

# Resolution Capital Real Assets Fund - Class A

30 June 2023

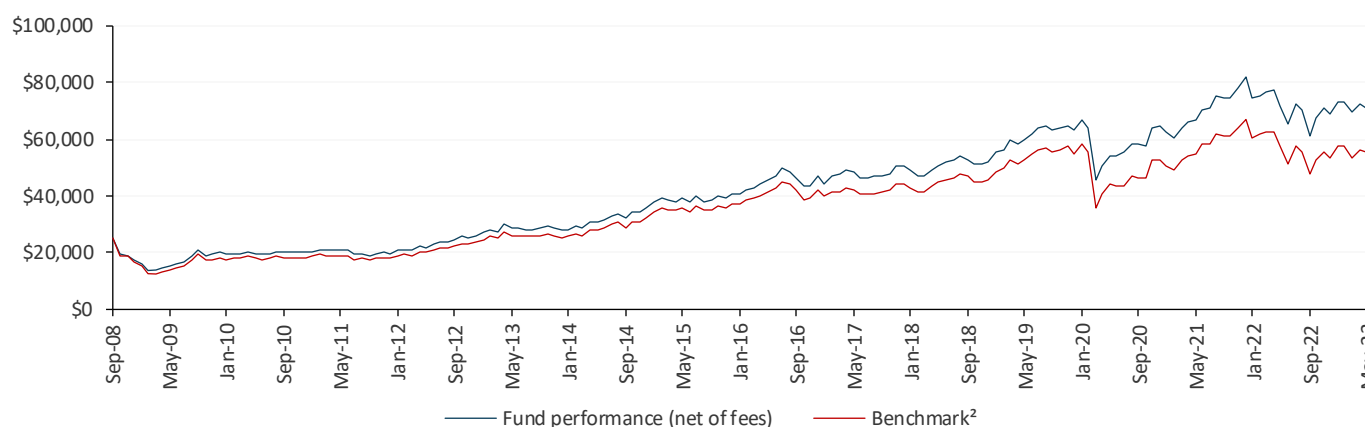


## Performance Summary

	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) <sup>1</sup>	-0.63	2.03	8.03	9.41	6.32	9.52	7.30
Benchmark <sup>2</sup> return	-0.09	3.15	7.49	8.52	3.88	7.95	5.55
Value Added (Net Performance)	-0.54	-1.12	0.54	0.89	2.44	1.57	1.75

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\*



<sup>1</sup>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.

<sup>2</sup>Benchmark is S&P/ASX 300 AREIT Total Return Index.

Source: Resolution Capital

## Top 5 Weights

Security Name	%
Goodman Group	19.32
Scentre Group	12.35
Vicinity Centres	6.53
Mirvac Group	5.20
Charter Hall Group	4.28

## Top 5 Contributors

Security Name	%
Goodman Group	0.56
Abacus Property Group	0.20
Arena REIT	0.07
RAM Essential Services	0.05
Federal Realty Investment	0.05

## Bottom 5 Contributors

Security Name	%
Scentre Group	-0.28
Region Group	-0.26
Dexus Industria	-0.17
Ingenia Communities Group	-0.17
Hotel Property Investments	-0.15

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

## Fund Details

<b>APIR code</b>	WHT0014AU	<b>Management Fee</b>	0.65% p.a. plus 20% of outperformance above the benchmark net of the management fee and expenses
<b>ARSN Code</b>	131 850 363	<b>Buy/Sell Spread</b>	+0.20%/-0.20%
<b>*Inception Date</b>	30 September 2008	<b>Distribution Frequency</b>	Quarterly
<b>Fund Size</b>	\$51.9 Million	<b>No. of Stocks</b>	Generally 20 to 40
<b>NAV per Unit</b>	\$0.50	<b>Risk/Return Profile</b>	The Fund's risk band is 5 (medium to high)
<b>Minimum Investment</b>	\$25,000	<b>Platform Availability</b>	<a href="https://rescap.com/realassetsfund">https://rescap.com/realassetsfund</a>
<b>Benchmark</b>	S&P/ASX 300 AREIT Total Return Index	<b>Investment Timeframe</b>	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 -0.1% for the month ended 30 June 2023, underperforming the Australian equities market (S&P/ASX 300 Total Return Index).

To curb elevated inflation the Reserve Bank of Australia (RBA) hiked interest rates in June by 0.25% to 4.1%. The RBA has increased rates at 12 of 13 meetings since May 2022 to the highest level since 2012.

