

Yarra Australian Real Assets Securities Fund

Gross returns as at 31 July 2021

	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	9.65	2.10	6.51	19.56	9.16	5.77	10.33	8.62
S&P/ASX Custom Infrastructure, Utilities and A-REITs Index [*]	8.14	2.63	6.62	19.06	6.34	4.63	NA	NA
Excess Return [†]	1.51	-0.53	-0.11	0.50	2.82	1.15	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 July 2021

	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	8.72	2.03	6.28	18.56	8.24	4.88	9.40	7.71
S&P/ASX Custom Infrastructure, Utilities and A-REITs Index [*]	8.14	2.63	6.62	19.06	6.34	4.63	NA	NA
Excess Return [†]	0.59	-0.60	-0.34	-0.50	1.90	0.25	NA	NA
Growth Return [‡]	NA	NA	NA	10.85	-4.40	-10.82	-0.96	-0.71
Distribution Return [‡]	NA	NA	NA	7.71	12.64	15.71	10.36	8.42

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 outperformed the broader market in July as corporate action more than offset worsening COVID outbreaks across the country.

The S&P/ASX 300 Infrastructure, Utilities and A-REITs Accumulation Index returned 2.6% during the month, taking its 12-month return to 19.1%. In comparison, the broader S&P/ASX 300 Accumulation Index returned 1.1%, while overseas the S&P500 returned 2.4% amid an upbeat US corporate earnings season.

Within Infrastructure & Utilities (+5.3%), strong gains from Electric Utilities and Airport Services outweighed underperformance from Tollroads and Multi-Utilities. Corporate activity increased during the period, with Sydney Airport (SYD, +34.9%) and Spark Infrastructure (SKI, +23.8%) receiving takeover bids. The SYD board rejected the bid on the grounds that it was opportunistic and not in the best interest

of shareholders. SKI granted due diligence after receiving a third takeover bid – increased to \$2.95 per share up from \$2.80 per share previously – from a consortium comprising KKR and OTPP.

Meanwhile, Australian REITs (+0.5%) were largely flat. At a sub-industry level, strong returns from Industrial and Specialised REITs offset weakness from Retail, Office and Diversified REITs. Within Industrials, Goodman Group (GMG, +6.9%) outperformed as peers Prologis and SEGRO announced strong 1H21 results, supporting the outlook for logistics company globally amid the structural shift to online shopping, driving development activity, rents and valuations higher. Conversely, lockdown measures across the east coast of Australia, particularly in NSW, weighed on shopping mall owner Scentre Group (SCG, -5.1%), Office REITs including Dexus Property (DXS, -3.7%) and Diversified REIT GPT Group (GPT, -4.7%).

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Portfolio review

Key Contributors

Origin Energy (ORG, underweight) – the energy company underperformed in response to its fourth-quarter result. Ongoing weakness in the Energy Markets (EM) division offset a strong performance from APLNG, where distribution of \$709mn for the full year exceeded guidance. Within EM, management anticipate EBITDA of \$450-600mn in FY22 and \$600-850mn in FY23 – well below consensus forecasts – primarily as a result of higher fuel costs. ORG became a key underweight following its inclusion into the Real Assets benchmark in June 2021. We do not believe ORG should be classified as a Utilities company, particularly at a time when the enterprise value of its Energy Markets division has never been lower (amid lower wholesale electricity prices and gas margins) and while its APLNG division has benefited from stronger oil prices. We are in discussions with data providers to reverse the change to the classification.

Stockland (SGP, underweight) – the diversified REIT underperformed during the period as it announced the acquisition of Halcyon, a Queensland-based land lease operator, for \$620mn. The purchase price appears to be at a premium: on a per lot basis, the acquisition equates to \$160k compared to other similar projects which are priced at around \$100k. We remain underweight SGP due to longer-term concerns around the sustainability of current booming residential conditions driven by pandemic-related stimulus programs. Over time, SGP's valuation also 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 (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.

AGL Energy (AGL, underweight) – the energy company underperformed as delivering a bleak outlook for FY22, with lower wholesale electricity prices and higher gas costs to weigh on earnings. AGL also confirmed its plans to split its business into two ASX-listed companies. 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.

