Resolution Capital Real Assets Fund - Class A

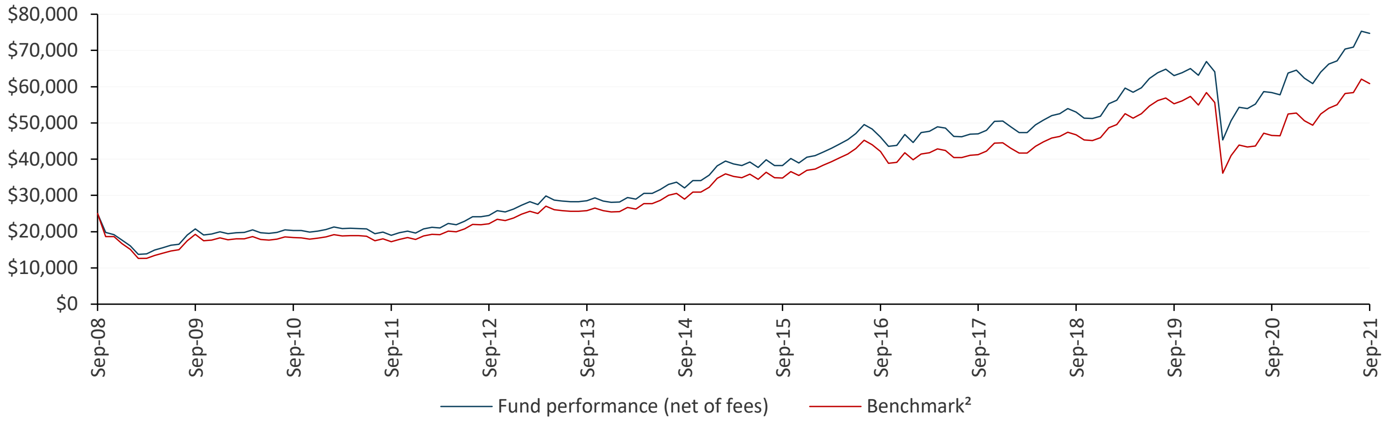
30 September 2021

RESOLUTION CAPITAL

Performance Summary

	1 Month %	3 Months %	1 Year %	3 Years p.a. %	5 Years p.a. %	10 Years p.a. %	Since Inception* p.a. %
Fund Return (After Fees)[1]	-0.79	6.08	28.06	12.09	10.11	14.68	8.78
Benchmark[2] return	-1.94	4.80	30.69	9.20	7.65	13.45	7.08
Value Added (After Fees)	1.15	1.28	-2.63	2.89	2.46	1.23	1.70

Growth of $25,000 invested Since Inception*



[1]Please note the strategy of the Fund changed effective 1 October 2019. The Resolution Capital Real Assets Fund was previously known as the Resolution Capital Core Plus Property Securities Fund.
[2]Benchmark is S&P/ASX 300 AREIT Accumulation Index.

Top 5 Weights

Security Name	%
Goodman Group	18.46
Scentre Group	10.53
Mirvac Group	8.51
Charter Hall Group	5.91
Transurban Group	5.51

Top 5 Contributors

Security Name	%
AusNet Services	0.99
Scentre Group	0.50
Ingenia Communities Group	0.08
Aena SME	0.07
Sydney Airport	0.06

Bottom 5 Contributors

Security Name	%
Goodman Group	-1.22
Mirvac Group	-0.36
Charter Hall Group	-0.25
Cellnex Telecom	-0.17
Stockland	-0.14

Fund Details

APIR code	WHT0014AU	**Management Fee**	0.65% p.a. plus 20% of outperformance above the benchmark
ARSN Code	131 850 363	**Buy/Sell Spread**	+0.20%/-0.20%
***Inception Date**	30 September 2008	**Distribution Frequency**	Quarterly
Fund Size	$28.6 Million	**No. of Stocks**	Generally 20 to 35
NAV per Unit	$0.57	**Investment Manager**	Resolution Capital
Minimum Investment	$25,000	**Platform Availability**	https://rescap.com/realassetsfund
Benchmark	S&P/ASX 300 AREIT Accumulation Index	**Investment Timeframe**	Medium to long term, being 5 or more years

Market Commentary

The S&P/ASX 300 A-REIT Total Return Index produced a total return of -1.9% for the month ended 30 September 2021, performing in line with the Australian equities market (S&P/ASX 300 Total Return Index).

Broadly speaking, infrastructure and utilities outperformed real estate. Three takeover bids in recent months for Sydney Airport (SYD) and utilities Spark Infrastructure (SKI) and AusNet Services (AST) have buoyed infrastructure performance.

Rising bond yields and a rotation out of “growth” stocks into “value” names saw retail and office REITs outperform diversified and industrial during the month.

The infrastructure sector was dominated by M&A activity. There are now three infrastructure companies under takeover bid – Sydney Airport (SYD), Spark Infrastructure (SKI) and AusNet Services (AST).

Starting with SYD, the unlisted consortium led by IFM Investors increased their bid to $8.75 per share, ~6% higher than the opening bid. This implies ~27.7x 2019 underlying EBITDA. Consequently, due diligence was granted and, if a binding offer at $8.75 eventuates, the Board intends to recommend it.

