



Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary – 28 February 2023

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	-0.6	1.0	3.1	6.3	5.7	5.2	8.7
Benchmark ³	-0.9	0.1	-1.5	3.9	4.8	4.6	N/A

Market commentary

The Australian equity market had a poor month, with the S&P/ASX 300 Total Return Index excluding property falling 2.7%. Markets were weak globally, with Australia underperforming in constant currency. Markets were again driven by bond yields, as investors weighed the prospect that interest rates may stay higher for longer and could lead to a 'hard landing'. This followed a number of data points in the US suggesting that inflation is proving sticky and hawkish commentary from central banks. The US Government 10-year yield rose 0.39% to 3.92% and the Australian 10-year rose 0.31% to 3.86%. The February reporting season was another feature of the month, delivering a set of results that were modestly weaker than expected and with a generally cautious outlook. Prices fell for most commodities, including oil and iron ore. Looking at performance by sector, defensives tended to outperform. Utilities (+3%) was best, followed by Information Technology (+2%), Industrials (+1%) and Consumer Staples (+1%). Materials (-7%) was weakest, then Financials (-3%) and Energy (-1%).

International equities were weak, with the MSCI AC World Index falling 2.9% in USD terms. Of the major regions, Europe (-1%) was best, then the USA (-2%), Japan (-4%) and Asia ex-Japan (-7%). The Australian dollar (AUD) fell against the US dollar (USD), increasing the AUD return of the MSCI AC World Index to +1.5%. A-REITs were stable, with the S&P/ASX 300 A-REIT Total Return Index falling 0.4%. Fixed interest was soft, with the Bloomberg Australian Composite Bond Index falling 1.3%.

Portfolio commentary

The Trust returned -0.6% in February, outperforming its benchmark by 0.3%.

The Trust's Australian equities holdings returned -0.6%, outperforming the market index. Our overweight holding in Origin Energy (+9%) was a key positive contributor to performance. The stock rallied after Brookfield and EIG

reconfirmed their interest in a takeover, albeit at a modestly reduced offer price. The market had heavily discounted the prospect of a deal progressing, possibly due to recent changes to gas market regulation. Origin also released its half-year results during the month, upgrading full year guidance for its Energy Markets business. Our overweight holding in QBE Insurance (+10%) performed strongly. The company delivered a great full-year result, with earnings and dividends ahead of expectations and guidance for continued strong premium growth. QBE's earnings outlook was further supported by the increase in bond yields and decline in the AUD exchange rate. Our overweight holding in Healius (-14%) detracted from performance. The company pre-announced a disappointing half-year result early in the month, leading to medium-term earnings downgrades. The pathology business is suffering from weak volumes, with a steep decline in COVID PCR testing and traditional pathology volumes yet to fully recover from pandemic-related weakness. With significant fixed costs in the business, margins fell sharply. We remain attracted to the long-term fundamentals of the company and believe that earnings will recover, supported by a return to trend for pathology volumes and management's cost reduction program.

The Trust's international equities holdings returned -0.9%, underperforming the international market index in AUD terms. Hedging was the key headwind on performance. The Trust's A-REIT holdings returned 0.6%, exceeding the A-REIT index. Our holding in diversified REIT GPT Group (+4%) performed well, delivering a sound full year result and 2023 guidance above expectations. The Trust's fixed interest holdings returned -1.2%, 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 1.2%. Our European holdings performed well, including tank storage firm Vopak (+9%) which delivered a solid 2022 result and 2023 guidance above expectations.

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 28 February 2023.

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?

Contact our Client Service team by:

T 1300 097 995

E mba@unitregistry.com.au

W maple-brownabbott.com

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Outlook

Markets remain volatile, largely driven by uncertainty around the outlook for inflation, interest rates and economic growth. We remain cautious that markets have not yet fully adjusted to the new normal whereby inflation and interest rates will remain structurally higher than what we have seen in recent years. While the extreme divergence in valuations both across and between equity markets that existed prior to the pandemic has contracted somewhat, we believe that we are still only in the early stages of this process. It also seems very unlikely that we 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, given the material rise in bond yields over the last year.

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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