Key Detractors

Sydney Airport (SYD, underweight) – the airport operator outperformed after receiving a takeover proposal from an IFM-backed consortium. The bid, which was priced at \$8.25 per share, implies a valuation of 22 times FY19 (prior peak) EV/EBITDA, above other major historic airport transaction multiples such as Gatwick and Copenhagen (which were priced 20-21 times EV/EBITDA). The SYD board rejected the bid on the grounds that it was opportunistic and not in the best interest of shareholders. We increased our position in the airport operator during the period, now holding a portfolio

weight in line with the benchmark. While we remain negative towards SYD's near-term outlook based on a more protracted travel recovery and uncertainty around aeronautical agreements, we believe that even if the bid is not ultimately successful, valuation expectations for the asset have been adjusted up including greater awareness of the company's property assets. Subsequent to month-end SYD rejected a sweetened takeover bid of \$8.45 per share – up from \$8.25 per share previously – from a consortium of superannuation investors.

GPT Group (GPT, overweight) – the diversified REIT underperformed after withdrawing FY21 distribution and funds from operations (FFO) guidance during the month, with ongoing lockdowns in Melbourne and Sydney creating uncertainty. We remain overweight GPT, as we believe it 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.

Spark Infrastructure (SKI, underweight) – the electric utility company outperformed after receiving an upped takeover bid from a consortium comprising KKR and OTTP. The third takeover bid – increased to \$2.95 per share up from \$2.80 per share – was sufficiently attractive for SKI to grant due diligence. We remain underweight the company as we see limited upside potential following the sweetened takeover proposal, with the indicative offer equating to an enterprise value to regulated asset base (EV/RAB) of 1.45 times. Conversely, significant downside potential exists if the consortium walks away from the offer.

Key Purchases

Pexa (PXA) – we took part in the IPO of the electronic conveyancing business during the period. 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.

Sydney Airport (SYD) – we increased our position in the airport operator during the period, now holding a portfolio weight in line with the benchmark. While we remain negative towards SYD's near-term outlook based on a more protracted travel recovery and uncertainty around aeronautical agreements, we believe that even if the bid is not ultimately successful, valuation expectations for the asset have been adjusted up including greater awareness of the company's property assets. Subsequent to month-end SYD rejected a sweetened takeover bid of \$8.45 per share – up from \$8.25 per share previously – from a consortium of superannuation investors.

Key Sales

APA Group (APA) – we reduced our position in the gas pipeline operator during the period. We believe management is appropriately shifting its business model towards renewables and transmission as Australia's energy mix decarbonises. However, potential upside from the shift is reduced by the discount increasingly applied to its gas pipeline business, particularly as planned government policies accelerate the shift to zero emissions sources.

GPT Group (GPT) – we trimmed our position to fund a larger position in Sydney Airport (SYD), but the diversified REIT remains a high-conviction overweight within 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.

Scentre Group (SCG) – we further reduced our underweight position in the Retail REIT to fund a larger position in Sydney Airport (SYD) during the period. Our underweight position is predicated on SCG's challenged balance sheet on a longer-term view, as asset values continue to shift 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 5.8% 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.

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.

Atlas Arteria (ALX) – we maintain a high-conviction overweight position based on ALX's strong liquidity and balance sheet position, discounted valuation and exposure to traffic recovery in Europe and the US. ALX on less than 11.0 times normalised EV/EBITDA, which more than captures the disruption from COVID-19 as travel restrictions and lockdowns reduce traffic volumes in the short term. Beyond traffic normalisation, we see a path towards value creation for ALX through concession extensions at APRR achieved as a means of funding expansion projects and settling the Dulles Greenway tolling regime.

Mirvac Group (MGR) – our investment thesis is premised on several factors. Firstly, we expect active residential development earnings (~17% of expected earnings in FY21) to rebound strongly in FY22 and FY23, driven by improved lot volumes. Secondly, we view MGR's office portfolio (61% of its passive portfolio) as best-in-class in the A-REIT sector. Weighted average lease expiries (WALEs) are at 6.5 years, significantly longer than peers such as GPT Group (GPT) at 5.5 years and Dexus Property (DXS) at 4.5 years. Lastly, we do not believe its strong overall growth profile (~10% EPS growth in FY22 and FY23) is captured in its current valuation, trading at 1.11 times trailing NTA.

