

Yarra Australian Real Assets Securities Fund

Gross returns as at 30 November 2022

	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	8.23	6.62	1.71	-1.73	1.12	6.27	9.67	8.12
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index [*]	7.36	7.82	2.12	-0.67	0.51	5.15	NA	NA
Excess Return [†]	0.87	-1.20	-0.42	-1.07	0.60	1.12	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 2022

	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	7.32	6.55	1.49	-2.56	0.26	5.37	8.75	7.21
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index	7.36	7.82	2.12	-0.67	0.51	5.15	NA	NA
Excess Return [†]	-0.04	-1.28	-0.63	-1.90	-0.25	0.22	NA	NA
Growth Return [‡]	NA	NA	NA	-25.36	-13.71	-12.44	-3.83	-2.09
Distribution Return [‡]	NA	NA	NA	22.79	13.97	17.82	12.57	9.30

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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

The Custom Infrastructure, Utilities and A-REITs Accumulation Index gained 7.8% for the month, taking its 12-month return to -0.7%. The broader ASX300 mirrored similarly, gaining 6.5% for the month, as did global indices (MSCI World Index, +7.0%).

Utilities (+20.9%) was sighted as the top performing sector, led by Origin Energy (ORG, +41.1%) off the back of a takeover bid, and further supported by AGL Energy (AGL, +16.9%) and APA Group (APA, +6.5%).

Infrastructure names (Industrials, +6.9%) also delivered positive sector performance over the month led by positive returns from Transurban (TCL, +7.8%), Auckland International Airport (AIA, +7.0%) and Aurizon (AZJ, +5.3%).

Conversely, the worst performing sector was Communication Services (-0.8%) with mixed performance seen over the month

from that of Chorus (CNU, -2.6%) and Aussie Broadband (ABB, +12.0%).

Overall, REITs added +5.8% over the month. REITs with higher exposure to active earnings performed well as rates moderated, including the property fund managers such as Goodman Group (GMG, +12.5%), Centuria (CNI, +9.8%) and HomeCo (HMC, +8.8%). Laggards were REITs exposed to the storage sector (NSR, -8.4%, ABP, -1.8%) following some weaker international peer results, the office sector as the sector struggles with stubbornly low effective vacancy (GOZ, -3.0%, CMW, +0.7%) and the childcare sector which faces valuation risk due to its long WALE nature (CQE, -1.4%, ARF, -0.8%).

Portfolio review

Key Contributors

National Storage REIT (NSR, underweight) – our underweight position added value over the month as the stock gave up some of its strong relative YTD return. While there was no material new news flow from the company, we did observe some pull back in operating metrics for US self-storage companies which likely dragged on NSR's performance by association. Most notably, Public Storage in the US reported Sept-quarter occupancy that was down 2.5% over the past 12-months.

NEXTDC (NXT, overweight) – the data centre operator outperformed the market during the month in which they reiterated guidance and gave positive qualitative commentary around the sales outlook for FY23. We believe the high recurring nature of NXT's revenues, its infrastructure like characteristics and tangible asset base are attractive. NXT has been excessively discounted and we see no diminution to its growth trajectory. NXT trades on 21.3 times FY24 EV/EBITDA, which compares favourably to its more mature global data centre peers.

Scentre Group (SCG, underweight) – our underweight contributed to portfolio returns over the month, as investors within the REIT space shifted away from the higher geared names in anticipation of potential asset valuation weakness into 2023. With effective gearing of approximately 40%, SCG in this respect has more vulnerability than peers. With the company trading on more full valuation metrics relative to its retail peers, (SCG 0.90 times NTA, 5.4% dividend yield) we remain underweight.

Key Detractors

Origin Energy (ORG, overweight) – the Australian energy company disclosed a takeover approach from Brookfield and EIG at \$9.00 per share, a 55% premium to the pre-bid share price and valuing the company at an enterprise value of \$18.4b. Talks had been ongoing since August and the indicative approach at \$9.00 would be recommended by the Board bid becomes binding. We view the \$9.00 as a fair price for Origin's privileged energy assets and retail position, noting that the deal will be subject to FIRB and ACCC approval, with the latter subject to a public review.

Chorus (CNU, overweight) – CNU underperformed the rising index during the month but has outperformed overall through the year as the build out of its fibre network comes to an end. Investors are increasingly appreciating the regulated utility's strong free cash flow generation, low balance sheet leverage and strong line of sight on regulatory revenues.

Bunnings Trust (BWP, overweight) – our overweight position detracted from returns during November. With no major news flow over the period, we put this down to some profit taking over the month, with BWP trading at sector leading metrics for the passive rent collecting REITs (1.05 times NTA, 4.9% dividend yield). While our overweight position is lower than it has been over the past 12-months, we continue to expect BWP

to perform well owing to its high-quality leases (Bunnings tenancies) which have significant leverage to higher inflation.

Key Purchases

Origin Energy (ORG) – with the company trading at up to an 18% discount to the indicative bid from Brookfield and EIG, we took the opportunity to move to a modest overweight position in ORG. We view the bidding consortium as very high quality and are encouraged that talks had been underway for up to three months before becoming public. Whilst the ACCC has announced that they intend to undertake a public review of the transaction, we do not expect that this will result in any major impediment to a transaction.

Scentre Group (SCG) – we have increased our expectations around the capacity for SCG to capture better rents in the medium term as a result of higher inflation, given the high level of its inflation linked leases. Additionally, while we do expect retail exposed REITs to face increased pressures in CY23 as the impact of higher interest rate manifests on the consumer, we give SCG relative credit for owning the highest quality malls in the sector. Subsequently, we reduced the size of our underweight position in the period.

