

Yarra Australian Real Assets Securities Fund

Gross returns as at 30 November 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	9.99	3.09	0.86	12.49	11.36	10.30	10.67	8.77
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index*	8.76	3.26	1.67	13.57	9.72	8.77	NA	NA
Excess Return [†]	1.23	-0.17	-0.81	-1.09	1.64	1.53	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 30 November 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	8.76	3.26	1.67	13.57	9.72	8.77	8.76	3.26
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index	8.76	3.26	1.67	13.57	9.72	8.77	NA	NA
Excess Return [†]	0.30	-0.24	-1.02	-2.03	0.70	0.60	NA	NA
Growth Return [‡]	NA	NA	NA	4.29	-2.47	-7.01	-0.65	-0.40
Distribution Return [‡]	NA	NA	NA	7.25	12.90	16.38	10.39	8.26

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 proved more resilient than the wider equities market in November as a new, potentially more transmissible COVID variant emerged.

The S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Accumulation Index increased by 3.3% during the month, taking its 12-month return to 13.6%. In comparison, the broader ASX 300 fell 0.5% and global equities declined 1.4% as the COVID variant, labelled Omicron, drove uncertainty around the growth outlook. Further, persistent inflation in the US continued to stoke concerns about faster tapering and US interest rate rises.

Infrastructure and Utilities (+2.4%) were supported by Transportation Infrastructure and Gas Utilities. At a stock level, APA Group (APA, +16.2%) rebounded following its ultimately unsuccessful takeover bid for Ausnet (AST), reflecting relief in the market that APA would not pay a high price to diversify

into electrification. Atlas Arteria (ALX, +4.7%) held an Investor day which highlighted strong operational performance, with its key APRR asset benefiting from better traffic and now inflation (revenues linked to CPI).

Australian REITs (+3.3%) also rose in value, largely driven by fund manager REITs Goodman Group (GMG, +12.7%) and Charter Hall (CHC, +11.5%). Both gave substantial FY22 earnings guidance upgrades, beating already high expectations. GMG now expects more than 15% operating EPS growth for the financial year (up from its previous guidance of 10%) and announced development WIP at an all-time high of \$12.7bn. CHC upgraded its earnings guidance to 83 cents per share – up 36% on the prior period and 2% above consensus – reflecting AUM growth through asset revaluations and strong fund performances.

Portfolio review

Key Contributors

Stockland (SGP, underweight) – the diversified REIT underperformed following its strategy update during the period. Management committed to shifting its portfolio away from Retail and Retirement and towards developing its Logistics, Office, Residential and Fund Management pipeline. While the change in strategy could support growth and reduce cyclical risk in the business, it comes with increased execution risk and could weigh on Funds From Operations (FFO) due to the timing mismatch between divestments and new developments. We remain underweight SGP due to longer-term concerns around the sustainability of current booming residential conditions driven by pandemic-related stimulus programs. Notwithstanding its new strategy to reduce exposure, SGP still faces valuation risk given its exposure is to second-tier shopping centres (43% of NTA), where structural change is likely to accelerate. We also see downside risk to residential profitability (22% of NTA, but 35% of group earnings), 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.

Origin Energy (ORG, underweight) – the energy company underperformed alongside the oil price, with Brent Crude declining -14.7% to \$US71/bbl. We remain underweight the company, which we do not believe should be classified as a Utilities company (following its inclusion in June this year). Its Energy Markets division has never comprised a lower proportion of its overall valuation (amid lower wholesale electricity prices) while its APLNG division has benefited from stronger oil prices. We are in discussions with GICs about reversing the change to the classification.

Goodman Group (GMG, overweight) – the industrial REIT outperformed after upgrading FY22 earnings guidance during the period. Management now expect more than 15% operating EPS growth for the financial year (up from its previous guidance of 10%) and announced development WIP at an all-time high of \$12.7bn. 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 29.0 times, as stretched.

Key Detractors

APA Group (APA, underweight) – the gas pipeline operator rebounded following its ultimately unsuccessful takeover bid for Ausnet (AST), reflecting relief in the market that APA would not pay a high price to diversify into electrification. We remain underweight the company on the grounds that APA's initiatives to shift its business model towards electrification won't be sufficient. We expect it to be dwarfed by the discount increasingly applied to its gas pipeline business, particularly as

planned government policies accelerate the shift to zero emissions sources. As a result, we no longer see its valuation (at a 12-month EV/EBITDA of 12.3 times) as sufficiently compelling when compared to large cap infrastructure alternatives.

Charter Hall (CHC, underweight) – the fund manager REIT outperformed after upgrading FY22 earnings guidance during the period. Management now expect 83 cents per share – up 36% on the prior period and 2% above consensus – on AUM growth through asset revaluations and strong fund performances. 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).

