

# Yarra Australian Real Assets Securities Fund

## Gross returns as at 31 January 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 <sup>^</sup> % p.a.
Yarra Australian Real Assets Securities Fund	8.97	-8.13	-1.06	13.54	7.30	8.91	9.98	8.40
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index <sup>*</sup>	7.96	-7.02	0.58	16.23	6.34	7.68	NA	NA
Excess Return <sup>†</sup>	1.01	-1.11	-1.64	-2.70	0.96	1.23	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 January 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 <sup>^</sup> % p.a.
Yarra Australian Real Assets Securities Fund	8.05	-8.20	-1.27	12.58	6.39	7.99	9.05	7.48
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index	7.96	-7.02	0.58	16.23	6.34	7.68	NA	NA
Excess Return <sup>†</sup>	0.09	-1.18	-1.85	-3.65	0.05	0.32	NA	NA
Growth Return <sup>‡</sup>	NA	NA	NA	5.57	-5.76	-8.01	-1.20	-0.71
Distribution Return <sup>‡</sup>	NA	NA	NA	7.01	12.15	16.00	10.25	8.20

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<sup>^</sup> Inception date of Yarra Australian Real Assets Securities Fund: December 2005.

<sup>\*</sup> 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.

<sup>†</sup> Excess return: The excess return figures shown represent the difference between the portfolio's return and the benchmark return.

<sup>‡</sup> 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 declined in January, modestly underperforming the wider market as high inflation spurred Federal Banks to accelerate quantitative tapering and signal earlier rate rises.

The S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Accumulation Index declined 7.0% during the month slightly more than the wider ASX300 which returned -6.5%. Globally, equities declined as US real yields rose, with the US 10-year Treasury Inflation-Protected Securities (TIPS) climbing 38 bps to -0.69% as the US Fed said it would likely start to increase interest rates in March.

Utilities (+2.6%) supported the benchmark as Infrastructure stocks were pressured by the interest rate outlook. At a stock level, multi-utility providers AGL Energy (AGL, +15.6%) and Origin Energy (ORG, +7.3%) were the top performers as they rallied alongside electricity prices, with the latter also

benefiting from higher realized LNG prices. Within Infrastructure, toll road operator Transurban (TCL, -9.9%) was the worst performer without any company-specific news.

Within REITs (-9.5%), Retail and Office REITs outperformed as COVID cases appeared to have peaked across the east coast of Australia, while Industrial and Diversified REITs underperformed. Concerns around higher yields impacted high growth fund managers in particular, with Charter Hall Group (CHC, -18.6%), Centuria Capital Group (CNI, -15.1%) and Goodman Group (GMG, -12.5%) the worst performers.

### Portfolio review

#### Key Contributors

**Charter Hall Group (CHC, underweight)** – the fund manager REIT underperformed amid concerns around higher real yields. We remain underweight the stock based on our view that AUM growth and transaction volumes – which are running at

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elevated levels – will normalise in the medium term as the cap rate compression cycle slows. As the growth rate of the business slows from impressive double-digit levels, we expect the multiple to contract, putting pressure on the share price outlook. Within the real estate fund manager space, our preferences are in Goodman Group (GMG) and Centuria Capital (CNI).

**Vicinity Centres (VCX, overweight)** – the shopping mall REIT outperformed as omicron cases across the east coast of Australia appeared to have peaked. 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. 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%.

**BWP Trust (BWP, overweight)** – the retail REIT outperformed as omicron cases across the east coast of Australia appeared to have peaked. We remain overweight as we believe BWP trades at a compelling valuation versus peers – 1.3 times 30 June 2021 NTA (based on conservative cap rates) with a 4.3% 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 Detractors

**Origin Energy (ORG, overweight)** – the energy company outperformed as oil prices increased (with Brent Crude rising 18% to US\$92/bbl), the outlook for higher electricity prices domestically and in response to a strong 2QFY22 result. LNG prices were ahead of expectations, averaging US\$11.80/mmbtu during the period, while production was solid due to planned maintenance completing ahead of schedule.

**AGL Energy (AGL, underweight)** – the energy company rallied as the electricity forward curve shifted higher in response to higher fuel costs. We remain underweight AGL. While we support the strategic logic of demerging its coal generation business from its energy retailing business, the reality is that the dis-synergies of doing so will mean that neither of the two resulting businesses have material debt capacity, suggesting additional equity may be required to support the demerger.

**Centuria Capital Group (CNI, overweight)** – the fund manager REIT underperformed amid concerns around higher real yields resulting in lower capacity to maintain FUM growth at elevated levels. Notwithstanding this potential headwind to CNI's valuation, we continue see CNI's growth platform as attractive. The 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

increases CNI's FUM to \$17bn, is accretive and diversifies the business across new markets (Retail, Agriculture). The company trades on a 12-month forward P/E of 23.2 times, which, while above peer Charter Hall Group (CHC, at 20.3 times), is justified given CNI's superior medium-term growth potential.

