

Yarra Australian Real Assets Securities Fund

Gross returns as at 30 April 2023

	From 17 December 2015	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception [^] % p.a.
Yarra Australian Real Assets Securities Fund	8.34	4.49	1.98	0.23	9.82	7.89	8.70	8.17
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index [*]	7.28	4.49	1.03	-3.43	9.89	6.48	N/A	N/A
Excess Return [†]	1.06	0.00	0.96	3.66	-0.07	1.42	N/A	N/A

Past performance is not a reliable indicator of future performance. Taxes payable by investors have not been taken into account. The figures shown have been provided for illustrative purposes – they are unaudited and subject to change. The total returns shown are gross of all fees, meaning they do not reflect the deduction of any investment management fees which would reduce returns and assume reinvestment of all distributions. Investment in the fund is not available on a fee free basis and this should be factored into any analysis of past performance.

Net returns as at 30 April 2023

	From 17 December 2015	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception [^] % p.a.
Yarra Australian Real Assets Securities Fund	7.42	4.42	1.77	-0.61	8.89	6.98	7.79	7.26
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index	7.28	4.49	1.03	-3.43	9.89	6.48	N/A	N/A
Excess Return [†]	0.14	-0.07	0.75	2.82	-1.00	0.51	N/A	N/A
Growth Return [‡]	-8.01	4.42	1.77	-24.43	-6.32	-11.08	-4.65	-1.92
Distribution Return [‡]	15.44	0.00	0.00	23.82	15.21	18.07	12.44	9.18

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[^] Inception date of Yarra Australian Real Assets Securities Fund: December 2005.

^{*} Effective 17 December 2015, the benchmark for the Yarra Australian Real Assets Securities Fund is the S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index: a market cap weighted index of infrastructure, utilities and REIT securities included in the S&P/ASX300.

[†] Excess return: The excess return figures shown represent the difference between the portfolio's return and the benchmark return.

[‡] The Growth Return is measured by the movement in the Fund's unit price, ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders by way of income distribution in a 12-month period. It does not include distribution amounts deemed as capital distributions.

Market review

Australian Real Assets rallied during April 2023, with all sub-sectors having positive returns. Meanwhile, the important 10-year bond rate held relatively steady at 3.34%.

The S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Accumulation Index returned +4.5% during the month, taking its 12-month return to -3.4%. In comparison, the broader ASX300 gained +1.8% for the month while, globally, the MSCI World Index climbed by +1.8%.

Within the A-REIT (+5.2%) sector, residential exposed stocks including Mirvac (MGR, +15.9%), Ingenia Communities (INA, +13.3%) and Stockland (SGP, 11.8%) all outperformed, as too a number of the property-focussed fund managers such as Centuria (CNI, +13.6%) and HMC Capital (HMC, +9.2%). Notable updates came from both Mirvac and Stockland on their residential settlement progress. While highlighting more challenged conditions (most notably with Mirvac downgrading

their estimates of FY23 lot settlements) in the short-term, investors gained confidence around the prospect for improving conditions into CY24.

Australian Infrastructure and Utilities stocks rose +3.7% during April. All three Infrastructure and Utility sectors saw positive returns during the month, with all stocks within the index rising. Transport related companies Qube Logistics (QUB, +7.0%) and Transurban (TCL, +5.5%) were the strongest performers, with Qube recovering following a sharp selloff in the prior month and Transurban benefiting from the release of robust traffic data for the March quarter.

Portfolio review

Key Contributors

APA Group (APA, underweight) – the gas transmission pipeline network owner underperformed during the month where the major incremental news flow was APA missing out on being a

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preferred counterparty on a renewable energy zone transmission build in NSW. While a clearer strategy is emerging under the new CEO, we remain underweight the stock given the company is at a difficult starting point in approaching the energy transition.

Mirvac (MGR, overweight) – the diversified property group outperformed over the period supported by a March-quarter trading update which re-based investor expectations for FY23, particularly for the residential development division (lot settlement expectations now 2,200 from 2,500 for the 12-months ending 30 June 2023). This increased certainty, coupled with progress around progressing third party capital partners across the business, assisted to drive the improved share price. We remain overweight MGR reflecting its exposure to recovering residential conditions, and its quality set of income producing trust assets.

Ingenia Communities (INA, overweight) – the share price of the affordable housing developer and owner recovered through April, following an earnings update the prior month that highlighted weaker operating conditions than first anticipated. The April recovery was also supported by the news of the appointment of new CFO Justin Mitchell. We believe forward company guidance is now more reflective of the environment, which embeds longer construction timeframes and slower settlements as a result of weakening residential conditions.

Key Detractors

Stockland (SGP, underweight) – Australia's largest land subdivision business, which typically sells approximately 6,000 land lots annually, outperformed over the period which included a trading update reiterating FY23 earnings guidance. Notwithstanding ongoing softness in residential demand for land lots, investors took a more optimistic view to look through current conditions, with some belief that residential conditions will begin to meaningfully improve in the latter part of CY23 as expectations of interest rate cuts into CY24 continue to build. With ongoing elevated shorter-term residential earnings risk, and the stock trading now on fuller valuation metrics (14.2 times forward earnings and offering a 5.8% dividend yield), we retain an underweight position and maintain a preference for peer Mirvac insofar as residential exposure is concerned.

