

# Yarra Australian Real Assets Securities Fund

## Gross returns as at 31 May 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 <sup>^</sup> % p.a.
Yarra Australian Real Assets Securities Fund	8.62	-0.38	8.01	11.08	7.63	6.21	9.16	8.25
S&P/ASX Custom Infrastructure, Utilities and A-REITs Index <sup>*</sup>	7.03	-0.50	7.73	9.23	4.94	5.07	NA	NA
Excess Return <sup>†</sup>	1.59	0.12	0.28	1.85	2.69	1.14	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 May 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 <sup>^</sup> % p.a.
Yarra Australian Real Assets Securities Fund	7.70	-0.46	7.78	10.14	6.73	5.31	8.24	7.34
S&P/ASX Custom Infrastructure, Utilities and A-REITs Index <sup>*</sup>	7.03	-0.50	7.73	9.23	4.94	5.07	NA	NA
Excess Return <sup>†</sup>	0.67	0.05	0.05	0.91	1.79	0.24	NA	NA
Growth Return <sup>‡</sup>	NA	NA	NA	-1.65	-12.23	-9.74	-1.61	-0.78
Distribution Return <sup>‡</sup>	NA	NA	NA	11.79	18.96	15.06	9.85	8.11

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.

<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 modestly in May as declines from Utilities stocks more than offset gains from REITs.

The S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Accumulation Index fell -0.5% for the month, taking its 12-month return to 9.2%. In comparison, the broader S&P/ASX 300 Index returned 2.3% for the month, supported by the major banks on the back of the federal government's big spending federal budget – with \$96bn of stimulus announced over 5 years – and Australia's strengthening housing market.

Within Infrastructure and Utilities (-3.3%) stocks, losses were led by utilities company AGL Energy (AGL, -9.1%) amid ongoing lower wholesale electricity prices, and gas pipeline operator APA Group (APA, -8.0%) despite reiterating FY21 EBITDA guidance and outlining its growth outlook at its Investor Day, including by shifting the business to renewables and transmission. Elsewhere, Sydney Airport (SYD, -5.2%) declined

after the government pushed out the opening of international borders to mid-2022.

Australian REITs (+1.8%) provided an offset as corporate activity remained robust during the month, including 45 direct commercial transactions amounting to \$3.4bn and reflecting an average yield of 5.6%. Most notably, Charter Hall Long WALE REIT (CLW) acquired five assets for \$415mn on a yield of 5.2%. At a sub-industry level, Industrial and Office REITs outperformed while Retail and Diversified REITs underperformed. At a stock level, Unibail-Rodamco-Westfield (URW, +7.2%) was the top performer after completing a €1.25bn two-tranche senior bond offering, lowering the group's cost of debt and extending its maturity. Elsewhere, Ingenia Communities Group (INA, +5.7%) rose in value after acquiring a Queensland development site and a portfolio of five holiday parks. Conversely, Vicinity Centres (VCX, -1.6%) underperformed in response to Victoria – where the shopping mall REIT has more than >50% exposure across its asset base

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– entering a “circuit-breaker” lockdown following a new COVID-19 outbreak.

## Portfolio review

### Key Contributors

**AGL Energy (AGL, underweight)** – the utilities company underperformed amid lower wholesale electricity prices and continued uncertainty following the surprise resignation of its chief executive in the previous month. We remain underweight AGL. Whilst 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 will be required to support the demerger.

**Mirvac Group (MGR, overweight)** – the diversified REIT outperformed amid continued strong housing data, including apartment auction clearance rates improving from 60% in late 2020 to 75%. We remain overweight the diversified REIT. Our investment thesis is premised on several factors. Firstly, we expect active residential development earnings (~17% of expected earnings in FY21) to rebound in FY22 and FY23, driven by improved lot volumes and positive product mix. 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 a modest 1.13 times trailing NTA.

