

Yarra Australian Real Assets Securities Fund

Gross returns as at 31 December 2022

	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	7.60	-3.34	11.82	-9.08	0.33	5.71	8.92	7.86
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index [*]	6.64	-4.03	12.62	-9.00	0.14	4.46	NA	NA
Excess Return [†]	0.97	0.70	-0.81	-0.08	0.19	1.25	NA	NA

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 31 December 2022

	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	6.70	-3.41	11.58	-9.84	-0.51	4.82	8.00	6.95
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index	6.64	-4.03	12.62	-9.00	0.14	4.46	NA	NA
Excess Return [†]	0.06	0.63	-1.05	-0.84	-0.65	0.36	NA	NA
Growth Return [‡]	-9.29	-4.92	9.84	-31.45	-14.40	-12.89	-4.46	-2.37
Distribution Return [‡]	15.99	1.51	1.74	21.60	13.89	17.70	12.46	9.32

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 prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.

[^] 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 sharply during the December 2022 quarter, with all sectors generating positive returns. The Custom Infrastructure, Utilities and A-REITs Accumulation Index returned +12.6% during the quarter, taking its 12-month return to -9.0%. In comparison, the broader ASX300 gained 9.1% for the quarter and, globally, the MSCI World Index gained 9.9%.

Portfolio review

Key Contributors

Hotel Property Investments (HPI, overweight) – the overweight contributed strongly to portfolio returns as HPI rallied following expectations of potential M&A activity with 360 Capital building rapidly a 13.8% stake in the Trust in the period. REIT investors are familiar with 360 Capital's strategy and their past investment approaches in the REIT space which have at times

led or contributed to unlocking greater value from Real Estate Trusts (Irongate REIT a recent example). Trading at 0.84 times last stated NTA and offering a 5.5% dividend yield, we remain overweight HPI.

Charter Hall Group (CHC, underweight) – the portfolio underweight contributed to returns, with increased uncertainty around the group's earnings trajectory as the commercial real estate valuation cycle turns down. These concerns are driven by expectations of lower equity flows into existing unlisted funds – wholesale and retail – as commercial valuation declines accelerate into CY23. Additionally, almost 40% of CHC's total FUM resides in the office sub-sector, which is likely to see the largest headwinds (income growth, valuation declines). Notwithstanding an already de-rated P/E of approximately 14 times (20% discount to the 5-year average) we don't believe these headwinds have been fully factored into earnings expectations.

Centuria Industrial REIT (CIP, overweight) – our overweight position added value following a strong rebound from depressed levels as the Trust released a valuation update and initiated a new joint-venture with Morgan Stanley to sell down stakes in a number of assets to lower debt levels. We view the industrial asset class as more resilient than other sub-sectors heading into CY23. This was demonstrated by CIP's 31 Dec 2022 valuations which saw the portfolio value drop by less than 2%, demonstrating the high-quality asset-asset base (average lease tenure 8+ years, capital city locations) and very strong rental growth (re-leasing spreads of +11% in the FY22 period across 49 deals).

Key Detractors

Origin Energy (ORG, overweight) – underperformance was driven by our initial underweight position prior to the energy company disclosing a takeover approach from Brookfield and EIG. The bid at \$9.00 per share, a 55% premium to the pre-disclosure share price, values the company at an enterprise value of \$18.4b. Talks had been ongoing since August and the indicative approach at \$9.00 has been recommended by the Board, should the bid become binding. We view \$9.00 as a fair price for Origin's privileged energy assets and retail position, noting that the deal will be subject to FIRB and ACCC approval, with the latter subject to a public review.

PEXA Group (PXA, overweight) – the electronic conveyancing company underperformed during the period as two sentiment issues weighed on the stock. Firstly, the anticipated slowdown in house sale transaction volumes is materialising, as demonstrated by lower-than-expected listing volumes reported by both REA Group (REA) and Domain (DHG). While lower transaction volumes will see earnings decline from peak levels, this does not meaningfully impact PXA's valuation given the long-term structural growth opportunity. Secondly, the demerger of LNK's 44.2% stake in PEXA has created a modest overhang on the stock, however we view the company's now open register as a long term positive.

