

Yarra Australian Real Assets Securities Fund

Gross returns as at 31 August 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	7.87	-1.48	0.85	5.19	7.40	6.43	8.17	7.97
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index [*]	7.06	-0.95	1.98	5.41	7.75	5.15	N/A	N/A
Excess Return [†]	0.81	-0.53	-1.13	-0.21	-0.35	1.28	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 August 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	6.96	-1.55	0.63	4.31	6.50	5.53	7.26	7.06
S&P/ASX 300 Custom Infrastructure, Utilities and A-REITs Index	7.06	-0.95	1.98	5.41	7.75	5.15	N/A	N/A
Excess Return [†]	-0.10	-0.60	-1.35	-1.10	-1.25	0.38	N/A	N/A
Growth Return [‡]	-8.96	-1.55	-8.82	-6.97	-8.28	-9.23	-5.90	-2.48
Distribution Return [‡]	15.92	0.00	9.46	11.27	14.78	14.76	13.17	9.54

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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 S&P/ASX 200 Property Accumulation index had a strong month up +1.7% in August, outperforming the S&P/ASX 200 which returned -0.7%. This monthly performance takes A-REIT CYTD S&P/ASX 200 Property Accumulation index performance to +10.4%, ahead of the broader S&P/ASX 200 return of +6.7%. At a macro level, inflation numbers in both the US and Australia was softer than expected, supporting the case that interest rates may be close to the peak (Australian long bond, the 10-year, closing August at 4.03%, below the cash rate of 4.10%).

Reporting season for the REITs was broadly in-line with expectations, while forward earnings guidance for FY24 was 1-2% below prior market expectations. Key themes included moderating property valuations (as expected), continued consumer strength, residential outlook improving, strength in industrial markets, and tilts towards active funds management

activities, where available.

At a REIT specific level, key outperformers were industrial leader Goodman (GMG, +13%), property fund manager Home Co (HMC, +5%), and land lease player Ingenia (INA, +3%). Laggards included Charter Hall Long WALE (CLW, -15%), Abacus (ABG, -13%) and Centuria (CNI, -12%).

Portfolio review

Key Contributors

AGL Energy (AGL, underweight) – energy retailer AGL underperformed during the month following the release of its FY23 result. Whilst the result itself was strong, consensus expectations appear to have now caught up with the stronger short-term earnings outlook driven by higher wholesale electricity prices. The company now has a clear long-term plan to transition away from carbon intensive coal generation, however the result highlighted that the speed of transition will

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be slow and there is considerable uncertainty as to the ultimate earnings base.

NEXTDC (NXT, overweight) – Data centre operator NEXTDC continued to perform strongly during the month after announcing another large step-up in contracted capacity. NXT has signed 25MW of capacity mainly in its M2 (Melbourne) data centre. This brings NXT to a 60MW (70%) increase in contracted capacity in the last three months, highlighting a step change in demand for data centre capacity and the company's market leading capability.

Charter Hall Long WALE REIT (CLW, underweight) – the real estate company CLW underperformed during the period following the release of FY23 result. Owing to rising cost of debt and valuation de-valuations, the company reported a decline in operating earnings and a statutory loss for FY23. FY24 earnings and dividend guidance declined -7.1% with further rebasing risk from higher debt cost, asset sales and lower payout ratio.

Key Detractors

Goodman Group (GMG, underweight) – industrial real estate manager outperformed following the release of FY23 solid result. Supporting the result was an upbeat assessment of future upside from Goodman's exposure to land with the capacity to develop out into data centres. Additionally, Goodman flagged the potential for some degree of vertical integration further into data centre operations. This update detracted attention from some of the underlying trends of the business, which have started to slow. While we continue to regard GMG as the global leader in industrial ownership, development and management, we view the upside as priced at current valuation, and remain underweight.

Chorus (CNU, overweight) – the regulated telecommunications utility underperformed during the month after guiding to FY24 earnings 3% below expectations and higher than expected capex. The market extrapolated this as a reduction to the long term cash flow generation potential of the business, however we feel these issues are more relevant to FY24 only.

Mirvac Group (MGR, underweight) – our underweight position in MGR detracted value over the month. Mirvac released its full-year result for FY23, delivering an operating profit of \$580m, representing 14.7 cents per stapled security which was in line with revised guidance provided in April 2023. Notwithstanding this in-line update, the company is demonstrating good delivery on its Built-to-rent ambitions, as well as building out its apartment development business into what could be more supportive conditions in CY2024/25, which were the likely drivers of solid share price returns for the month. Within the residential development space, our preference today is with MGR's peer Stockland, SGP.

Key purchases

Centuria Industrial REIT (CIP) – we added to our existing overweight in the domestically focused industrial owning A-REIT. We view the industrial asset class as more resilient than

other sub-sectors as we progress through CY23 into CY24. CIP is continuing to demonstrate strong top-line growth (NOI) as expiring leases are re-let at higher rental levels, often at rents above that assumed in the valuations. Meanwhile, the stock is trading at an excessively steep discount to NTA in our view, implying asset values will decline in excess of 15% from June 2023 valuations.