**Hotel Property Investments (HPI, overweight)** – the pub owner outperformed during the period after acquiring six pubs for \$32.7mn on a weighted average yield of 7.75%. The pubs, which are debt funded and are 4% EPS accretive, are part of a partnership between HPI and Australian Venue Company (AVC) where HPI purchases the property and AVC operates the pubs on long-term leases (in this case 20 years). The acquisitions supported our investment thesis, which is centred around HPI as the owner of large scale hotel venues with a tenant (AVC) that is a specialist in operating successful venues (and on an 11-year weighted average lease expiry). HPI’s dividend – which currently offers a 6.5% forecast yield – is expected to grow at 4% p.a. over the next two years with low risk.

### Key Detractors

**APA Group (APA, overweight)** – the gas pipeline operator underperformed during the period despite reiterating FY21 EBITDA guidance and outlining its growth outlook at its Investor Day, including by shifting the business to renewables and transmission. Our overweight position is based on our view that APA’s valuation – at an EV/EBITDA of 12.6 times and with a 5.3% forecast dividend yield – is attractive when considering its exposure to increasingly important gas markets and dominant market share position. In the medium term, we see dividend upside driven by lower funding costs,

scope for a higher payout ratio and a conservative balance sheet position.

**Port of Napier (NPH-NZ, overweight)** – the port operator underperformed following its 1H21 result before rallying subsequent to month end. The result itself was solid, with EBITDA and NPAT slightly down y/y as strong log volumes offsetting the loss of Cruise revenue, with container volumes flat. Further, management retained its FY21 EBITDA guidance at \$39-42mn after upgrading it from \$34-38mn in the prior month. We remain overweight the company. We find NPH’s valuation appealing (at 17.1 times 12-month forward EV/EBITDA) given the company controls a high-quality asset with strong earnings visibility on volumes in the long term. To accommodate future growth, NPZ is investing NZ\$180mn to build a sixth wharf at the port.

**NEXTDC (NXT, overweight)** – the data centre operator underperformed without any material news during the period. We continue to believe NXT is structurally set to benefit from increasing adoption of cloud technology, and is accelerating its expansion to meet client demands by building new data centres which will support significant medium to longer term earnings growth. Though the stock appears expensive at a headline 36.4 times 12-months forward EV/EBITDA multiple, we see it supported by a strong balance sheet (net cash) and annuity-style revenue growth (+20% p.a.).

### Key Purchases

**Goodman Group (GMG)** – we increased our holdings in the industrial REIT during the period, and now hold an overweight position. We believe GMG can deliver strong earnings growth in FY21 (double-digit EPS growth) 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 24.7 times, as stretched.

**Centuria Capital Group (CNI)** – we increased our position in the REIT fund manager during the period. We see CNI’s growth platform as attractive in a post-COVID-19 world. The company currently manages close to \$10bn in funds across a diversified portfolio, underpinned by \$4.5bn in listed investment vehicles (CIP and COF). We hold a positive view of its recently announced merger with Primewest Group (PWG) which, if successful, increases CNI’s FUM to \$15bn, is up to 4% accretive and diversifies the business across new markets (Retail, Agriculture). The company trades on a 12-month forward P/E of 21.3 times, which is in line with peer Charter Hall Group (CHC, at 20.5 times) despite superior growth potential.

### Key Sales

**Mirvac (MGR)** – we reduced our position following recent outperformance but remain overweight the diversified REIT. Our investment thesis is premised on several factors. Firstly, we expect active residential development earnings (~17% of expected earnings in FY21) to rebound 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 1.13 times trailing NTA.

**Vicinity Centres (VCX)** – we trimmed our exposure to fund more compelling opportunities elsewhere but remain overweight the shopping mall owner. While we continue to believe that shopping mall REITs face accelerated structural issues, we now believe this is well understood with VCX trading at 0.70 times trailing NTA. Due to its large exposure to Victoria (53% NTA), we expect short-term support as the state eases lockdown restrictions. 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%.