Port of Napier (NPH, overweight) – the port operator underperformed during the quarter despite reporting solid 2H earnings and guidance for FY23. We continue to maintain an overweight position, with the improvement in global supply chains and shipping reliability positive for NPH and the resumption of cruise line activity which, although likely below pre-COVID levels, will add high incremental high margin revenues.

Key Purchases

Origin Energy (ORG) – with the company trading at up to an 18% discount to the indicative bid from Brookfield and EIG, we took the opportunity to move to a modest overweight position in ORG. We view the bidding consortium as very high quality and are encouraged those talks had been underway for up to three months before becoming public. Whilst the ACCC has announced that they intend to undertake a public review of the transaction, we do not expect that this will result in any major impediment to the transaction.

Centuria Industrial REIT (CIP) – our recent portfolio additions to CIP have seen the position reach a top-three overweight in the portfolio. We view the industrial asset class as more resilient than other sub-sectors heading into CY23. This was demonstrated by CIP's 31 Dec 2022 valuations which saw the portfolio value drop by less than 2%, demonstrating the high-quality asset-asset base (average lease tenure 8+ years, capital city locations) and very strong rental growth (re-leasing spreads of +11% in the FY22 period across 49 deals). Meanwhile, the stock is trading at a 20% discount to updated NTA, an attractive investment proposition in our view.

Auckland Airport (AIA) – we view AIA as a very high quality, defensive exposure that is recovering from the disruption to international travel caused by COVID-19. The company's key asset is a gateway airport with a favourable and well settled regulatory structure and strong long term growth outlook. AIA trades on 22.2 times EV/EBITDA screens attractively versus its infrastructure peers and does not capture the embedded value in its large land bank which is located around the airport.

Key Sales

Atlas Arteria (ALX) – the portfolio's position in ALX was reduced during the quarter as the toll road owner appreciated sharply on no new information. ALX is now trading close to an enterprise value equivalent to where it was trading before it undertook its value destructive acquisition of the Chicago Skyway toll road.

Goodman Group (GMG) – we shifted underweight in the industrial property developer over the period to reflect our expectation of slower earnings growth for the business, driven by the implications of the cap rate cycle turning negative for industrial assets, and development activity and returns slowing from peak levels. While we believe GMG remains well placed to continue to grow earnings well above sector peers (FY23 EPS guidance is for 11% y/y) we have recalibrated our expectations given an elevated valuation at 21 times P/E 12-months forward and offering a modest 1.7% dividend yield.

Waypoint REIT (WPR) – we took the opportunity to reduce the position and free up the capital for more compelling ideas. WPR was supported in the period owing to its high medium-term NOI visibility (long service station leases) and with the REIT completing its on-market share buy-back at an average of 19% discount to June 2022 NTA. Our selling was tied more to longer-term asset quality, valuation outlook and gearing levels. Late in period the Trust released 31 Dec 2022 valuations which confirmed the asset de-valuation cycle is underway – with the average asset declining in value 4.4% over the six-month period (cap rates +27bps to 5.28%).

Key Active Overweights

GPT Group (GPT) – we believe GPT offers investors exposure to a high-quality, diversified commercial real estate portfolio. Its conservative balance sheet (gearing at <30%) and high level of liquidity provide us with confidence that the company is appropriately positioned for the forthcoming de-valuation cycle. Lastly, GPT's valuation has become more attractive at 0.70 times trailing NTA and with a 5.7% dividend yield.