Vicinity Centres (VCX, overweight) – the shopping mall owner underperformed following the emergence of the new COVID variant. We remain overweight the stock. While the new variant creates uncertainty, initial indications are it is more infectious but causes only mild illness. We also believe that the structural issues facing shopping mall REITs is widely understood, with VCX trading at 0.90 trailing NTA even as direct transactions are being priced 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 lengthy lockdowns. 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 Purchases

Ingenia Communities (INA) – we increased our position in the property group during the period. Our thesis is based on INA's high-quality, annuity-like earnings stream and supportive operating backdrop. We expect demand to continue to grow for its new retirement housing units as Australia's population ages and its appeal expands to a wider age bracket (now estimated at 55 years-plus). Further, we expect INA's holiday parks (which contribute around 20% of earnings) to benefit from a recovery in domestic tourism, particularly as more Australians choose to travel intrastate and market. Lastly we see INA's valuation as attractive, with the stock trading at 1.7 times book value – a significant discount to peer Lifestyle Communities.

Key Sales

APA Group (APA) – we increased our underweight to the gas pipeline operator on the grounds that its initiatives to shift its business model towards electrification won't be sufficient. We expect it to be dwarfed by the discount increasingly applied to its gas pipeline business, particularly as planned government policies accelerate the shift to zero emissions sources. As a result, we no longer see its valuation (at a 12-month EV/EBITDA of 12.3 times) as sufficiently compelling when compared to large cap infrastructure alternatives.

Hotel Property Investments (HPI) – we reduced our position in the pub owner to fund a higher position in INA during the period. Our overweight position 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 6.1% forecast yield – is expected to grow at 4% p.a. over the next two years with low risk.

Charter Hall Social Infrastructure REIT (CQE) – we reduced our position in the child care centre REIT to fund a higher position in INA during the period. We continue to see CQE as well positioned to benefit from the re-opening Australian economy, with participation rates to normalise as lockdown measures are eased. CQE has a well-diversified portfolio of 410 centres, anchored by larger tenants (top-5) that pay 76% of its net operating income. Its lease terms are attractive, with a 12.7-year average duration, with <5% expiring within the next 5 years and rent increasing by a prescribed amount each year. Further, we view its valuation as supportive (at 1.21 times NTA with a 4.5% forecast dividend yield).

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 0.88 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.

Transurban (TCL) – we are overweight the toll road operator based on our positive view of its 100% acquisition of WestConnex, which was done at a fair price and consolidates a strong position across Australia's toll roads. More broadly, we believe that once the COVID disruption is passed, TCL has a strong growth outlook (with a number of new project and expansion plans) and attractive risk-adjusted total return. TCL has the ability to maintain strong (5%-plus) dividend growth by releasing equity over time from its large projects, which we believe is underappreciated by the market.

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 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.

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 5.2% 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.

Charter Hall (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).

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 3.7%, a compelling 2.0% 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 assets.

We see opportunities in high quality infrastructure companies with strong inflation protection. 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. Transurban (TCL) has a strong, diversified organic growth pipeline generating attractive returns. For Atlas Arteria (ALX), we see several catalysts on the horizon for patient investors, with 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).

Sector allocation

	Portfolio %	Benchmark %	Active %
Infrastructure	43.19	33.30	9.89
Airport Services	8.06	8.84	-0.78
Highways & Railtracks	22.92	17.58	5.34
Communication Services	4.06	2.17	1.89
Railroads	0.00	2.28	-2.28
Marine Ports & Services	5.91	2.42	3.49
Information Technology	2.23	0.00	2.23
Utilities	1.15	10.28	-9.13
Electric Utilities	0.00	4.90	-4.90
Gas Utilities	1.15	4.14	-2.99
Multi-Utilities	0.00	1.24	-1.24
Real Estate Investment Trusts (REITs)	54.32	56.42	-2.10
Specialized REITs	4.55	3.36	1.19
Diversified REITs	15.34	18.01	-2.68
Industrial REITs	17.70	16.26	1.44
Office REITs	1.80	5.44	-3.64
Retail REITs	12.81	12.53	0.28
Other	2.12	0.83	1.29
Cash and receivables	1.33	0.00	1.33

Top 5 holdings

	Portfolio %	Benchmark %	Active %
Transurban	17.98	15.29	2.68
Goodman	17.70	15.27	2.43
Sydney Airport	8.06	8.24	-0.18
GPT	6.99	3.71	3.28
Mirvac	5.49	4.15	1.34

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
GPT	6.99	3.71	3.28
Transurban	17.98	15.29	2.68
Atlas Arteria	4.94	2.29	2.65
Underweights			
Stockland	0.00	3.84	-3.84
Scentre	2.16	5.90	-3.74
Charter Hall Group	0.00	3.31	-3.31

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\$20.7 mn as at 30 November 2021	
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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