Resolution Capital Real Assets Fund - Class A

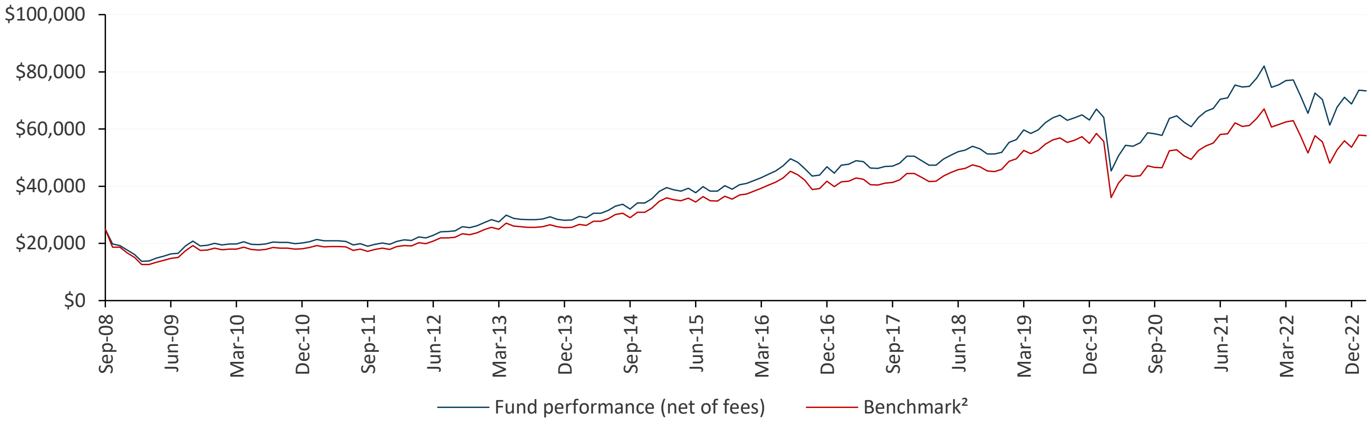
28 February 2023

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 (Net Performance)[1]	-0.23	3.18	-2.79	4.60	9.12	10.00	7.75
Benchmark[2] return	-0.36	3.34	-6.38	1.20	6.71	8.43	5.97
Value Added (Net Performance)	0.13	-0.16	3.59	3.40	2.41	1.57	1.78

Performance numbers less than one year are cumulative while numbers greater than one year are annualised.
Past performance is no guarantee of future results.

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. Past performance is no guarantee of future results.
[2]Benchmark is S&P/ASX 300 AREIT Total Return Index.
Source: Resolution Capital

Top 5 Weights

Security Name	%
Goodman Group	19.08
Scentre Group	13.89
Vicinity Centres	6.98
Mirvac Group	4.64
Charter Hall Group	4.43

Top 5 Contributors

Security Name	%
National Storage REIT	0.21
Vicinity Centres	0.13
Dexus	0.11
Arena REIT	0.10
Hotel Property Investments	0.08

Bottom 5 Contributors

Security Name	%
Region Group	-0.23
Ingenia Communities Group	-0.17
Charter Hall Group	-0.16
Dexus Industria	-0.10
Goodman Group	-0.10

These are illustrative only and not a recommendation to buy, sell or hold any security.

Fund Details

APIR code	WHT0014AU	**Management Fee**	0.65% p.a. plus 20% of outperformance above the benchmark net of the management fee and expenses
ARSN Code	131 850 363	**Buy/Sell Spread**	+0.20%/-0.20%
***Inception Date**	30 September 2008	**Distribution Frequency**	Quarterly
Fund Size	$61.5 Million	**No. of Stocks**	Generally 20 to 40
NAV per Unit	$0.53	**Risk/Return Profile**	The Fund's risk band is 5 (medium to high)
Minimum Investment	$25,000	**Platform Availability**	https://rescap.com/realassetsfund
Benchmark	S&P/ASX 300 AREIT Total Return 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 -0.4% for the month ended 28 February 2023, outperforming the Australian equities market by 2.1% (S&P/ASX 300 Total Return Index).

Within A-REITs, office outperformed whilst retail was in line with the benchmark and the diversified and industrial sectors underperformed. Broadly, infrastructure outperformed real estate, with airports and tollroads outperforming utilities.

