

Yarra Australian Real Assets Securities Fund

Gross returns as at 28 February 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	9.04	1.03	-3.04	17.67	6.44	8.31	9.91	8.42
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index [*]	8.18	1.38	-1.26	21.11	5.71	7.09	NA	NA
Excess Return [†]	0.85	-0.35	-1.78	-3.44	0.72	1.22	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 28 February 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	8.12	0.97	-3.24	16.67	5.54	7.39	8.99	7.51
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index	8.18	1.38	-1.26	21.11	5.71	7.09	NA	NA
Excess Return [†]	-0.06	-0.42	-1.99	-4.43	-0.17	0.30	NA	NA
Growth Return [‡]	NA	NA	NA	9.41	-6.52	-8.52	-1.26	-0.65
Distribution Return [‡]	NA	NA	NA	7.26	12.06	15.92	10.25	8.16

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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 equities defied a fall in global markets during February, rising on a better-than-expected earnings season even as uncertainty spiked over Russia invading Ukraine and resulting sanctions.

The S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Accumulation Index increased by 1.4% during the month, slightly below the wider ASX300 which returned 2.1%. While global indices fell (S&P500 -3.0%), a solid set of 1H22 earnings held up the domestic market. Around 36% of companies received consensus upgrades for the full year (two times the long-run average) as strong top line growth more than offset rising input costs.

Within Infrastructure & Utilities (+0.7%), Utilities supported the benchmark while Transportation Infrastructure was flat and Telecommunications Infrastructure declined. At a stock level, multi-utility provider AGL Energy (AGL) rallied after delivering a

better-than-expected 1H22 result and after receiving a takeover offer from a Brookfield consortium, which was ultimately rejected. Elsewhere, gas pipeline operator APA Group (APA) also delivered a solid result, with management highlighting that most of the company's revenue is linked to inflation.

Within REITs (+1.6%), Retail and Office REITs outperformed as COVID cases appeared to have peaked across the east coast of Australia, while Industrial and Diversified REITs underperformed. At a stock level, shopping mall owners and Vicinity Centres (VCX) and Scentre Group (SCG) delivered results ahead and in line with expectations respectively as operating conditions improved. Conversely, Industrial REIT Goodman Group (GMG) underperformed despite delivering a strong 1H22 result, with operating EPS 12% ahead of consensus, reflecting elevated market expectations and a high earnings multiple in a period of rising interest rates.

Portfolio review

Key Contributors

Vicinity Centres (VCX, overweight) – the shopping mall REIT outperformed as omicron cases across the east coast of Australia appeared to have peaked and after delivering a better-than-expected 1H22 result. Funds from operations (FFO) came in at \$287mn, supported by the reversal of waivers and provisions from the prior year. We remain overweight the stock. While we continue to believe that shopping mall REITs face accelerated structural issues, we now believe this is well recognised with VCX trading at 0.81 times trailing NTA, and increasing direct transactional evidence at prices at – or close to – prevailing NTA's. Due to its large exposure to Victoria (53% NTA), we expect short-term support as the state emerges from a high number of COVID cases.

Uniti Group (UWL, underweight) – the company partially retraced prior outperformance on a slightly disappointing 1H22 result. EBITDA grew 141% to \$71mn y/y – broadly matching expectations – however full-year guidance was modestly softer compared to its AGM update as a result of COVID disruption. We remain underweight the company, with NEXTDC (NXT) our preferred exposure within networks infrastructure.

Chorus (CNU, overweight) – the company outperformed following a better-than-expected 1H22 result and increased short-term dividend guidance. 1H22 EBITDA came in at \$332mn, modestly ahead of expectations, while full-year guidance was increased to \$660-685mn and dividend guidance for FY22, FY2 and FY23 was increased to 35, 40 and 45 cents per share respectively. We remain overweight, with the new regulatory regime for CNU – which had caused prior uncertainty with the stock – largely settled and having commenced from January 2022. The stock offers attractive attributes of regulated returns and modest growth on the appealing valuation metrics of a 6% dividend yield and 8.7 times EV/EBITDA. With peer companies trading on much higher multiples in New Zealand and medium-term regulatory return upside, we expect the stock to re-rate as the market becomes comfortable with CNU's regulatory model.

Key Detractors

Scentre Group (SCG, underweight) – the shopping mall owner outperformed as omicron cases across the east coast of Australia appeared to have peaked. Its FY21 result came in below consensus forecasts – with FFO per share of 16.64 cents – however guidance for FY22 showed positive momentum with 5.1% growth y/y. Our underweight position is predicated on SCG's higher leveraged balance sheet (equity / total tangible assets) as asset values continue to shift lower over time as specialty rental growth expectations continue to ratchet lower. Further, SCG is taking a tougher stance on negotiations with non-SME tenants, which we expect may lead to increased vacancy risks across the portfolio. Lastly, we do not see SCG's forecast dividend yield of 5.1% as attractive compared to peers given these risks. Our preferred Retail REIT exposures remain Vicinity (VCX) and Charter Hall Retail (CQR), which offer more compelling risk adjusted valuations.

