

Yarra Australian Real Assets Securities Fund

Gross returns as at 31 July 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 ^A % p.a.
Yarra Australian Real Assets Securities Fund	8.17	2.43	0.86	3.77	9.03	7.12	8.85	8.10
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index*	7.27	2.87	1.72	3.23	9.40	5.75	NA	NA
Excess Return [†]	0.90	-0.43	-0.87	0.54	-0.37	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 31 July 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 ^A % p.a.
Yarra Australian Real Assets Securities Fund	7.26	2.36	0.64	2.89	8.12	6.21	7.93	7.19
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index	7.27	2.87	1.72	3.23	9.40	5.75	NA	NA
Excess Return [†]	-0.01	-0.51	-1.08	-0.33	-1.29	0.47	NA	NA
Growth Return [‡]	-8.87	2.36	-8.81	-8.23	-6.88	-8.64	-5.32	-2.41
Distribution Return [‡]	16.13	0.00	9.46	11.12	15.00	14.86	13.25	9.59

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.

^A 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 S&P/ASX 200 Property Accumulation Index performed strongly in July, rising by +3.8% and outperforming the S&P/ASX 200 which returned +2.9%. This monthly performance takes A-REIT CYTD S&P/ASX 200 Property Accumulation Index performance to +7.9%, slightly ahead of the broader S&P/ASX 200 CYTD return of +7.4%.

At a macro level, inflation data in both the US and Australia come in below expectations, supporting the case that interest rates may be close to the peak. The 10-year Australian long bond barely changed over the month, closing at 4.06%.

In company specific news, updates released over the month from companies including Centuria Industrial (CIP) and Waypoint REIT (WPR) further support the case of only modest declines for specialty asset types (0.9-2.1% decline in asset values reflected). As anticipated, Abacus (ABP) shareholders approved its proposed de-stapling into an office focused REIT

(Abacus Group, ABP) and a storage focused REIT (Abacus Storage, ASK). Retail REITs led the best performing REITs in the period, with Vicinity (VCX, +7.0%) and Region (RGN, +6.6%) included in the top-three, along with fund manager Charter Hall (CHC, +6.7%). Laggards in the month included National Storage REIT (NSR, -1.3%), childcare owner Arena REIT (ARF, +1.1%) and Bunnings Trust (BWP, +1.1%).

Portfolio review

Key Contributors

Aurizon (AZJ, underweight) – the rail freight operator underperformed after releasing a trading update at its investor day which saw earnings expectations lowered by 4% for FY23 and 5% for FY24. Aurizon faces difficulties in transitioning its business model away from coal haulage and we remain concerned that a move back into intermodal haulage will fail to generate sustainable long-term returns on capital.

AVAILABLE TO AUSTRALIAN RESIDENT INVESTORS ONLY

Vicinity (VCX, overweight) – Australia's second largest shopping centre owner outperformed during the month despite no major news flow during the period. At a macro level, lower-than-expected inflation reported in the month suggests a peaking of the interest rate cycle, with positive follow-on implications for the Retail sub-sector. Our overweight position continues to be supported by VCX's asset mix, with over half its asset base exposed to more advantaged segments of retailing (i.e. luxury, DFO outlets and recovering CBD centres), more resilient in-place leases with high occupancy and fewer holdovers. Further, VCX has a strong balance sheet (gearing 25.7% as at Dec-2022) and attractive valuation, with the stock trading at 0.80-times net asset backing and offering a dividend yield above 6%.

Dexus Industrial REIT (DXI, overweight) – the industrial owner outperformed during the period despite no major news flow. That said, industry data continues to be supportive for the industrial and logistics outlook, which makes up 90%+ of DXI's asset base. In our view, DXI has an appealing mix of industrial assets at this point in the cycle and is well-placed to capture upward market rents upon lease expiry into what remain tight industrial markets. Importantly, DXI's balance sheet has recently been enhanced through proactive asset sales at values close to book value, setting the trust up well to navigate the period ahead. The valuation is attractive, with the stock trading at 0.80-times net asset backing and offering a dividend yield above 5.5%.