The best performing A-REITs included National Storage REIT (NSR), diversified GPT Group (GPT) and childcare landlord Arena REIT (ARF). A key underperformer was land lease developer Ingenia Communities (INA) which downgraded earnings guidance due to delayed development settlements stemming from wet weather and labour shortages. The Portfolio's overweight positions in NSR and ARF contributed to relative performance whilst positioning in GPT and INA detracted.

February was dominated by earnings releases. Key themes to emerge from A-REIT results include:

- **Earnings guidance** was largely reaffirmed, or previous wide ranges tightened, owing to greater visibility on higher debt costs. Broadly, passive A-REIT earnings growth will be negative in FY23 due to higher debt costs overwhelming rent growth, and many face further headwinds into FY24.
- **Comparable rent growth** is strongest for industrial, self-storage, childcare and A-REITs with a high proportion of inflation-linked lease escalators.
- **Balance sheet leverage** remains moderate, with some exceptions. Interest rate hedging continues to be lifted, crystallising a higher cost of debt.
- Despite higher interest rates, **appraised property devaluations** were only modest at Dec-22 (single digit) given limited transactional evidence. Office was worst hit. Rent growth has partially offset mild capitalisation rate expansion, especially in industrial. Many A-REITs expect further devaluations to eventuate. Hence, some are targeting divestments to de-lever or fund developments.
- **Capital partnering** initiatives remain a focus.
- **Retail** was robust across malls and grocery-anchored shopping centres. Occupancy is high, leasing spreads are positive (grocery-anchored) or negative but improved (malls), tenant sales above 2019 levels and rent to sales ratios sustainable. Most expect tenant sales to slow over 2023 as higher interest rates cause consumption to slow. Vicinity Centres (VCX) was one of the few A-REITs to upgrade FY23 earnings guidance, which like some other retail landlords, was aided by the reversal of previous provisioning for COVID unpaid rent.
- **Office** remains challenged and the outlook cautious. Landlords lack pricing power as market vacancy is elevated (~13-15%) and tenant incentives high (~30%). A-REIT occupancy remains at 90-95%, but some like GPT saw this drop. Leasing activity has lifted but smaller tenants remain more active. Bifurcation remains a theme with newer, higher quality buildings with superior amenity outperforming. Physical office attendance remains at only ~60% of pre-COVID levels. Notably, several A-REITs, including Dexus (DXS) and Mirvac (MGR), have deferred office developments due to soft market conditions. Both groups also continue to try to sell office buildings.
- **Industrial** operating conditions remain favourable. Market vacancy is very low (<1%), tenant demand strong and supply moderate. Consequently, A-REIT portfolios are essentially fully occupied with comparable rent growth of ~4% supported by leasing spreads on new lease deals of 10-20% above in place rents. Several A-REITs including Stockland (SGP), GPT and MGR continue to grow industrial exposure via development.
- **Residential development** faces headwinds. Sales in masterplanned communities and apartment developments have fallen 40-50% from recent periods as buyers remain cautious in light of rising interest rates. Land lease volumes have been more resilient. Prices are expected to continue to fall as affordability remains stretched. Wet weather and labour shortages have delayed settlements into FY24 and defaults are expected to rise. Margins remain elevated given previous price growth exceeded construction cost inflation.
- **Self storage** rent growth is decelerating to ~5-7% after an exceptionally strong few years. Rate growth is offsetting occupancy loss. Supply is moderate. NSR and Abacus Property Group (ABP) continue to grow via development. National Storage upgraded earnings growth guidance from at least 5% to at least 8.5%. ABP has proposed to spin off its $3bn storage portfolio to create an externally managed storage REIT.
- **Fund managers** reported slowing transaction activity and equity inflows. This combined with potential property devaluations present headwinds to earnings growth.

Turning to infrastructure, tollroad operator Transurban (TCL) highlighted Sydney/Brisbane traffic above 2019 (+3-8%) with Melbourne still trailing (6% below). TCL lifted its dividend guidance due to capital releases, they sold a 50% stake in its Montreal A25 road and announced the retirement of its CEO at the end of 2023.

Auckland Airport (AIA) upgraded FY23 profit guidance owing to a faster passenger recovery and resilient property income. It expects a full passenger recovery by the end of 2024. AIA's tariffs and substantial capex plans relating to its FY23-27 regulatory period will be released in mid-2023.

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