Port of Napier (NPH, overweight) – the port owner and operator underperformed during the month after reducing earnings guidance following Cyclone Gabrielle in February. The cyclone heavily impacted bulk log export volumes and the volumes of refrigerated containers through the port, NPH's two main revenue drivers. Prior to the cyclone NPH was tracking towards the top end of its guidance and we view this event as being one-off and expect a strong earnings recovery in FY24.

Hotel Property Investments (HPI, overweight) – the hotel-owning REIT underperformed over the period despite limited new company news flow. HPI has attractive leases in-place across its pub assets, with a 10.3 year weighted average lease tenure and 71% of leases referenced to inflation, with its largest tenant being QVC (via a joint venture with Coles). We expect these assets to perform well through the environment

ahead, and believe that the stock remains undervalued (-16% below last stated net asset value and offering a 5.5% dividend yield).

Key Purchases

HMC Capital (HMC) – we initiated a position in the diversified real estate funds management group during the period, via an opportunity to bid into a discounted equity raising associated with the acquisition of a portfolio of 11 Healthscope anchored healthcare assets. We like the outlook for the real estate asset mix underpinning HMC's funds-growth (i.e. hospitals and large-format retail), its operational leverage – the business is expected to approach \$10bn of funds under management by the end of CY23 – and the attractive relative valuation compared to peer real estate funds management groups including Charter Hall and Centuria Industrial REIT.

Centuria Industrial REIT (CIP) – we added to our existing overweight in the domestically focused, industrial owning A-REIT. We regard the industrial asset class as more resilient than other sub-sectors as we progress through CY23. This was demonstrated by CIP's 31 Dec 2022 valuations which saw the portfolio value decline by less than 2%, demonstrating the high-quality asset-asset base (average lease tenure 8+ years, capital city locations). Additionally, the March-quarter trading update revealed very strong rental growth (re-leasing spreads of +28% for the nine months to March 2023) which is helping to offset the Trust's rising cost of debt. Meanwhile, the stock is trading at an excessively steep discount to NTA, implying asset values will decline in excess of 15% from December 2022 valuations.

Key Sales

Dexus (DXS) – we further reduced our position in Australia's largest office landlord over the period. This decision was driven by our ongoing concern around the outlook for office operating metrics (i.e. lower rents), direct valuations as cap rates rise (i.e. lower valuations) and DXS's development pipeline in this environment. With respect to office exposure, our preference is to gain exposure via our overweight in GPT Group, which also offers investors exposure to a recovering retail property portfolio (i.e., Melbourne Central) and a diversified portfolio of industrial assets.

Key Active Overweights

GPT Group (GPT) – our overweight position the diversified commercial real estate owning A-REIT is predicated on its asset quality (A-grade, prime assets), asset mix (retail, industrial, office), robust balance sheet and undemanding stock valuation. Notwithstanding our expectation of downside risks to retail and office sub-sectors over CY23, we view the stock as offering an attractive risk-reward with modest gearing (29% LVR), while the stock trades at a material discount to last stated NTA and offers an attractive 5.9% dividend yield.

Chorus (CNU) – the high-quality regulated telecommunications utility trades on a 5.8% FY24 dividend yield and with medium term upside in regulatory returns. As the build out of CNU's fiber network comes to an end, CNU will move to strong free cash flow generation, with a balance sheet

that is under levered vs target gearing, and strong line of sight on regulatory revenues. Based on current market metrics, CNU would earn a nearly 300bp higher regulatory return in the next regulatory period from July 2024, providing further upside to the medium-term dividend yield.

Centuria Industrial REIT (CIP) – we remain overweight the domestically focused industrial owning REIT. We regard the industrial asset class as more resilient than other sub-sectors as we progress through CY23. This was demonstrated by CIP's 31 Dec 2022 valuations which saw the portfolio value decline by less than 2%, demonstrating the high-quality asset-asset base (average lease tenure 8+ years, capital city locations). Additionally, the March-quarter trading update revealed very strong rental growth (re-leasing spreads of +28% for the nine months to March 2023) which is helping to offset the Trust's rising cost of debt. Meanwhile, the stock is trading at an excessively steep discount to NTA, implying asset values will decline in excess of 15% from December 2022 valuations.

Key Active Underweights

APA Group (APA) – we remain underweight the energy pipeline company as we retain a cautious stance towards the heavy load of capital investment required to transition the business away from its core gas transmission activities. Whilst APA's gas pipelines will continue to provide an important role in facilitating energy flows across the east coast of Australia for many years to come, the quality of this business has diminished as contracted revenue tenor is increasingly short in duration relative to the very long dated nature of its assets.

