

Yarra Australian Real Assets Securities Fund

Gross returns as at 31 May 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	8.02	-1.46	-0.51	3.68	7.95	7.14	8.40	8.04
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index [*]	7.02	-1.20	-0.77	0.50	7.73	5.75	N/A	N/A
Excess Return [†]	1.00	-0.27	0.25	3.17	0.22	1.39	N/A	N/A

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 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	7.11	-1.54	-0.73	2.80	7.04	6.24	7.48	7.13
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index	7.02	-1.20	-0.77	0.50	7.73	5.75	N/A	N/A
Excess Return [†]	0.09	-0.34	0.04	2.30	-0.69	0.49	N/A	N/A
Growth Return [‡]	-8.12	-1.54	-0.73	-21.83	-7.92	-11.70	-4.92	-2.00
Distribution Return [‡]	15.23	0.00	0.00	24.63	14.95	17.94	12.40	9.12

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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

Australian Real Assets fell in May 2023 in the face of tougher macro data-points, including a surprise RBA interest rate hike of a further 25 bps to 3.85%. Additionally, the important 10-year bond rate rose 27 bps to close in May at 3.61%. Overall, the S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Accumulation Index fell 1.2% during the month, taking its CYTD return to 5.5%.

Within the A-REIT sector (55% of the real assets benchmark), property fund managers including HMC Capital (HMC, +12.2%) and Centuria (CNI, +4.4%) outperformed, as too a number of the office-exposed REITs such as Dexus (DXS, +5.5%). The sector was supported by a solid set of quarterly updates, with office metrics performing ahead of expectations in light of ongoing negative sentiment around the office sector. Whereas large cap mall landlords such as Scentre Group (SCG, -5.9%) and Vicinity (VCX, -11.7%) underperformed as investor concern

grew around expected weaker domestic consumer environment following ongoing RBA cash rate increases.

Australian Infrastructure and Utilities stocks (45% of the real asset benchmark) generated mixed outcomes over the month, with Utilities strongest (+1.1%) supported by strength in AGL Energy (AGL, +13.1%) as it progresses its energy mix transformation plan, and Infrastructure (-1.1%) moderating in light of the higher yield environment.

Portfolio review

Key Contributors

HMC Capital (HMC, overweight) – the diversified real estate fund manager outperformed in the period following the recent acquisition – and associated equity raise – of a portfolio of 11 Healthscope anchored healthcare assets. We like the outlook for the real estate asset mix underpinning HMC's funds-growth (i.e. hospitals, large-format retail), the operational leverage –

the business is expected to approach \$10bn of funds under management by the end of CY23 – and the attractive relative valuation compared to peer real estate funds management groups including Charter Hall and Centuria.

NEXTDC (NXT, overweight) – following the announcement of its largest ever individual contract in the previous month, the data centre provider continued to outperform as the market's conviction in Artificial Intelligence (AI) applications as a driver of demand growth grew. Most notably, global leading specialist chip maker Nvidia's commentary around AI driven demand growth supported previous comments made by NXT management.

Stockland (SGP, underweight) – Australia's largest land subdivision business, that typically sells approximately 6,000 land lots annually, underperformed over the period following the surprise decision by the RBA to lift official cash rate by 25 bps to 3.85%. Notwithstanding the recent pull-back, the stock continues to imply an improvement in residential conditions in CY24, supported by the prospect of the RBA cutting interest rates. With ongoing elevated shorter-term residential earnings risk, and the stock trading on fuller valuation metrics of 1.02-times net asset backing and offering a 5.9% dividend yield, we retain an underweight position. We maintain a preference for peer Mirvac insofar as residential exposure is concerned.

Key Detractors

AGL Energy (AGL, underweight) – electricity generator and energy retailer outperformed during the month as the market became increasingly comfortable with its near-term earnings outlook, supported by higher wholesale electricity costs. The improved earnings power of the business will assist AGL in funding its capital-intensive transition away from its high margin carbon intensive electricity generation.

Vicinity (VCX, overweight) – our overweight in the domestic owning shopping mall REIT detracted from performance in May. While the company is tracking well in this second half of FY23 (as per March-quarter trading update), the share price has more recently come under some pressure following increased retailer outlook concerns. This follows the weakening consumer outlook, following recent RBA cash rate hikes to 3.85%, which we expect will continue to pressure the consumer wallet. We believe these concerns are factored into the share price, trading at 0.83 times net asset backing, offering 6.2% dividend yield.

GPT Group (GPT, overweight) – our overweight position in the diversified commercial real estate owning A-REIT was a detractor, most likely attributed to the company's exposure to the retail and office sub-sectors, both of which are facing pressures. Notwithstanding our expectation of sectorial downside risks to retail and office sub-sectors over CY23, we view the stock as offering attractive risk reward with appropriate gearing (29% LVR) and trading now at a material -29% discount to last stated net asset backing and offering an attractive 6.0% dividend yield.

Key Purchases

NEXTDC (NXT) – following the announcement of its largest ever individual contract the previous month, the data centre provider continued to outperform as the market's conviction in Artificial Intelligence (AI) applications as a driver of demand growth grew. Most notably, global leading specialist chip maker Nvidia's commentary around AI driven demand growth supported previous comments made by NXT management.

