-1.0	-1.0	3.9	5.2	4.4	8.6
Benchmark [3]	4.0	-1.6	-6.8	2.6	4.8	4.3	N/A

Market commentary

The Australian equity market had a strong month, with the S&P/ASX 300 Index (Total Return) excluding property rising 5.7%. Markets were strong globally, buoyed by speculation that central banks would soon ease their pace of tightening. This came despite inflation data in the US and Australia exceeding expectations. The Reserve Bank of Australia (RBA) contributed to the improved sentiment, raising rates by a lower than expected 0.25% early in the month, and the Australian Government 10-year bond yield fell 0.13% to close at 3.76%. US bond yields rose, however, up 0.28% to 4.08%. The Australian dollar (AUD) edged lower against the US dollar (USD). Commodity markets were mixed, with gains in oil and falls in iron ore and most metals. Looking at performance by sector, cyclicals tended to perform better. Financials (+12%) was strongest, followed by Energy (+9%) and Consumer Discretionary (+9%). Materials (0%) was weakest, followed by Consumer Staples (0%) and Health Care (+1%).

International equities also performed strongly, with the MSCI AC World Index rising 6.0% in USD terms. Of the major regions, the USA (+8%) was best, followed by Europe (+7%), Japan (+3%) and Asia ex-Japan (-6%). A weaker AUD increased the AUD return of the MSCI AC World Index to 6.6%. A-REITs performed very well, with the S&P/ASX300 A-REIT Index (Total Return) rising 9.9%. Fixed interest was sound, with the Bloomberg Australian Composite Bond Index rising 0.9%.

Portfolio commentary

The Trust returned 4.7% in October, outperforming the benchmark by 0.7%.

The Trust's Australian Equities holdings returned 7.2%, exceeding the market index. Our energy holdings performed strongly, including our overweight position in Woodside Energy Group (+14%). The key driver was the oil price, which rose 8% to US$95/barrel, reflecting supply concerns due to OPEC cuts and the looming EU embargo on Russian crude. Our exposure to the major banks also contributed positively. We are overweight the sector, which outperformed as rising interest rates start to support bank interest margins. The RBA's decision to slow its pace of tightening also likely helped, seen to reduce the prospect of recession and rising defaults. Our overweight position in Rio Tinto (-6%) was a key negative contributor to performance. The iron ore price fell sharply during the month to close at US$82/tonne. The main driver was concerns around Chinese demand, given further deterioration in the housing market and fallout from the 20th Party Conference, including the continued pursuit of a zero-COVID policy. Our overweight holding in Ampol
(-5%) also detracted. The company released a quarterly trading update, showing a sharp decline in earnings from its Fuels and Infrastructure division. While this was disappointing, we believe that many of the factors that caused it are temporary and that Ampol is well placed to benefit from ongoing tightness in energy markets and a recovery in retail fuel demand.

The Trust's international equities holdings returned 5.5%, underperforming the AUD return of the international market index. Regional weightings were a headwind, including an underweight exposure to the USA and overweight exposure to Asia ex-Japan. The Trust's A-REIT holdings returned 8.5%, below the A-REIT index. Our holdings in the office segment impacted performance, including GDI Property Group (-2%) and Dexus Property Group (+1%). The Trust's fixed interest holdings returned 1.3%, 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 5.5%. Our holding in Mexican toll road company Aleatica (+96%) was a key positive contributor, after receiving a tender offer 118% higher than the previous close from majority shareholder IFM Investors.

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Notes:

1 Past performance is not a reliable indicator of future performance. Source: Maple-Brown Abbott Ltd, Morningstar as at 31 October 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 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 have become somewhat more positive on the fixed interest asset class, given the material rise in bond yields in recent months. However, we remain cautious and observe that downside risks exist if inflation exceeds expectations.

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.]