Dexus Group (DXS, underweight) – the Office REIT outperformed after affirming guidance at its 1H22 result, with AFFO down 2.4% y/y to \$0.281 cents per share. Our underweight position is premised on the belief that the structural risks emanating from COVID-19 are not yet fully reflected in its valuation, trading at 0.90 times trailing NTA. DXS in the medium-term is vulnerable to rental pressure and higher vacancy rates across its portfolio as businesses over time opt to renew less floor space than prior to Covid due to remote working theme. While we see DXS as a market leader in the office space domestically, we expect market vacancy rates to expand further (Sydney CBD 13%, Melbourne CBD 14%) (June 2021) limiting their capacity to offset market weakness through superior asset and tenant management.

Goodman Group (GMG, overweight) – the Industrial REIT underperformed despite delivering a strong 1H22 result, with operating EPS 12% ahead of consensus, reflecting elevated market expectations and a high earnings multiple in a period of rising interest rates. We remain overweight. The fundamentals for the business across key global markets are strong, supported by tailwinds of e-commerce growth, supply-chain optimisation and a rebound in global industrial growth following Covid disruptions. We believe GMG can deliver strong earnings growth in FY22 with growing assets under management (at \$60bn by year-end) and a strong development pipeline as the company benefits from the acceleration of e-commerce. In that context we no longer see its headline valuation, at a 12-month forward EV/EBITDA of 23.2 times, as stretched.

Key Purchases

Qube Logistics (QUB) – we increased our position in the logistics company during the period. Following the Moorebank transaction, QUB's balance sheet has returned to investment grade (at 2.5 times net debt to EBITDA) with the potential for a special dividend or buy-back. QUB's capex burden has also reduced from \$1-1.2bn to \$200-250mn, significantly improving the company's FCF profile. Lastly, we see further upside to QUB's Operating Division as supportive trends drive higher consumer and housing activity in Australia. We also expect strong trading conditions in the Ports and Bulk division to persist amid high export volumes in resources and agricultural trade.

Scentre Group (SCG) – we increased our position in the shopping mall owner during the period, reflecting our more constructive view of shopping mall REITs in the short to medium term. Nevertheless, we remain underweight SCG with our preferred exposures Vicinity Centres (VCX) and Charter Hall Retail (CQR). Our underweight position is predicated on SCG's higher leveraged balance sheet (equity / total tangible assets) as asset values continue to shift lower over time as specialty rental growth expectations continue to ratchet lower. Further, SCG is taking a tougher stance on negotiations with non-SME tenants, which we expect may lead to increased vacancy risks across the portfolio. Lastly, we do not see SCG's forecast dividend yield of 5.1% as attractive compared to peers given these risks.

Chorus (CNU) – we increased our position in the communications infrastructure company. In our view, the regulatory regime for CNU – which had caused prior uncertainty with the stock – has now been largely settled and commenced from January 2022. The stock offers attractive attributes of regulated returns and modest growth on the appealing valuation metrics of a 6% dividend yield and 8.7 times EV/EBITDA. With peer companies trading on much higher multiples in New Zealand and medium-term regulatory return upside, we expect the stock to re-rate as the market becomes comfortable with CNU's regulatory model.

Key Sales

Transurban (TCL) – we reduced our position in the toll road operator and are now modestly overweight. While we continue to believe TCL has a strong growth outlook (with a number of new project and expansion plans), we no longer see its risk-adjusted total return potential as attractive in the current macro environment. While TCL is advantaged by toll-road revenues linked to CPI, this will largely be offset by the impact to its valuation from higher interest rates. Our preferred toll road exposure is Atlas Arteria (ALX), where we see greater valuation support particularly through concession extensions at APRR and settling the Dulles Greenway tolling regime.

Centuria Capital Group (CNI) – we reduced our overweight position as concerns around higher real yields resulted in lower capacity to maintain FUM growth at elevated levels. That being said, we remain overweight the company as we continue to see its growth platform as attractive. The funds management company manages a diversified portfolio by property asset type and capital source, underpinned by listed investment vehicles (CIP and COF). We hold a positive view of its recent merger with Primewest Group (PWG) which is accretive and diversifies the business across new markets (Retail, Agriculture). The company's P/E of 18.4 times is above peer Charter Hall Group (CHC) at 16.2 times, which in our view is justified given CNI's superior medium-term growth potential.

Pexa (PXA) – we reduced our position following recent outperformance but remain overweight. Our investment thesis is premised on infrastructure like characteristics of the property settlement exchange upon maturity, supplemented by numerous growth opportunities in immediate adjacencies (data and new markets). We see significant earnings upside as cost reductions are realised in the transition from the business's growth phase towards more of a utility phase, supporting higher sustainable EBITDA margins going forward.