**Hotel Property Investments (HPI)** – we trimmed our position following recent outperformance but remain overweight the pub owner. We are confident in the leasing outlook for its properties as COVID-related restrictions are eased across Australia. More broadly, we remain attracted to HPI as the owner of large scale hotel venues and with a tenant (AVC) that is a specialist in operating successful venues. HPI's dividend – which currently offers a 6.5% forecast yield – is expected to grow at 4% p.a. over the next two years with low risk.

### 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 0.83 times trailing NTA, which implies a 13% fall in gross asset values – a more significant fall than our base expectations as a result of the COVID-19 crisis.

**APA Group (APA)** – our overweight position is based on our view that APA's valuation – at an EV/EBITDA of 12.6 times and with a 5.3% forecast dividend yield – is attractive when considering its exposure to increasingly important gas markets and dominant market share position. In the medium term, we see dividend upside driven by lower funding costs, scope for a higher payout ratio and a conservative balance sheet position.

**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.

### 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 (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 unsustainable balance sheet on a longer-term view, as asset values continue to shift lower. While headline gearing fell from 38% to 27.7% during the period as a result of the company issuing hybrid securities, we expect 5-10% further devaluations in the next 6 to 18 months. 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 5.3% 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 valuations and, in the former, an exposure to a recovering, Victorian-skewed portfolio.

**Dexus Property (DXS)** – our underweight position is premised on the belief that the downside risks from COVID-19 are not yet fully reflected in its valuation, trading at 0.96 times trailing NTA. DXS 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 the increasing acceptance of remote working. Additionally, we are now incrementally more negative in our expectations for the Sydney and Melbourne office markets as expected demand for back-fill space reduces over CY20-21, presenting higher vacancy and rental risk.

## 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 2.6% 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, steering away from owners of malls lacking strong competition barriers and steering towards resilient sectors with attractive long-term leases (10-years+) and high quality tenants. We approach the next 12-month period with optimism for a strong recovery in earnings and dividends for the REIT sector, as REITs rebound from pockets of elevated COVID-19 disruption, into an improving Australian economy (we expect GDP of 6.0% CY21). This outlook is further 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 %
<b>Infrastructure</b>	<b>35.73</b>	<b>33.48</b>	<b>2.26</b>
Airport Services	5.07	7.32	-2.25
Highways & Railtracks	23.73	18.66	5.08
Communication Services	0.00	1.98	-1.98
Railroads	0.00	2.85	-2.85
Marine Ports & Services	5.42	2.67	2.75
Information Technology	1.51	0.00	1.51
<b>Utilities</b>	<b>8.52</b>	<b>9.78</b>	<b>-1.25</b>
Electric Utilities	0.00	3.00	-3.00
Gas Utilities	8.52	4.63	3.90
Multi-Utilities	0.00	2.15	-2.15
<b>Real Estate Investment Trusts (REITs)</b>	<b>55.26</b>	<b>56.75</b>	<b>-1.49</b>
Specialized REITs	5.89	2.78	3.12
Diversified REITs	18.88	19.07	-0.18
Industrial REITs	15.50	14.80	0.70
Office REITs	1.88	6.15	-4.27
Retail REITs	11.15	12.76	-1.62
Other	1.96	1.20	0.76
<b>Cash and receivables</b>	<b>0.48</b>	<b>0.00</b>	<b>0.48</b>

## Top 5 holdings

	Portfolio %	Benchmark %	Active %
Transurban	17.83	16.15	1.68
Goodman	15.50	13.88	1.61
APA	8.52	4.63	3.90
GPT	8.16	3.81	4.36
Mirvac	7.87	4.67	3.20

## Key active positions

<b>Overweights</b>	Portfolio %	Benchmark %	Active %
GPT	8.16	3.81	4.36
APA	8.52	4.63	3.90
Atlas Arteria	5.91	2.51	3.40
<b>Underweights</b>			
Stockland	0.00	4.74	-4.74
Scentre	2.84	6.00	-3.15
Dexus	1.88	4.81	-2.93

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\$23.8 mn as at 31 May 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

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## Applications and contacts

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

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