Key Sales

Goodman Group (GMG) – we shifted further underweight in the industrial property developer over the period to reflect our expectation of slower earnings growth for the business, driven by the implications of the cap rate cycle turning for industrial assets, and development activity and returns slowing from peak levels. While we believe GMG remains well placed to continue to grow earnings well above sector peers (FY23 EPS guidance is for 11% y/y) we have recalibrated our expectations given an elevated valuation at 19.2 times P/E 12-months forward and offering a modest 1.6% dividend yield.

Atlas Arteria (ALX) – we reduced our position during the month as the toll road owner appreciated sharply on no new information. ALX is now trading close to an enterprise value equivalent to where it was trading before it undertook its value destructive acquisition of the Chicago Skyway toll road.

Chorus (CNU) – the portfolio's position in CNU was trimmed during the month following a period of outperformance. CNU is a quality regulated utility trading on a 5.7% FY24 dividend yield with medium term upside in regulatory returns.

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 <30%) and high liquidity provide us with confidence that the company is appropriately positioned for the forthcoming de-valuation cycle. Lastly, GPT's valuation has become more attractive at 0.70 times trailing NTA and with a 5.7% dividend yield.

Chorus (CNU) – the quality regulated utility trades on a 5.7% 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 100 bp higher regulatory return in the next regulatory period from July 2024, providing further upside to the medium-term dividend yield.

Centuria Industrial REIT (CIP) – our recent portfolio additions to CIP have seen the position reach a top overweight in the portfolio. We view the industrial asset class as more resilient than other sub-sectors heading into CY2023. This was demonstrated by CIP's Dec 2022 valuations which saw the portfolio value drop by less than 2%, demonstrating the high-quality asset-asset base (average lease tenure 8+ years, capital city locations) and very strong rental growth (re-leasing spreads of +11% in the FY22 period over 49 deals). Meanwhile, the stock is trading at a 23% discount to updated NTA, an attractive investment proposition in our view.

Key Active Underweights

APA Group (APA) – we remain underweight the company on the grounds that APA's initiatives to shift its business model towards electrification will prove insufficient. We expect it to be dwarfed by the discount increasingly being 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 12.5 times) as sufficiently compelling when compared to large cap infrastructure alternatives.

Stockland (SGP) – our underweight position is premised on long-term concerns about the sustainability of what is now becoming the tail-end of booming domestic residential conditions driven by pandemic-related stimulus programs, which have heavily supported the first home buyer segment currently. Over time, SGP's valuation faces downside risk given its exposure is to second-tier shopping centres (40% of NTA), where structural change is likely to accelerate, and to residential profitability (34% earnings, and 20% 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.

Aurizon (AZJ) – we maintain an underweight position in AZJ which we view as a well-managed company with a difficult task of transitioning earnings away from a heavy reliance on coal haulage. Aurizon has an uphill battle to divest its East Coast Rail coal business at a price comparable to which it was recently acquired through the One Rail acquisition. Whilst AZJ's 6.6% FY24 dividend yield screens as attractive, we do not believe there is enough value to compensate investors for the elevated risk profile of this business.

Market outlook

We maintain our longer-term 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 4.6%, an attractive 0.9% 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, and utilisation levels return across commercial real estate.

We see opportunities in high quality infrastructure companies with strong inflation protection and exposure to recovering economies, qualities both present within the transportation infrastructure sector. Chorus (CNU) is a quality regulated utility trading on a 5.7% FY23 dividend yield with medium term upside in regulatory returns. We remain cautious towards utilities names with a high reliance on fossil fuels and difficulty in transitioning to a lower carbon environment, namely AGL Energy (AGL) and APA Group (APA).

We see a mixed outlook across REIT sub-sector exposures heading into CY23. 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). Physical office occupancy continues to rebound strongly through November. 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 CY2023 the prospect of higher interest rates to see downside to capital values (i.e. REIT NTA vulnerability, following the sector growing average NTA by +3.8% in the June-22 half) as investor acquisition return requirements 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) offsetting some of the improved rental-driven future earnings and dividend growth.

Top 5 holdings

	Portfolio	Benchmark	Active
Transurban	19.69	18.97	0.72
Goodman	11.45	14.06	-2.60
GPT	7.94	3.71	4.23
Origin Energy	7.30	5.85	1.45
Mirvac	5.86	3.80	2.05

Key active positions

Overweights	Portfolio	Benchmark	Active
GPT	7.94	3.71	4.23
Chorus	4.16	1.43	2.73
Centuria Industrial REIT	3.32	0.75	2.57
Underweights			
APA	0.00	5.71	-5.71
Stockland	0.00	3.92	-3.92
Aurizon	0.00	3.03	-3.03

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	35.64	30.47	5.18
Airport Services	1.51	0.70	0.81
Highways & Railtracks	21.39	22.68	-1.29
Communication Services	5.00	1.66	3.33
Railroads	0.00	3.03	-3.03
Marine Ports & Services	5.43	2.39	3.04
Information Technology	2.32	0.00	2.32
Utilities	7.30	13.62	-6.32
Electric Utilities	7.30	5.85	1.45
Gas Utilities	0.00	5.71	-5.71
Multi-Utilities	0.00	2.06	-2.06
Real Estate Investment Trusts (REITs)	55.81	55.91	-0.10
Specialized REITs	4.73	3.78	0.96
Diversified REITs	13.80	16.99	-3.19
Industrial REITs	14.77	15.07	-0.30
Office REITs	5.45	4.61	0.84
Retail REITs	15.24	14.77	0.47
Other	1.82	0.69	1.13
Cash and receivables	1.24	0.00	1.24

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\$19.5 mn as at 30 November 2022	
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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