Chorus (CNU) – CNU is a quality regulated utility trading on a 5.8% FY24 dividend yield with medium term upside in regulatory returns. As the build out of CNU's fibre 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 100bp 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 view the industrial asset class as being more resilient than other sub-sectors heading into CY2023. This was demonstrated by CIP's 31 Dec 2022 valuations which saw the portfolio value drop by less than 2%, demonstrating the high-quality asset-asset base (average lease tenure 8+ years, capital city locations) and very strong rental growth (re-leasing spreads of +11% in the FY22 period across 49 deals). Meanwhile, the stock is trading at a 20% discount to updated NTA, an attractive investment proposition in our view.

Key Active Underweights

APA Group (APA) – we remain underweight the company on the grounds that APA's initiatives to shift its business model towards electrification won't be sufficient. We expect it to be dwarfed by the discount increasingly applied to its gas pipeline business, particularly as planned government policies accelerate the shift to zero emissions sources. As a result, we no longer see its valuation (at a 12-month EV/EBITDA of 12.9 times) as sufficiently compelling when compared to large cap infrastructure alternatives.

Stockland (SGP) – our underweight position is premised on long-term concerns about the sustainability of what is now becoming the tail-end of booming domestic residential conditions driven by pandemic-related stimulus programs, heavily supporting the first home buyer segment currently. Over time, SGP's valuation faces downside risk given its exposure is to second-tier shopping centres (approximately 40% of NTA), where structural change is likely to accelerate, and to residential profitability (34% earnings, and 20% of NTA), where we see softer demand in the medium-term as the housing stimulus (Homebuilder) rolls over and the impact of lower migration levels takes hold.

Aurizon (AZJ) – we have an underweight position in AZJ which we view as a well-managed company facing a difficult task of transitioning earnings away from a heavy reliance on coal haulage. Whilst AZJ's 6.8% FY24 dividend yield screens as attractive, we do not believe there is enough value to compensate investors for the elevated risk profile of this business.

Market outlook

We maintain our longer-term conviction in the Real Assets sector, underpinned by solid fundamentals and attractive underlying valuation support. The S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Accumulation Index offers a 12-month forward forecast dividend yield of 4.6%, an attractive 0.9% premium above the 10-year Australian bond rate with the index dividend yield to increase in future years driven by inflation linkages in real estate leases and traffic levels normalising on patronage-based infrastructure assets.

We see opportunities in high quality infrastructure companies with strong inflation protection. For example, Chorus (CNU) has now fully bedded down its regulatory regime and has a healthy dividend yield of 5.7% which we expect to grow through the remainder of the decade. We remain cautious towards infrastructure providers with exposure to cyclical end markets such as AGL Energy (AGL).

We see a mixed outlook across REIT sub-sector exposures heading into CY2023. Positively, we see recovering occupier demand – particularly as office workers return to the offices, and shoppers return back to shopping malls – following an elongated period of Covid-disruptions and restrictions concentrated in the major cities of Melbourne and Sydney (combined >50% A-REIT asset exposure). We expect this to drive improved leasing outcomes and support the rent collection trajectory. Additionally, a number of the REITs also have rents linked to CPI increases, providing an effective hedge to increasing inflation.

However, accompanying this recovery, we expect the prospect of higher interest rates into CY23 to see downside to capital values (i.e. REIT NTA vulnerability, following the sector growing average NTA by +3.8% in the June-22 half). These conditions will drive investor acquisition return requirements to increase, coinciding with REITs seeing an end to the multi-year trend of falling borrowing costs (an important driver of earnings and dividend growth over the past three-years) offsetting some of the improved rental-driven future earnings and dividend growth. Indeed 1H23 valuations were released in December for some A-REITs reflecting an average cap rate softening of 18bps (~4% decline in asset values).

