

Yarra Australian Real Assets Securities Fund

Gross returns as at 28 February 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	8.39	1.01	3.09	4.48	2.92	8.49	9.03	8.19
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index [*]	7.39	0.59	2.00	2.61	2.54	7.12	NA	NA
Excess Return [†]	1.00	0.42	1.09	1.87	0.38	1.37	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 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	7.48	0.94	2.88	3.60	2.05	7.57	8.11	7.28
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index	7.39	0.59	2.00	2.61	2.54	7.12	NA	NA
Excess Return [†]	0.09	0.35	0.88	0.99	-0.49	0.45	NA	NA
Growth Return [‡]	-8.30	0.94	1.27	-21.23	-12.20	-10.59	-4.36	-1.98
Distribution Return [‡]	15.77	0.00	1.60	24.83	14.26	18.17	12.47	9.26

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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

The custom Infrastructure, Utilities and A-REITs Accumulation Index gained +0.6% for the month, taking its 12-month return to 2.6%. The broader ASX300 returned -2.6% for the month, with recoding a similar decline (MSCI World Index, -2.4%).

Portfolio review

Key Contributors

Aurizon (AZJ, underweight) – the rail freight operator underperformed during the month after reporting weaker than expected earnings that were heavily impacted by weather related disruptions. The earnings weakness is also anticipated to carry into the second half of the financial year. The portfolio retains an underweight position reflecting the difficulties the company faces in transitioning its business model away from coal haulage, and the associated capital intensity of doing so.

AGL Energy (AGL, underweight) – the Australian energy company underperformed during the month following the release of an earnings result which was below expectations, although we suspect the weakness is largely confined to the current period. Following a tumultuous two years, AGL continues to face significant uncertainties in its outlook, the primary of which is how to protect its earnings base and fund investment in new generation assets as its highly profitable coal generation fleet is gradually retired over the next decade.

GPT Group (GPT, overweight) – our overweight in the commercial real estate REIT outperformed after delivering on expectations for FY22 and providing solid earnings guidance for FY23 against a backdrop of market scepticism following missteps in prior periods on debt management (lack of debt rate hedging) and elevated office portfolio vacancies. Despite these concerns, GPT demonstrated resilience in retail leasing (income growth +4.5%) and strong operating outcomes across logistics (+15% re-leasing spreads).

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Key Detractors

Port of Napier (NPH, overweight) – the port operator underperformed during the month following disruption to its operations from Cyclone Gabriel, although we note no major damage to the port was incurred. 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, although likely below pre COVID levels, will add high incremental margin revenues.

Ingenia Communities (INA, overweight) – the lifestyle and holiday communities operator fell following an earnings update that highlighted weaker operating conditions than first anticipated by the company. INA now assumes longer construction timeframes and slower settlements as a result of weakening residential conditions. While the balance sheet is sufficiently capitalised to support the operational weakness, the downgrade does highlight the vulnerability in the business model, and the position size has been adjusted accordingly.

Charter Hall REIT (CQE, overweight) – while the outlook is well supported by high occupancy, contracted rental growth on leases to childcare and social infrastructure tenants, the stock weakened following the news of an ACCC inquiry into the Early Learning sector. The ACCC had previously noted it would be considering labour and property costs in its assessment. While we believe the key concern will be labour costs, the news has created a headline risk to monitor over the property component of the sector in the short-term.

Key Purchases

GPT Group (GPT) – in light of our expectation of a more challenging operating outlook facing REITs this calendar year, we added to the position prior to the result to lift exposure to what is a high-quality, predominantly passive rent collecting trust. Notwithstanding sectorial downside risks to retail and office sub-sectors, we view the stock as offering an attractive risk/reward opportunity, with modest gearing (29% LVR) and trading at a material discount to last stated NTA. Indeed, the implied cap rate of 5.8% sits almost 1.0% above the current cap rate (4.9% as at 31 Dec 2022) implying a meaningful 23% fall in gross asset values, which is excessive in our view.

Hotel Property Investments (HPI) – we added to our existing position in the pub REIT over the period, attracted to the long duration and inflation linked leases in place across its portfolio. The recent move on the register – namely, 360 Capital building a material substantiated stake, adds a component of upside M&A risk to the name. REIT investors are familiar with 360 Capital's strategy and their past investment approaches in the REIT space, which at times have led or contributed to unlocking greater value from Real Estate Trusts (Irongate REIT a recent example). We see valuation as supportive, with the stock trading now at approximately 0.9 times last stated NTA and offering a cash backed dividend yield above 5.5%.

Key Sales

Mirvac Group (MGR) – we took the opportunity to trim MGR and redeploy the funds into more passively exposed names in the period. While MGR's quality office portfolio continues to

underpin the enterprise value of the Trust, we expect to see earnings sustainability concerns emerge around the commercial and residential development side of the business.