Key Detractors

AGL Energy (AGL, underweight) – the electricity generator and energy retailer outperformed during the period as the market became increasingly comfortable with its near-term earnings outlook, supported by higher wholesale electricity prices. The improved earnings power of the business – confirmed by the company during June with its release of FY23 and FY24 earnings upgrades – will assist AGL in funding its capital-intensive transition away from its high margin, carbon intensive electricity coal generation portfolio.

Port of Napier (NPH, overweight) – the port owner and operator underperformed during the period despite the positive reintroduction of earnings guidance for the full year. FY23 has been heavily impacted by Cyclone Gabrielle in February, however we view this event as being one-off in nature and expect to see a strong earnings recovery in FY24.

Hotel Property Investments (HPI, overweight) – the hotel-owning REIT underperformed over the period, with limited company news flow. HPI has attractive leases in-place across its pub assets – with a 10.3 year weighted average lease tenure, 71% of leases referenced to inflation and with its largest tenant being QVC, a Coles joint venture. We expect these assets to perform well through the environment ahead, and the stock remains undervalued in our view (-16% below last stated net asset value, offering a 5.5% dividend yield).

Key purchases

Stockland (SGP) – we initiated a position in Australia's largest residential land developer based on a view of the company's capacity to benefit following a peaking of interest rates, quality

land assets in key growth corridors across Australia and well-funded financial position. The valuation is supportive, with the stock offering a 6% dividend yield and trading below net asset backing.

APA Group (APA) – we initiated a position in the gas transmission pipeline owner during the period. As the pace of renewable electricity generation additions slows due to capacity constraints on the system, we have increased our conviction in the medium-to-long-term role for gas as a transmission fuel in Australia. At the same time, we view APA as being uniquely placed to participate in Australia's energy transition as it moves more deeply into electricity transmission.

Region (RGN) – we initiated a position in the suburban shopping mall REIT in the period. We believe RGN's retail asset base, which comprises 96 predominantly neighbourhood shopping centres, will prove to be more resilient than expectations during the consumer downturn. This is supported by RGN's high skew to supermarket/anchor tenant income (46% total Net Operating Income), affordable specialty rents (8.7% average occupancy cost) and high overall portfolio occupancy (98%). The stock valuation is attractive, at 0.86-times net asset backing and offering a dividend yield above 6%.

Key sales

Ingenia (INA) – we reduced our position in Ingenia, a leading player in land-lease communities, with a preference for Stockland for residential exposure. We believe the operating environment (new unit sales) for Ingenia will remain challenged for some time as buyer constraints persist, pressuring earnings and the company's funding position.

Atlas Arteria (ALX) – we exited the toll road owner during the period. The stock is trading close to an enterprise value equivalent to where it was trading before undertaking its value destructive acquisition of the Chicago Skyway toll road. In recent months, the outlook for all three of ALX's major assets has deteriorated leading to a permanent downgrade in our view of portfolio quality. We now believe that ALX's major asset – the APRR concession – will ultimately go through a re-tender process and that the restructure of Dulles Greenway will require considerable additional equity (instead of releasing equity).

Mirvac (MGR) – we took the opportunity to trim our position in Mirvac, using the funds to increase the size of our Stockland position as our preferred residentially-exposed REIT. While MGR's quality office portfolio continues to underpin the enterprise value of the Trust, we expect to see earnings sustainability concerns around this part of the business considering challenging ongoing operating conditions (higher vacancy levels, lower rental growth). Additionally, we are of the view MGR's funding position has deteriorated as asset sales become more difficult to execute and note that its development pipeline remains capital intensive.

Key Active Overweights

GPT Group (GPT) – our overweight position in the diversified commercial real estate owning A-REIT is predicated on its high asset quality (A-grade, prime assets) mix diversification (retail, industrial, office), robust balance sheet (<30% geared) and undemanding stock valuation. Notwithstanding our expectation of sectorial downside risks to Retail and Office sub-sectors over CY23, we view the stock as offering an attractive risk reward, trading at a material discount to last stated NTA and offering an attractive dividend yield above 6%.

Chorus (CNU) – the high-quality regulated telecommunications utility trades on a 5.8% 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 300bp 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 remain overweight the domestically focused Industrial REIT. We view the industrial asset class as being more resilient than other sub-sectors as we progress through CY23 into CY24. Additionally, the March-quarter trading update revealed very strong rental growth (releasing spreads of +28% for the nine months to March-2023) which is helping to offset the rising cost of debt in the Trust. Meanwhile, the stock trades at an excessively steep discount to NTA, implying asset values will decline in excess of 15% from Dec-2022 valuations.

