MAPLE-BROWN ABBOTT
INVESTMENT MANAGERS SINCE 1984

Maple-Brown Abbott Diversified Investment Trust

Monthly Commentary – 31 October 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]	-2.7	-5.6	3.6	7.5	3.8	4.9	8.4
Benchmark [3]	-2.2	-5.0	3.3	4.8	2.7	4.5	N/A

Market commentary

The Australian equity market had a weak month, with the S&P/ASX 300 Total Return Index excluding property falling 3.7%. Performance was consistent with global markets, which fell in response to geopolitical instability and rising interest rate expectations. The US Government 10-year yield increased 0.29% to close at 4.88%, reflecting a robust US economy and expectations of rising US bond issuance. Similarly, the Australian Government 10-year yield rose 0.44% to close at 4.93%. Local economic data also showed resilience, with better than expected retail sales, a surprise fall in unemployment and a re-acceleration of inflation in the third quarter. Commodities were mixed, with gold notably stronger, oil weaker and iron ore remaining elevated. Looking at performance by sector, Utilities (+2%) was best, followed by Materials (-1%) and Communication Services (-3%). Interest rate sensitive sectors were weakest, including Information Technology (-8%), Health Care (-7%) and Industrials (-6%).

International equities also fell sharply, with the MSCI AC World Index down 3.0% in US dollar (USD) terms. Of the major regions, the USA (-2%) was best, followed by Asia ex-Japan (-4%), Europe (-4%) and Japan (-5%). The Australian dollar (AUD) fell against the USD, increasing the AUD return of the MSCI AC World Index to -1.1%.

A-REITs performed poorly, with the S&P/ASX 300 A-REIT Total Return Index falling 5.7%. Fixed interest was also down, with the Bloomberg Australian Composite Bond Index falling 1.8%.

Portfolio commentary

The Trust returned -2.7% in October, underperforming its benchmark by 0.5%.

The Trust's Australian equities holdings returned -4.1%, below the market index. Our overweight holding in Rio Tinto (+4%) was a key positive contributor to performance. Iron ore miners performed well over the month, with commodity prices remaining elevated and the announcement of further fiscal stimulus in China improving sentiment. Our overweight position in Origin Energy (+4%) also outperformed. The stock is currently under takeover offer from a consortium led by Brookfield, which underpinned the share price. The deal received clearance from the Australian Competition and Consumer Commission during the month, reducing risks around completion. The key remaining hurdle is shareholder approval at the 23 November scheme meeting, which cannot be assumed given public dissent from key shareholders. We note the offer price was increased subsequent to month end, but the required shareholder support remains uncertain. Our overweight holding in Alumina (-18%) detracted from performance. Environmental challenges continue to delay the approval of their mine plan, resulting in negative free cash flow. While this creates uncertainty around the stock, we believe that the environmental risks can be managed, and a resolution is likely.

The Trust's international equities holdings returned -3.5%, underperforming the international market index in AUD terms. Regional weightings and hedging were headwinds.

The Trust's A-REIT holdings returned -8.0%, below the A-REIT index. The largest detractor was our decision not to hold the premium-rated Goodman Group (-3%), which outperformed the sector.

The Trust's fixed interest holdings returned -1.9%, modestly below 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 1.4%. UK water holdings performed well over the month, with both Severn Trent and United Utilities up 12% in local currency terms.

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 October 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

Outlook

Markets remain volatile. Further increases in bond yields during the month highlight the significant uncertainty that exists around the persistence of inflation and the central bank rate tightening cycle. While the US economy continues to perform strongly, economic risks are elevated and history shows that 'soft landings' are rare. In Australia, economic signals are mixed, but inflation remains high and further rate increases from the Reserve Bank of Australia appear likely. We remain cautious that markets are not fully pricing in these risks, nor have they 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 across and between markets that existed prior to the pandemic has retraced somewhat, we believe we are still in the process of normalisation. It seems unlikely we will 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 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, with bond yields having returned to more 'normal' levels.

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.

Want to find out more?

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Principles for Responsible Investment