Atlas Arteria (ALX) – the portfolio's position was reduced during the month as the toll road owner is now trading closer to an enterprise value equivalent to where it was trading prior to undertaking what we regard as a value destructive acquisition of the Chicago Skyway toll road.

Key Active Overweights

GPT Group (GPT) – notwithstanding sectorial downside risks to retail and office sub-sectors, we view the stock as an attractive risk/reward opportunity, with modest gearing (29% LVR) and trading at a material discount to last stated NTA. Indeed, the implied cap rate of 5.8% sits almost 1.0% above the current cap rate (4.9% as at 31 Dec 2022) implying a meaningful 23% fall in gross asset values, which is excessive in our view.

Centuria Industrial REIT (CIP) – we view the industrial asset class as being more resilient than other sub-sectors heading into 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-base (average lease tenure 8+ years, capital city locations). Additionally, the December result revealed very strong rental growth (re-leasing spreads of +19% in the 1H23 period) which is helping to offset the rising cost of debt. Meanwhile, the stock is trading at an excessively steep discount to NTA, implying asset values decline 20% from Dec 2022 valuations.

Chorus (CNU) – the quality regulated utility trades on a 6.0% FY24 dividend yield and 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 nearly 300 bps higher regulatory return in the next regulatory period from July 2024, providing further upside to the medium-term dividend yield.

Key Active Underweights

APA Group (APA) – we remain underweight the APA 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 the assets.

Stockland (SGP) – our underweight reflects our expectation that a further recalibration is required around the residential development side of the business, which we believe will deteriorate further over the calendar year. We would reassess the stock position in this environment when default rates revert to higher levels (we forecast a shift to 10%+, from 3% today) and expectations adjust accordingly. Outside of the

residential exposure, we like the strategic direction under the stewardship of CEO Tarun Gupta, shifting the business to a capital light business model. New partnerships with large global investors such as Mitsubishi Estate Asia, in our view, validate the strategy.

Goodman (GMG) – while we continue to view the business as high quality and as a global leader in industrial properties, we see the outlook in a higher interest rate environment as one of slowing earnings growth and a reduced 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 Centuria Industrial, at this point in the cycle.

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.

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 5.8% which we expect to grow through the remainder of the decade. 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 are building our portfolio to navigate an environment ahead marked by a slowing consumer, a falling housing market and mixed business conditions. In this environment we see the need to focus our portfolio on REITs with sustainable rents, quality assets and sound balance sheets. Overall, we expect a softening of retail and office leasing conditions (67% of sector gross assets) while ongoing strength is expected across logistic and industrial markets (28% of sector assets).

From a valuation perspective, we expect some moderation in REIT NTA's as cap rates rise. Nonetheless, we see selective attractive opportunities in the space, with passive REITs trading at an average discount of -20% to last NTA. REITs offering exposure to inflation protection in leases (c25% of sector rents) we believe are also better prepared, as too those names with lower leverage and development exposure, to weather an environment of slowing transactions and moderating values from peak levels (REIT asset value still rose +0.1% in the Dec-22 half).

Top 5 holdings

	Portfolio	Benchmark	Active
Transurban	19.03	18.80	0.23
Goodman	11.58	14.65	-3.07
GPT	8.39	3.89	4.50
Origin Energy	7.25	5.95	1.30
Vicinity Centres	5.48	3.40	2.07

Key active positions

Overweights	Portfolio	Benchmark	Active
GPT	8.39	3.89	4.50
Centuria Industrial REIT	3.77	0.77	3.00
Chorus	4.09	1.44	2.65
Underweights			
APA	11.58	14.65	-3.07
Stockland	0.00	3.95	-3.95
Goodman	0.00	5.46	-5.46

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	34.52	30.28	4.24
Airport Services	1.59	0.82	0.77
Highways & Railtracks	20.12	22.39	-2.27
Communication Services	4.87	1.72	3.16
Railroads	0.00	2.63	-2.63
Marine Ports & Services	5.57	2.72	2.84
Information Technology	2.38	0.00	2.38
Utilities	7.25	13.19	-5.94
Electric Utilities	7.25	5.95	1.30
Gas Utilities	0.00	5.46	-5.46
Multi-Utilities	0.00	1.78	-1.78
Real Estate Investment Trusts (REITs)	55.40	56.53	-1.13
Specialized REITs	5.17	3.71	1.45
Diversified REITs	13.49	17.13	-3.65
Industrial REITs	15.35	15.69	-0.34
Office REITs	4.70	4.78	-0.08
Retail REITs	14.89	14.59	0.30
Other	1.82	0.63	1.19
Cash and receivables	2.83	0.00	2.83

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\$17.9 mn as at 28 February 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.

Website www.yarracm.com

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

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