### Key Purchases

**Vicinity Centres (VCX)** – we increased our position in the shopping mall REIT, where we continue to see upside 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%.

**BWP Trust (BWP)** – we increased our position in the Retail REIT during the period. We believe BWP trades at a compelling valuation versus peers – 1.3 times 30 June 2021 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.

**Charter Hall Retail REIT (CQR)** – we increased our position in the shopping mall REIT during the period. In our view CQR's local neighbourhood malls will continue to benefit from the 'shop local' theme as consumers avoid large shopping mall hubs. More broadly, our investment thesis is premised on CQR's higher quality neighbourhood assets that are largely anchored by supermarkets and non-discretionary retail. As a result of its favourable tenancy mix – with 51% of total rent underpinned by major anchor tenants – we see less asset devaluation risk in FY21 and beyond compared to its mall peers. Lastly, in our view CQR's valuation (1.0 times NTA) is supportive, particularly compared to peer SCA Property (SCP) at 1.1 times NTA.

### Key Sales

**Mirvac Group (MGR)** – we reduced our holdings in the diversified REIT during the period, and now hold a modest overweight position. We are cautious towards the housing outlook as approvals retreat from elevated levels, which will impact MGR's residential division. Further, we see risk to development profits on the non-commercial side with the prospect cap rates rise. That being said, we believe these headwinds are largely factored into market expectations, with the stock now priced at a trailing NTA of 0.94 times.

**GPT Group (GPT)** – we reduced our position following recent outperformance. However, the diversified REIT remains the top overweight in the portfolio. 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 0.84 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.

**Goodman Group (GMG)** – we reduced our position in the Industrial REIT during the period to reflect the risk associated with higher real rates, but 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 26.0 times, as stretched.

### 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 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 0.84 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 – 1.3 times 30 June 2021 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.

**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%.

### Key Active Underweights

**Origin Energy (ORG)** – we remain underweight the company, which we do not believe should be classified as a Utilities company (following its inclusion in June last year). Origin is highly exposed to the oil price through its APLNG investment and wholesale electricity and gas prices through its Energy

Markets business, which we do not believe sits naturally in the Real Assets portfolio at this time.

**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.

**Scentre Group (SCG)** – 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 4.9% 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.

### Market outlook

We maintain our conviction in the Real Assets sector, underpinned by solid fundamentals supporting attractive and growing operating cash flow and dividends. The S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Accumulation Index offers a 12-month forward forecast dividend yield of 4.0%, 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 and mobility constrained property assets.

We see opportunities in high quality infrastructure companies with strong inflation protection with the portfolio benefiting from a diverse range of companies with strong revenue linkage to inflation. One example is Atlas Arteria (ALX), where we see several catalysts on the horizon for patient investors and a generous dividend yield in the meantime (+6.2%). 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 moving into CY2022. 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 into CY22 the prospect of higher interest rates to 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 3-years).

## Top 5 holdings

	Portfolio %	Benchmark %	Active %
Goodman	17.29	14.93	2.35
Transurban	17.19	14.48	2.72
Sydney Airport	8.82	8.85	-0.03
GPT	6.80	3.62	3.18
Vicinity Centres	5.23	2.39	2.84

## Key active positions

Overweights	Portfolio %	Benchmark %	Active %
GPT	6.80	3.62	3.18
BWP Trust	3.58	0.72	2.85
Vicinity Centres	5.23	2.39	2.84
Underweights			
Origin Energy	0.00	3.75	-3.75
Stockland	0.00	3.65	-3.65
Scentre	2.14	5.74	-3.60

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 %
<b>Infrastructure</b>	<b>43.37</b>	<b>33.20</b>	<b>10.17</b>
Airport Services	8.82	9.40	-0.58
Highways & Railtracks	22.40	16.84	5.55
Communication Services	4.16	2.19	1.97
Railroads	0.00	2.45	-2.45
Marine Ports & Services	5.74	2.31	3.43
Information Technology	2.25	0.00	2.25
<b>Utilities</b>	<b>1.21</b>	<b>11.68</b>	<b>-10.47</b>
Electric Utilities	0.00	5.64	-5.64
Gas Utilities	1.21	4.27	-3.06
Multi-Utilities	0.00	1.77	-1.77
<b>Real Estate Investment Trusts (REITs)</b>	<b>53.51</b>	<b>55.12</b>	<b>-1.62</b>
Specialized REITs	4.92	3.51	1.41
Diversified REITs	14.05	17.24	-3.20
Industrial REITs	17.29	15.97	1.31
Office REITs	1.73	5.18	-3.45
Retail REITs	13.52	12.45	1.08
Other	1.99	0.76	1.23
<b>Cash and receivables</b>	<b>1.91</b>	<b>0.00</b>	<b>1.91</b>

## 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 31 January 2022	
APIR code	JBW0030AU	
Estimated management cost	0.85% p.a.	
Buy/sell spread	+/- 0.15%	
Platform availability	Asgard BT Panorama	Hub24

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## Applications and contacts

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

**Website** [www.yarracm.com](http://www.yarracm.com)

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