



# Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary – 30 November 2022

## 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>	4.4	4.1	4.4	4.6	6.8	5.0	8.7
Benchmark <sup>3</sup>	3.5	2.7	-4.0	3.0	6.0	4.7	N/A

## Market commentary

The Australian equity market had a very strong month, with the S&P/ASX 300 Index (Total Return) excluding property rising 6.5%. Performance was consistent with strong global markets, driven higher by speculation that central banks would soon slow their pace of tightening. Bond yields fell, including a 0.38% reduction in the US Government 10-year and a 0.23% reduction in the Australian Government 10-year, which closed at 3.53%. Hopes of a China COVID reopening provided a further tailwind to markets. Local economic data was somewhat soft, including inflation and retail sales below expectations. Commodity prices were mixed, with gains in iron ore and base metals and a decline in oil. Looking at performance by sector, Utilities (+21%) performed best, largely due a takeover offer for Origin Energy. Materials (+16%) and interest rate sensitive sectors Health Care (+6%) and Industrials (+6%) also performed well. Communication Services was weakest (+2%), followed by Financials (+2%) and Information Technology (+3%).

International equities also performed strongly, with the MSCI AC World Index rising 7.8% in US dollar terms. Of the major regions, Asia ex-Japan (+19%) was best, followed by Europe (+11%), Japan (+10%) and the USA (+5%). A stronger Australian dollar (AUD) reduced the AUD return of the MSCI AC World Index to 2.9%. A-REITs performed very well, with the S&P/ASX300 A-REIT Index (Total Return) rising 5.8%. Fixed interest was solid, with the Bloomberg Australian Composite Bond Index rising 1.5%.

## Portfolio commentary

The Trust returned 4.4% in November, outperforming the benchmark by 0.9%.

The Trust's Australian equities holdings returned 6.1%, underperforming the market index. Our overweight holding in Origin Energy (+41%) was a key positive contributor to performance. The company received an indicative takeover offer during the month from Brookfield and ELG, at a

55% premium to the share price. While gaining the support of the Board, we note that significant risks to the deal exist. Our overweight holdings in mining stocks Rio Tinto (+24%) and Alumina (+12%) also performed very well. The main drivers were higher prices for key commodities and improved sentiment towards the miners. This followed moves by China to ease some of its COVID restrictions, creating hope that it abandons its zero COVID policy and pursues a broader reopening. Our overweight position in Healius (-15%) was a key negative contributor to performance. The company released a weak trading update at its Annual General Meeting (AGM). A sharp decline in COVID-testing and a slower than expected normalisation in underlying pathology volumes have driven operating deleverage and material downgrades to earnings forecasts. We do, however, expect pathology volumes to progressively recover, which together with the efficiency program currently underway should drive margin expansion over the medium term. Our overweight holding in The Star Entertainment Group (-8%) also detracted. The company gave a trading update at its AGM, revealing some competitive pressure from the new Sydney Crown casino and higher than expected cost guidance. Ongoing regulatory concerns also continue to weigh on the stock.

The Trust's international equities holdings returned 6.8%, outperforming the AUD return of the international market index. Regional weightings were a strong tailwind, including an overweight exposure to Asia ex-Japan and an underweight exposure to the USA. The Trust's A-REIT holdings returned 3.4%, below the A-REIT index. Our decision not to hold the strongly performing Goodman Group (+13%) was the main drag on performance. The Trust's fixed interest holdings returned 1.6%, 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 3.5%. GLIF's holding in global tank storage company Vopak (+36%) was a key positive contributor, with the company delivering a better than expected third quarter result and increasing 2022 earnings guidance.

## 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 November 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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Signatory of:



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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 cyclical 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 somewhat 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](#).

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