

Resolution Capital Real Assets Fund - Class A

30 September 2022

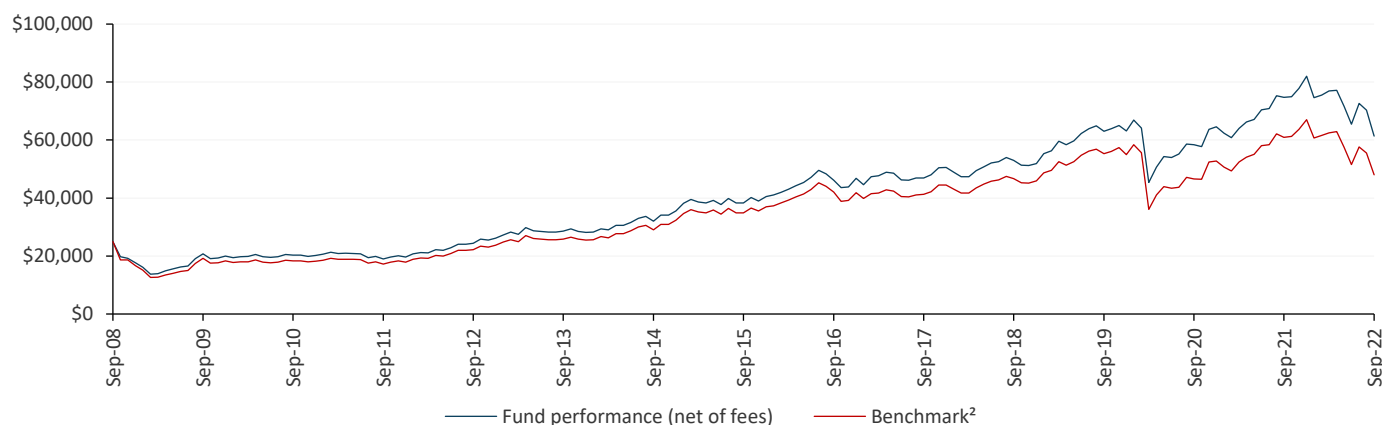
RESOLUTION CAPITAL

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 (Net Performance) ¹	-12.81	-6.32	-17.89	-0.90	5.49	9.64	6.62
Benchmark ² return	-13.56	-6.89	-21.13	-4.61	3.07	8.02	4.77
Value Added (Net Performance)	0.75	0.57	3.24	3.71	2.42	1.62	1.85

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*



¹Please 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.

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

Source: Resolution Capital

Top 5 Weights

Security Name	%
Goodman Group	16.80
Scentre Group	13.39
Vicinity Centres	6.64
Mirvac Group	5.75
Shopping Centres Australasia	4.97

Top 5 Contributors

Security Name	%
Invitation Homes	0.07
Vital Healthcare	0.00
BWP Trust	0.00
HomeCo Daily Needs	-0.01
Aspen Group	-0.02

Bottom 5 Contributors

Security Name	%
Goodman Group	-4.01
Scentre Group	-1.76
Charter Hall Group	-0.79
Shopping Centres Australasia	-0.59
Arena REIT	-0.54

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	\$45.3 Million	No. of Stocks	Generally 20 to 35
NAV per Unit	\$0.44	Investment Manager	Resolution Capital
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 -13.6% for the month ended 30 September 2022, underperforming the Australian equities market by 730bps (S&P/ASX 300 Total Return Index).

Globally, inflationary pressures persisted and bond yields rose as the U.S. Federal Reserve raised interest rates by 0.75% and its projections implied a higher terminal rate. Locally, the Reserve Bank of Australia raised the cash rate by 0.5% for the fourth month in a row to 2.35%, the highest level since 2015, with further increases expected.

Within A-REITs, diversified, self-storage, office and retail outperformed whilst industrial, fund managers and childcare underperformed. In general terms, A-REITs with lower leverage and stronger inflation protection characteristics outperformed whilst growth-oriented A-REITs trading on higher valuation multiples underperformed. Broadly, infrastructure outperformed real estate.

After a busy financial results season in August there was limited stock specific news in September.

We have previously written about office landlord Dexus' (DXS) acquisition of Collimate Capital's (formerly AMP Capital) domestic real estate and infrastructure funds management platform. In a further blow to DXS, this month the investors in the \$2.7bn AMP Retail Trust (ACRT) voted to transfer management of the fund to diversified landlord GPT. This is the third mandate the platform has lost in recent months with Collimate's funds under management down from ~\$28bn to ~\$18bn. This loss reduces the price DXS will ultimately pay. Underweight positions in Dexus and GPT detracted from relative performance.

Industrial developer and fund manager Goodman Group (GMG) underperformed this month. This may have partially stemmed from global transport behemoth FedEx reporting declining volumes due to worsening macroeconomic conditions and withdrawing 2023 earnings guidance. This bodes negatively for demand for industrial warehouses. The portfolio's underweight position in GMG contributed to relative performance.

Rising interest rates in recent months has caused real estate transactional activity to fall. Diversified A-REIT Mirvac (MGR) had flagged more than \$1bn planned divestments in FY23. This month MGR sold a Perth office building for \$223m, equating to ~\$7,800/sqm and representing a ~8% premium to headline book value. However, the effective price may be below book value given MGR is providing rental guarantees over vacant space and the 7.25% capitalisation rate is 0.5% wider than the appraisal cap rate. The portfolio's underweight position detracted from relative performance.

Given the equity market volatility, there have been few A-REIT equity raisings in 2022. One exception this month was diversified A-REIT Aspen Group (APZ) which owns a portfolio of residential, holiday park and retirement assets. APZ raised \$36m of equity constituting ~15% of issued capital. The proceeds will initially be used to reduce debt and better position APZ to take advantage of acquisition opportunities. The portfolio's overweight position contributed to relative performance.

Moving to infrastructure, toll road operator Atlas Arteria (ALX) raised \$3.1bn of equity to acquire a 67% stake in U.S. toll road Chicago Skyway. The US\$2bn price represents an eye-watering enterprise valuation multiple of 37.6x 2024 EBITDA. Skyway has some attractive qualities. The long concession runs for another 81 years to 2104, generates high margins, and positively tolls escalate at the greater of inflation, nominal GDP per capita or 2.0%. ALX estimates tolls will escalate 8-10% in 2023 and 2024. Traffic growth is not a major revenue driver but the road should benefit from a greater proportion of higher paying trucks. ALX maintained its dividend which will be supported by increasing leverage at Skyway. ALX's acquisition could potentially be part of its defence strategy against IFM which recently had taken a near 20% stake in ALX but had not issued a takeover bid. IFM had reportedly opposed the speculated acquisition before it was announced. The portfolio's overweight position in ALX detracted from relative performance.

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