Region (RGN) – we increased our position in the suburban shopping mall owning REIT in the period. We believe RGN's retail asset base, which comprises 96 predominantly neighborhood shopping centers, will prove to be resilient during the consumer downturn. This is supported by its 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 0.81-times net asset backing and offering a dividend yield around 6.5%.

Stockland (SGP) - we increased our position in Australia's largest residential land developer based on a view of the company's capacity to benefit following a likely peaking of interest rates, quality land assets in key growth corridors across Australia and well-funded financial position. Stock valuation is supportive with the stock offering a 6% dividend yield and trading below net asset backing.

Key sales

Mirvac (MGR) - we took the opportunity to exit our position in Mirvac and redeploy funds into residential peer, Stockland, SGP. While MGR is doing a credible job re-positioning the business into growing sub-sector focus areas such as Built-to-rent, we are cognizant that the largest part of MGR's business resides in office ownership, where we have a cautious outlook view around the sustainability of earnings and valuations.

Home Co (HMC) – following a strong period of performance, particularly supported by a strong FY23 result and FY24 outlook, we took the opportunity to re-size the HMC position. HMC continues to raise capital from a broad range of capital sources in a challenging market, demonstrating management expertise, and supporting a view the funds management business can grow and diversify in time.

Scentre Group (SCG) – we trimmed our position in SCG following the result, redeploying proceeds into peer RGN, a more defensive retail landlord given its higher share of non-discretionary tenants. While not an issue in the short-term, we are cautious around the long term debt position of SCG versus peers, given elevated leverage.

Key Active Overweights

GPT Group (GPT) – our overweight position in the diversified commercial real estate owning A-REIT is predicated on asset quality (A-grade, prime assets) and 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 modest gearing (29% LVR) and trading at a material discount to last stated NTA and offering an attractive 6.8% dividend yield.

Chorus (CNU) – the high-quality regulated telecommunications utility trades on a 6.2% FY24 dividend yield with medium term upside in regulatory returns. As the build out of CNU's fiber 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 stock trades at an excessively steep discount to NTA, implying asset values will decline in excess of 15% from June-2023 valuations.

Key Active Underweights

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). 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.

Goodman (GMG) – while we continue to regard GMG as the global leader in industrial ownership, development and management, our underweight is premised on our view of where we sit in the real estate cycle. Specifically, higher interest rates are likely to result in slowing earnings growth (specifically from the development and management segments) and, subsequently, a lower stock multiple the market is prepared to pay. Adjusting to the environment, GMG has indicated it will seek to undertake more developments on its own balance sheet, which while a positive for activity, does carry an increased risk profile. Within the industrial sector, we have shifted funds to the more passive industrial player CIP, at this point in the cycle.

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 given the rebasing of traffic post COVID.

Market outlook

We see a generally improving outlook across the A-REIT sector for CY2023, supported overall from a macro perspective of a likely peaking of interest rates with the prospect for lower rates into 2024, creating 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 as favorable, as ongoing occupier demand outstrips supply, supporting real rental growth. Office and retail sub-sectors 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.

Pleasingly, REIT direct property valuations have begun their re-setting phase, with valuations cut around 5% in the period ending June-23. Indeed, current REIT security prices imply 110-120bps of further cap rate softening, suggesting security prices have captured the risk of further valuation declines. We also see support for the sector overall from a valuation perspective, with passive REITs continuing to trade in excess of 19% discounts to last NTA (compared to around in-line with NTA historically). 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 cash-backed dividends for investors.

Top 5 holdings

	Portfolio	Benchmark	Active
Transurban	19.57	17.69	1.88
Goodman	13.94	17.31	-3.37
GPT	7.66	3.48	4.17
Stockland	6.34	4.38	1.96
APA	5.20	4.90	0.30

Key active positions

Overweights	Portfolio	Benchmark	Active
GPT	7.66	3.48	4.17
Chorus	4.83	1.40	3.43
Centuria Industrial	4.14	0.72	3.42
Underweights			
Mirvac Group	0.00	4.14	-4.14
Goodman Group	13.94	17.31	-3.37
Atlas Arteria	0.00	3.21	-3.21

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	31.16	28.90	2.26
Airport Services	1.45	0.74	0.71
Highways & Railtracks	19.57	20.90	-1.33
Communication Services	4.83	1.72	3.11
Railroads	0.00	2.91	-2.91
Marine Ports & Services	3.06	2.64	0.42
Information Technology	2.25	0.00	2.25
Utilities	9.20	14.28	-5.08
Electric Utilities	4.00	6.50	-2.50
Gas Utilities	5.20	4.90	0.30
Multi-Utilities	0.00	2.88	-2.88
Real Estate Investment Trusts (REITs)	57.36	56.82	0.54
Specialized REITs	4.58	3.77	0.81
Diversified REITs	14.00	15.98	-1.98
Industrial REITs	19.97	18.28	1.69
Office REITs	2.84	4.50	-1.66
Retail REITs	15.97	13.63	2.34
Other	0.00	0.66	-0.66
Cash and receivables	2.28	0.00	2.28

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\$15.6 mn as at 31 August 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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