Stockland (SGP) – we are underweight Australia's largest land subdivider, reflecting our expectations of the need for a recalibration of operating outcomes from the residential development side of the business (likely in FY24). We would reassess the stock position in this environment, when default rates revert to higher levels (we expect they'll shift to around 10%, from 3% today) and expectations recalibrate accordingly. Outside of the residential exposure, we like the strategic direction under the stewardship of CEO Tarun Gupta, shifting the SGP business model to become more capital light. New partnerships with large global investors such as Mitsubishi Estate Asia, in our mind, validate the strategy.

Goodman (GMG) – while we continue to regard GMG as the global leader in industrial ownership, development and management, our underweight is premised on our view of where we sit in the real estate cycle. Specifically, higher interest rates are likely to result in slowing earnings growth (specifically from the development and management segments) and, subsequently, a lower stock multiple the market is prepared to pay. Adjusting to the environment, GMG has indicated it will seek to undertake more developments on its own balance sheet, which while a positive for activity, does carry an increased risk profile. Within the industrial sector, we have shifted funds to the more passive industrial player CIP, at this point in the cycle.

Market outlook

We continue to see a mixed outlook across the A-REIT sector for CY23. At a macro level, expectations that we have likely seen the peak of interest rates, with the prospect for lower rates into CY24, provides a more supportive backdrop for investors to value both physical real estate and REIT distributions.

Property types, however, are unlikely to fare evenly. Positively, we see industrial and specialised-asset fundamentals (26% and 7% of sector assets respectively) as favourable, as ongoing occupier demand outstrips supply, supporting significant real rental growth. Office and retail sub-sectors (21% and 46% of sector assets respectively) face more challenged conditions in our view, as the work-from-home dynamic continues to constrain office leasing demand, and retailers face moderating conditions as higher interest rates impact consumer spending. Pleasingly in the current environment, a number of A-REITs have rents linked to CPI, providing an effective hedge to higher inflation. Persistently low transitional evidence supports our view of downside valuation risk to physical commercial real estate as the year progresses, most notably in the office sub-sector.

Remarkably, A-REIT valuations were broadly flat overall in the Dec-22 half, with rental growth offsetting 15 bps of cap rate expansion. However, we believe much of this valuation concern is now built into A-REIT share prices which trade materially below NTA's (passive REITs trading in excess of 15% discounts to last NTA). In this environment we believe there is a heightened importance to maintain portfolio exposures to those A-REITs with sustainable balance sheets that can navigate the period to come, continuing to generate attractive dividends for investors.

In terms of the Infrastructure & Utilities outlook, we see opportunities in high quality infrastructure companies with strong inflation protection. Chorus (CNU) has now fully bedded down its regulatory regime and has a healthy dividend yield of 6.0% which we expect will grow through the remainder of the decade. We remain cautious towards infrastructure providers with carbon intensive operations, for example AGL Energy (AGL), who face large investment requirements to transition their business.

Top 5 holdings

	Portfolio	Benchmark	Active
Transurban	21.93	19.82	2.11
Goodman	11.42	14.21	-2.78
Origin Energy	7.65	6.18	1.48
Vicinity Centres	5.72	3.49	2.23
Mirvac	5.49	4.09	1.40

Key active positions

Overweights	Portfolio	Benchmark	Active
GPT	7.97	3.63	4.34
Chorus	5.22	1.53	3.69
Centuria Industrial REIT	3.91	0.72	3.18
Underweights			
APA	0.00	5.22	-5.22
Stockland	0.00	4.57	-4.57
Goodman	11.42	14.21	-2.78

Portfolio holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.

Sector allocation

	Portfolio	Benchmark	Active
Infrastructure	36.49	31.22	5.27
Airport Services	1.64	0.84	0.81
Highways & Railtracks	22.99	23.25	-0.26
Communication Services	5.94	1.82	4.12
Railroads	0.00	2.71	-2.71
Marine Ports & Services	3.22	2.61	0.61
Information Technology	2.70	0.00	2.70
Utilities	7.65	13.53	-5.88
Electric Utilities	7.65	6.18	1.48
Gas Utilities	0.00	5.22	-5.22
Multi-Utilities	0.00	2.14	-2.14
Real Estate Investment Trusts (REITs)	36.77	30.63	6.14
Specialized REITs	2.48	2.62	-0.13
Diversified REITs	13.46	15.43	-1.97
Industrial REITs	3.91	0.98	2.93
Office REITs	3.01	4.36	-1.35
Retail REITs	11.92	6.58	5.35
Other	1.99	0.67	1.31
Cash and receivables	0.83	0.00	0.83

Features

Investment objective	To achieve a balance of income and medium-to-long term capital growth by investing primarily in Australian listed infrastructure, utilities and REIT securities. In doing so, we aim to outperform the S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index over rolling three-year periods.	
Recommended investment time frame	5 - 7 + years	
Fund inception	December 2005	
Fund size	A\$17.6 mn as at 30 April 2023	
APIR code	JBW0030AU	
Estimated management cost	0.85 p.a.	
Buy/sell spread	+/- 0.15	
Platform availability	Asgard BT Panorama	Hub24

Applications and contacts

Investment into the Yarra Australian Real Assets Securities Fund can be made by Australian resident investors only.

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