Key Active Overweights

Vicinity Centres (VCX) – we continue to see upside in the shopping mall REIT as Australia emerges from the COVID crisis. While we continue to believe that shopping mall REITs face accelerated structural issues, we now believe this is well recognised with VCX trading at 0.81 times trailing NTA, and increasing direct transactional evidence at prices at or close to prevailing NTA's. Due to its large exposure to Victoria (53% NTA), we expect short-term support as COVID cases across the state continue to fall. Further, VCX's balance sheet can withstand further disruption and asset value moderation

following the \$1.4bn equity raising in June 2020, with gearing falling to 25%.

GPT Group (GPT) – we believe GPT offers investors exposure to a high-quality, diversified commercial real estate portfolio. Its conservative balance sheet (gearing at 25%) and high level of liquidity (\$1.2bn) provide us with confidence that the company is well positioned for the forthcoming de-valuation cycle. Lastly, GPT's valuation has become more attractive at 0.81 times trailing NTA, which implies more than a 15% fall in gross asset values – a more significant fall than our base expectations as a result of the COVID-19 crisis.

BWP Trust (BWP) – we believe BWP trades at a compelling valuation versus peers – 1.1 times NTA (based on conservative cap rates) with a 4.5% forecast yield – when considering its strong operating outlook, driven by well-located properties that encourage high rates of lease renewals from tenant Bunnings. Further, the REIT is set to benefit from higher inflation given CPI leases account for around 53% of its lease structures.

Key Active Underweights

Origin Energy (ORG) – we remain underweight the company given its heavy reliance on Energy exposure to generate cash flow through its 27.5% stake in vertically integrated LNG export terminal APLNG. ORG has announced the closure of its Eraring coal power plant which we view positively, given it positions the company as capital light participant in the energy transition with a large retail customer base.

Stockland (SGP) – our underweight position is premised on long-term concerns about the sustainability of current booming 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 (43% of NTA), where structural change is likely to accelerate, and to residential profitability (35% earnings, and 22% 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.

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 11.1 times) as sufficiently compelling when compared to large cap infrastructure alternatives.

Market outlook

We maintain our 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 4.2%, a compelling 2.1% premium above the 10-year Australian bond rate with the index dividend yield to increase in future years as traffic levels normalise on patronage-based infrastructure assets.

We see opportunities in high quality infrastructure companies with strong inflation protection and exposure to recovering economies, qualities both present within the transportation infrastructure sector. Tollroads are at the forefront of the post COVID-19 recovery, and for Atlas Arteria (ALX) we see several catalysts on the horizon for patient investors, with a generous dividend yield in the meantime (+6.2%). Qube Holdings has strong exposure to high volumes in Australia's consumer, agricultural and resources markets along with a demonstrated ability to offset any cost inflation through levies. We remain cautious towards utilities names with a high reliance on fossil fuels and difficulty in transitioning to a lower carbon environment, namely AGL Energy (AGL) and APA Group (APA).

We see a mixed outlook across REIT sub-sector exposures moving into CY22. 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 will drive improved leasing outcomes and support the rent collection trajectory. Additionally, a number of REITs also have rents linked to CPI increases, providing an effective hedge to increasing inflation. However, accompanying this recovery, we expect into CY22 the prospect of higher interest rates will begin to temper capital appreciation (i.e. REIT NTA growth) as investor acquisition return requirements stabilise and begin to increase, and REITs see an end of the multi-year trend of falling borrowing costs (an important driver of earnings and dividend growth over the past three years).

Top 5 holdings

	Portfolio %	Benchmark %	Active %
Goodman	18.13	15.86	2.27
Transurban	16.97	16.35	0.62
GPT	7.37	3.97	3.40
Vicinity Centres	6.32	2.92	3.40
Atlas Arteria	5.68	2.62	3.07

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Vicinity Centres	6.32	2.92	3.40
GPT	7.37	3.97	3.40
BWP Trust	3.96	0.81	3.15
Underweights			
Origin Energy	0.00	4.21	-4.21
Stockland	0.00	4.17	-4.17
APA	1.39	4.98	-3.58

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	37.31	27.11	10.20
Airport Services	0.00	0.61	-0.61
Highways & Railtracks	22.66	18.97	3.69
Communication Services	5.34	2.22	3.12
Railroads	0.00	2.70	-2.70
Marine Ports & Services	6.82	2.61	4.21
Information Technology	2.49	0.00	2.49
Utilities	1.39	11.27	-9.88
Electric Utilities	0.00	4.21	-4.21
Gas Utilities	1.39	4.98	-3.58
Multi-Utilities	0.00	2.08	-2.08
Real Estate Investment Trusts (REITs)	57.84	61.63	-3.79
Specialized REITs	5.44	3.97	1.47
Diversified REITs	13.73	19.24	-5.50
Industrial REITs	18.13	17.01	1.12
Office REITs	2.02	6.09	-4.07
Retail REITs	16.48	14.53	1.96
Other	2.03	0.79	1.24
Cash and receivables	3.46	0.00	3.46

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\$18.9 mn as at 28 February 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.

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