Within A-REITs, industrial and diversified sectors outperformed whilst the retail and office sectors underperformed. Broadly, the Portfolio's infrastructure exposure detracted from relative performance.

Outperforming A-REITs included fund manager Home Consortium (HMC) and office/self-storage landlord Abacus (ABP). HMC announced it had raised \$350m in institutional capital for a new unlisted retail property fund. The Portfolio's underweight position detracted from relative performance. ABP raised \$225m of equity for its proposed new externally managed self-storage REIT tentatively named Abacus Storage King (ASK). Pricing of the new REIT reflected a 10% discount to Net Tangible Assets and the Portfolio participated in the raising. The Portfolio's overweight position in ABP contributed to relative performance.

Underperforming A-REITs included retail landlord Region Group (RGN) and diversified landlord Charter Hall Long WALE REIT (CLW). RGN and CLW were amongst several A-REITs to announce preliminary June 2023 appraisal property valuations. RGN's book value was marked down 1.7% whilst CLW's was down 5.8%. The Portfolio's overweight position in RGN detracted from relative performance whilst the underweight position in CLW contributed positively.

Broadly, appraised based property values have started to fall reflecting the pressure of higher interest rates and most importantly actual transactional evidence after a period limited activity. However, in aggregate A-REIT property values only fell ~3% over the six month period as capitalisation rates expanded by ~25 basis points, partially offset by higher income growth.

Appraised devaluations were most pronounced in office (down 4-8%) whilst non-discretionary retail was down 1.5-4.0%. Industrial, self-storage and childcare values were flat with rent growth offsetting cap rate expansion. Mall landlords have yet to report.

Some notable transactions took place this month. Office landlord Dexus (DXS) sold an A-grade office building at 44 Market St, Sydney for \$393m reflecting a 17% discount to book value, 6.6% cap rate and ~\$12,800/sqm. The asset has a short 3-year lease expiry and is only 85% occupied. DXS also sold a business park asset in Victoria for \$306m at a 7% premium to book value, bringing total FY23 divestments to ~\$1.5bn. DXS has a large development pipeline to fund. The Portfolio's underweight position contributed to relative performance.

We expect further devaluations will eventuate with more transactional evidence over 2023 as the market has had time to absorb and adjust to higher interest rates and more challenging economic conditions. A-REIT stock prices already reflect significant devaluations suggesting ~15%.

Several A-REITs released trading updates:

- Manufactured housing developer Ingenia Communities (INA) guided to the bottom end of its previous development settlement range, highlighting more home buyer caution.
- Residential-oriented landlord/developer Aspen (APZ) guided to the top end of its previous earnings range, reflecting ~39% growth aided by low residential vacancy and strong rent growth.
- National Storage REIT (NSR) softened earnings growth guidance to 8.5% from "at least" 8.5% and highlighted a deceleration in operational momentum with unit revenue growth slowing from 4.7% at Dec-22 to 3.5% in May-23.

It was an eventful month for Auckland Airport (AIA). AIA released forecasted capital expenditure, tariffs and targeted aeronautical returns for its new regulatory period spanning 2023-27. AIA expects passengers to recover to pre-COVID levels by ~2026. AIA intends to spend a monumental NZ\$5.6bn over 10 years to 2033, equating to ~40% of its current enterprise value, much of which relates to a new integrated domestic terminal. The capital expenditure will largely be debt funded but management has indicated it may raise up to \$1bn of equity in several years' time to ease the pressure on the balance sheet. The tariffs charged to airlines will rise materially to compensate the airport for the investment.

AIA noted that its target aeronautical return will lift to 8.7% from 6.6% to reflect higher interest rates and systematic risk evidenced during COVID. However, in a subsequent negative development the regulator, the New Zealand Commerce Commission, published its draft return methodology which implied a target return of only 6.7%. Whilst AIA is not bound by the decision, it introduces challenges for AIA that may see it lower its target return towards the regulator's (ie: lower tariffs), scale down the investment program or otherwise require more equity to fund it. Lastly, the Auckland City Council which owns an 18% stake in AIA approved the sale of a 7% stake. The Mayor had wanted to sell the entire stake but was met with opposition. The proceeds will be used to reduce government debt levels and mitigate the need to lift council rates. The Portfolio's position, which was trimmed during the month, detracted from relative performance.

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