Key Sales

PEXA (PXA) – we exited PXA during the month. Whilst we remain attracted to PXA's core Australian property settlements platform, much of the upside in the stock rests with the success of its UK startup, which we do not see as an appropriate fit for this investment strategy.

Key Active Overweights

GPT Group (GPT) – our overweight in the diversified commercial real estate owning A-REIT is predicated on asset quality (A-grade, prime assets), diversified asset mix (retail, industrial, office), robust balance sheet and undemanding stock valuation. Notwithstanding our expectation of sectorial downside risks to retail and office sub-sectors over CY23, we view the stock as attractive risk reward with appropriate gearing (29% LVR) and trading at a material discount to last stated net asset backing and offering an attractive 6.0% dividend yield.

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 owning REIT. We view the industrial asset class as more resilient than other sub-sectors as we progress through 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-asset base (average lease tenure 8+ years, capital city locations). Additionally, the March-quarter trading update revealed very strong rental growth (re-leasing spreads of +28% for the 9-months to March-23) which is helping to offset the rising cost of debt in the Trust. Meanwhile, the stock is trading at an excessively steep discount to NTA, implying asset values will decline in excess of 15% from Dec 2022 valuations.

Key Active Underweights

APA Group (APA) – we remain underweight the energy pipeline company 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 its assets.

Stockland (SGP) – we are underweight Australia’s largest land subdivider, reflecting our expectations of the need for a recalibration of operating outcomes from the residential development side of the business (likely in FY24). We would reassess the stock position in this environment, when default rates revert to higher levels (we expect they’ll shift to around 10%, from 3% today) and expectations recalibrate accordingly. Outside of the residential exposure, we like the strategic direction under the stewardship of CEO Tarun Gupta, shifting the SGP business model to become more capital light. New partnerships with large global investors such as Mitsubishi Estate Asia, in our mind, validate the strategy.

Aurizon (AZJ) - The portfolio retains an underweight position in Aurizon due to the difficulties it faces and lack of genuine progress in transitioning its business model away from coal haulage. For a long-dated infrastructure business its fossil fuel exposure will affect the tenor and cost of long-term financing. Given the risk profile we see better opportunities elsewhere given AZJ’s relatively tight 5.7% forward dividend yield.

Market outlook

We continue to see a mixed outlook across the A-REIT sector for CY2023. At a macro level, expectations that we have likely seen a peaking of interest rates in 2023 with 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 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, as the work-from-home dynamic continues to constrain office leasing demand, and retailers face moderating conditions as higher interest rates impact consumer spending. Pleasingly in the current environment, a number of the REITs have rents linked to CPI increases, providing an effective hedge to increasing inflation.

Persistently low transitional evidence supports our view of downside valuation risk to physical commercial real estate as the year progresses – most notably in the office sub-sector. However, we believe much of this valuation concern is now built into REIT share prices which are trading materially below NTA’s (passive REITs trading in excess of 20% discounts to last NTA). We believe in this environment there is a heightened importance to maintain portfolio exposures to REITs with sustainable balance sheets that can navigate the period to come, continuing to generate attractive dividends for investors.

In Infrastructure & Utilities, 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 6.0% which we expect will

grow through the remainder of the decade. Transurban is another portfolio name we believe is well placed to benefit from inflation linked concessions, ongoing underlying traffic growth and high operating margins leading to attractive above-market dividend growth.

Top 5 holdings

	Portfolio	Benchmark	Active
Transurban	22.10	19.86	2.24
Goodman	11.82	14.62	-2.80
Origin Energy	7.78	6.25	1.54
GPT	7.71	3.49	4.21
Mirvac	5.33	3.95	1.38

Key active positions

Overweights	Portfolio	Benchmark	Active
GPT	7.71	3.49	4.21
Chorus	5.09	1.48	3.61
Centuria Industrial REIT	4.02	0.74	3.28
Underweights			
APA	0.00	5.16	-5.16
Stockland	0.00	4.43	-4.43
Aurizon	0.00	2.85	-2.85

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	35.98	31.24	4.73
Airport Services	1.67	0.84	0.82
Highways & Railtracks	23.16	23.25	-0.10
Communication Services	5.82	1.73	4.08
Railroads	0.00	2.85	-2.85
Marine Ports & Services	3.21	2.56	0.64
Information Technology	2.13	0.00	2.13
Utilities	7.78	13.85	-6.07
Electric Utilities	7.78	6.25	1.54
Gas Utilities	0.00	5.16	-5.16
Multi-Utilities	0.00	2.45	-2.45
Real Estate Investment Trusts (REITs)	54.90	54.91	-0.01
Specialized REITs	5.00	3.69	1.31
Diversified REITs	13.04	16.78	-3.74
Industrial REITs	15.84	15.62	0.22
Office REITs	3.23	4.60	-1.36
Retail REITs	15.80	13.55	2.24
Other	1.99	0.67	1.32
Cash and receivables	1.34	0.00	1.34

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\$16.4 mn as at 31 May 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.

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