Key Active Underweights

Atlas Arteria (ALX) – we are underweight the toll road following the outlook for all three of ALX's major assets having deteriorated in recent months, leading to what we regard as a permanent downgrade of portfolio quality. We now believe that ALX's major asset – the APRR concession – will ultimately go through a re-tender process and that the restructure of Dulles Greenway will require considerable additional equity (instead of releasing equity).

Mirvac (MGR) – while MGR's quality office portfolio continues to underpin the enterprise value of the Trust, we expect to see earnings sustainability concerns in light of challenging ongoing operating conditions for the Office sector (higher vacancy levels, lower rental growth). Additionally, we are of the view that MGR's funding position has deteriorated as asset sales become more difficult to execute, while its development pipeline remains capital intensive. Our preference for residential exposure in the portfolio is Stockland, with its higher exposure to resilient retail and a diversified land development businesses and with opportunity to grow market share through-the-cycle.

AGL Energy (AGL) – despite the short-term earnings outlook for AGL having improved as a result of higher short-term wholesale electricity prices and the company now having a clear long-term plan to transition away from carbon intensive coal generation, we remain unconvinced on AGL's ability to

preserve its earnings base and returns on capital through this difficult transition.

Market outlook

We continue to see a mixed outlook across the A-REIT sector for CY23. At a macro level, expectations that we have likely seen a peaking of interest rates – and the prospect for lower rates into 2024 – provides a more supportive backdrop for investors to value both physical real estate and REIT distributions. Property types, however, are unlikely to fare evenly.

Positively, we see industrial and specialised-asset fundamentals (26% and 7% of sector assets respectively) as being favourable, as ongoing occupier demand outstrips supply supporting significant real rental growth. Office and Retail sub-sectors (21% and 46% of sector assets respectively) face more challenged conditions in our view; the work-from-home dynamic continues to constrain office leasing demand and retailers face moderating conditions as higher interest rates curtail consumer spending. Pleasingly in the current environment, a number of A-REITs have rents linked to CPI increases, providing an effective hedge to increasing inflation.

Following broadly flat A-REIT valuations in the Dec-2022 half, we have now seen asset values fall -4.0% in the six months to June-2023 across those REITs that have provided valuation updates. We view this as supportive for the sector overall, with passive A-REITs continuing to trade in excess of 20% discounts to last NTA. In this environment, we believe there is a heightened importance to maintain portfolio exposures to A-REITs with sustainable balance sheets that can navigate the period to come, while continuing to generate attractive cash-backed dividends for investors.

Top 5 holdings

	Portfolio	Benchmark	Active
Transurban	20.98	18.92	2.06
Goodman	12.15	15.06	-2.90
GPT	7.84	3.56	4.28
Origin Energy	6.32	6.25	0.07
Stockland	5.66	4.31	1.34

Key active positions

Overweights	Portfolio	Benchmark	Active
GPT	7.84	3.56	4.28
Chorus	5.18	1.49	3.68
Centuria Industrial REIT	3.98	0.74	3.25
Underweights			
Atlas Arteria	0.00	3.28	-3.28
Mirvac	0.76	3.95	-3.20
AGL Energy	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	32.87	30.25	2.61
Airport Services	1.56	0.79	0.77
Highways & Railtracks	20.98	22.20	-1.22
Communication Services	5.18	1.74	3.44
Railroads	0.00	3.00	-3.00
Marine Ports & Services	3.05	2.52	0.53
Information Technology	2.10	0.00	2.10
Utilities	8.82	14.43	-5.61
Electric Utilities	6.32	6.25	0.07
Gas Utilities	2.51	5.05	-2.55
Multi-Utilities	0.00	3.13	-3.13
Real Estate Investment Trusts (REITs)	56.34	55.32	1.02
Specialized REITs	4.66	3.55	1.11
Diversified REITs	14.26	16.62	-2.36
Industrial REITs	18.00	16.04	1.96
Office REITs	2.98	4.53	-1.55
Retail REITs	16.44	13.93	2.51
Other	0.00	0.64	-0.64
Cash and receivables	1.97	0.00	1.97

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\$15.9 mn as at 31 July 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

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.