Whilst we recently discussed the KKR-led consortium’s takeover bid for SKI at ~1.46x Regulated and Contracted Asset Base (RCAB), this month we saw its peer AST become the subject of a takeover tussle between Brookfield and ASX-listed gas pipeline owner APA. Electricity utilities are the beneficiaries of a multi-decade runway for accelerating electricity transmission and distribution investment to facilitate renewables connections into the grid.

Brookfield offered a cash bid of $2.50 which had followed two previously unannounced bids and translated to 1.53x RCAB. The AST Board granted Brookfield exclusive due diligence for eight weeks. Interestingly, APA subsequently offered a higher bid of $2.60 per share comprised of ~70% cash and ~30% scrip, translating to 1.57x RCAB. Agitation ensued with APA lodging a complaint with the Takeovers Panel to rescind the exclusive due diligence period. The acquisition of AST would dilute APA’s contentious gas exposure from 90% of earnings to 58%.

Closing out with toll roads, a Transurban (TCL) led consortium successfully acquired the NSW Government’s residual 49% equity stake in the Sydney Westconnex road project for $11.1bn, bringing its ownership to 100%. TCL now owns 50%. The consortium acquired 51% in 2018 for $9.3bn with the subsequent value uplift attributable to the de-risking of the project and lower interest rates. The 49% stake was acquired for 26.7x 2028 stabilised EBITDA. Westconnex is a world-class infrastructure project offering an attractive long concession to 2060, during the majority of which tolls escalate by the greater of CPI or 4%. The acquisition further cements TCL’s dominant ownership of Australian toll roads. To fund its proportionate $5.6bn stake, TCL issued $4.2bn of equity.

In A-REIT news, (T)this month was dominated by M&A activity, equity raisings and Initial Public Offerings (IPO). Rebalancing of the globally relevant FTSE EPRA NAREIT real estate index saw eleven smaller A-REITs being added to the index. This led to some A-REITs capitalising on share price strength and raising equity to fund acquisitions.

Starting with M&A, pub landlord ALE Property Group (LEP) received a joint takeover bid from Charter Hall Long WALE REIT (CLW) and another Charter Hall (CHC) managed fund valuing the enterprise value at $1.68bn. The deal implied a price of $5.88 per share comprised of cash and CLW scrip. The price represented a 25% premium to last close, 43% premium to Net Tangible Assets, a 3.5% initial yield and 4.8% reversionary yield given the portfolio is 37% under-rented. The under-renting can only be crystallised in 2028 via an open market rent review.

Shifting to equity raisings, over $1bn was issued by five A-REITs, the bulk of which was for industrial acquisitions but also office, non-discretionary retail, and pubs.

Industrial and business park landlord APN Industria REIT (ADI) was involved in a significant transaction. It raised $350m of equity, constituting 47% of issued capital, to jointly acquire stakes in $1.5bn of industrial real estate with its new manager, Dexus (DXS). ADI’s $368m acquisition (exclusive of future development capex) on a 5.0% passing yield comprised a 33% stake in Perth’s Jandakot Airport, 50% stake in a Kemps Creek fund-through development and 100% of a Truganina facility. The deal was FFO dilutive given the timing mismatch between the raising and development completions.

Centuria Industrial REIT (CIP) issued $325m of equity to fund the $351m acquisition of eight industrial assets on a 4.2% cap rate. CIP reaffirmed FFO guidance.

Centuria Office REIT (COF) issued $201m of equity to fund the $273m acquisition of two buildings in South Melbourne and Sydney on a 5.2% cap rate.

HomeCo Daily Needs REIT (HDN) issued $88m of equity to fund the $222m acquisition of six retail assets at a 5.8% cap rate. The assets comprised a neighbourhood shopping centre, three large format retail centres and two liquor/fast food outlets.

Lastly, pub landlord Hotel Property Investments (HPI) issued $50m of equity to fund the $68m acquisition of a pub and gaming entitlements on a 4.7% cap rate.

Two new IPOs raised ~$1bn of equity in total. Both are externally managed and harness a healthcare tilt. The Home Consortium (HMC) managed HomeCo Healthcare & Wellness REIT (HCW) issued $650m of equity and comprises a $555m portfolio of assets in five sub-sectors: 1) Hospitals 2) Childcare 3) Aged Care 4) Primary Care 5) Government & Life Sciences. The portfolio is 96% occupied, has a 9.4 year WALE, and is valued on a 5.3% cap rate.

The second IPO is the RAM Essential Services Property Fund (REP), whose $357m bookbuild closed this month and which will list in October. REP is managed by Real Asset Management and comprises a $706m portfolio broadly evenly split between medical office buildings and grocery-anchored neighbourhood shopping centres. The portfolio is 99.1% occupied, has a 7.1 year WALE and is valued on a 5.85% cap rate.

Contact Us

Investor Contact Details
Pinnacle Investment Management
Email: service@pinnacleinvestment.com
Phone: 1300 010 311

Adviser Contact Details
Pinnacle Investment Management
Email: distribution@pinnacleinvestment.com
Phone: 1300 010 311