Key Active Underweights

Stockland (SGP) – our underweight position is premised on long-term concerns about SGP's asset values beyond COVID19 and 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 (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.

Charter Hall Group (CHC) – we remain underweight the stock based on our view that AUM growth and transaction volumes – which are running at 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).

Scentre Group (SCG) – our underweight position is predicated on SCG's challenged balance sheet on a longer-term view, as asset values continue to shift 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 5.8% 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 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 4.0%, a compelling 2.9% premium above the 10-year Australian bond rate.

Within Infrastructure, we believe that in the long-run strong fundamentals and attractive growth opportunities should continue to support the likes of Transurban (TCL) and Atlas Arteria (ALX). In the nearer term we expect toll roads to be at

the forefront of the post COVID-19 recovery as activity amongst patronage-based infrastructure assets rebounds. We remain cautious towards infrastructure providers with exposure to cyclical end markets such as AGL Energy (AGL) with a strong preference within Utilities for APA Group where we see substantial scope for operating cash flow growth and higher dividends over the medium term.

Within A-REITs, we maintain a strong preference to being exposed to high quality asset owners with strong balance sheets at more attractive valuations such as GPT Group (GPT). We believe the structural headwinds facing shopping mall owners are likely to persist – changing consumer preferences are directing an increasing proportion of retail sales away from malls to online – and we continue to maintain a highly selective approach across the sector. This includes steering towards resilient sectors with attractive long-term leases (10-years+) and high quality tenants. Notwithstanding the recent and ongoing lockdowns in Victoria and NSW, we expect the temporary disruption in earnings and dividends for the REIT sector will recover once re-opening returns, albeit non-uniformly across landlords. From a stability perspective, REITs in our view are well supported by robust balance sheets (average gearing levels around 25% net debt / total assets), solid levels of liquidity and strong in-place occupancy levels.

Sector allocation

	Portfolio %	Benchmark %	Active %
Infrastructure	38.58	33.41	5.16
Airport Services	8.19	8.77	-0.58
Highways & Railtracks	22.35	17.56	4.78
Communication Services	0.00	1.93	-1.93
Railroads	0.00	2.76	-2.76
Marine Ports & Services	5.74	2.39	3.35
Information Technology	2.30	0.00	2.30
Utilities	6.56	12.11	-5.55
Electric Utilities	0.00	5.99	-5.99
Gas Utilities	6.56	4.37	2.19
Multi-Utilities	0.00	1.75	-1.75
Real Estate Investment Trusts (REITs)	52.64	54.48	-1.84
Specialized REITs	5.47	2.75	2.72
Diversified REITs	16.96	17.87	-0.91
Industrial REITs	16.78	15.68	1.10
Office REITs	1.71	5.53	-3.82
Retail REITs	10.04	11.51	-1.46
Other	1.67	1.14	0.53
Cash and receivables	2.22	0.00	2.22

Top 5 holdings

	Portfolio %	Benchmark %	Active %
Goodman	16.78	14.80	1.98
Transurban	16.76	15.23	1.53
Sydney Airport	8.19	8.20	-0.01
GPT	7.38	3.50	3.88
Mirvac	6.91	4.38	2.53

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
GPT	7.38	3.50	3.88
Atlas Arteria	5.59	2.34	3.25
Mirvac	6.91	4.38	2.53
Underweights			
Stockland	0.00	4.08	-4.08
Charter Hall	0.00	2.95	-2.95
Scentre	2.35	5.25	-2.90

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.

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\$21.5 mn as at 31 July 2021	
APIR code	JBW0030AU	
Estimated management cost	0.85% p.a.	
Buy/sell spread	+/- 0.15%	
Platform availability	Asgard BT Panorama BT Wrap Hub24 IOOF Pursuit Select Macquarie Wrap Consolidator	OneVue PowerWrap SmartWrap

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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