Top 5 holdings

	Portfolio	Benchmark	Active
Transurban	18.58	18.20	0.38
Goodman	10.80	13.55	-2.75
GPT	7.73	3.67	4.07
Origin Energy	7.45	6.06	1.38
Vicinity Centres	5.99	3.53	2.46

Key active positions

Overweights	Portfolio	Benchmark	Active
GPT	7.73	3.67	4.07
Chorus	4.44	1.55	2.89
Centuria Industrial REIT	3.34	0.77	2.57
Underweights			
APA	0.00	5.79	-5.79
Stockland	0.00	3.95	-3.95
Aurizon	0.00	3.13	-3.13

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	34.80	30.14	4.66
Airport Services	1.56	0.80	0.76
Highways & Railtracks	20.23	21.87	-1.64
Communication Services	5.25	1.79	3.46
Railroads	0.00	3.13	-3.13
Marine Ports & Services	5.63	2.54	3.09
Information Technology	2.13	0.00	2.13
Utilities	7.45	14.06	-6.61
Electric Utilities	7.45	6.06	1.38
Gas Utilities	0.00	5.79	-5.79
Multi-Utilities	0.00	2.20	-2.20
Real Estate Investment Trusts (REITs)	55.49	55.80	-0.31
Specialized REITs	5.03	3.90	1.13
Diversified REITs	13.55	16.78	-3.23
Industrial REITs	14.14	14.59	-0.45
Office REITs	5.48	4.70	0.79
Retail REITs	15.34	15.09	0.25
Other	1.95	0.75	1.20
Cash and receivables	2.26	0.00	2.26

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\$16.9 mn as at 31 December 2022	
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.

Website www.yarracm.com

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com

Disclaimers

Yarra Funds Management Limited (ABN 63 005 885 567, AFSL 230 251) ('YFM') is the issuer and responsible entity of a range of registered managed investment schemes, which includes those named in this document ('Funds'). YFM is not licensed to provide personal financial product advice to retail clients. The information provided contains general financial product advice only. The advice has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before making a decision to acquire, hold or continue to hold an interest in the Funds you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. Prior to investing in any of the Funds, you should obtain and consider the product disclosure statement ('PDS') and target market determination ('TMD') for the relevant Fund by contacting our Investor Services team on 1800 034 494 or from our website at www.yarracm.com/pdsupdates/. The information set out has been prepared in good faith and while Yarra Funds Management Limited and its related bodies corporate (together, the "Yarra Capital Management Group") reasonably believe the information and opinions to be current, accurate, or reasonably held at the time of publication, to the maximum extent permitted by law, the Yarra Capital Management Group: (a) makes no warranty as to the content's accuracy or reliability; and (b) accepts no liability for any direct or indirect loss or damage arising from any errors, omissions, or information that is not up to date. No part of this material may, without the Yarra Capital Management Group's prior written consent be copied, photocopied, duplicated, adapted, linked to or used to create derivative works in any form by any means.

YFM manages each of the Funds and will receive fees as set out in each PDS. To the extent that any content set out in this document discusses market activity, macroeconomic views, industry or sector trends, such statements should be construed as general advice only. Any references to specific securities are not intended to be a recommendation to buy, sell, or hold such securities. Past performance is not an indication of, and does not guarantee, future performance. Information about the Funds, including the relevant PDSs, should not be construed as an offer to any jurisdiction other than in Australia. With the exception of some Funds that may be offered in New Zealand from time to time (as disclosed in the relevant PDS), we will not accept applications from any person who is not resident in Australia or New Zealand. The Funds are not intended to be sold to any US Persons as defined in Regulation S of the US federal securities laws and have not been registered under the U.S. Securities Act of 1933, as amended.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. Holdings may change by the time you receive this report. Future portfolio holdings may not be profitable. The information should not be deemed representative of future characteristics for the strategy. There can be no assurance that any targets stated in this document can be achieved. Please be advised that any targets shown are subject to change at any time and are current as of the date of this document only. Targets are objectives and should not be construed as providing any assurance or guarantee as to the results that may be realized in the future from investments in any asset or asset class described herein. If any of the assumptions used do not prove to be true, results may vary substantially. These targets are being shown for informational purposes only.