

# INFINITAS CASE STUDY SERIES

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## REAL ASSETS



### A Safe Pair of Hands

While our decisions  
are conservative,  
the returns are not.



# REAL ASSETS INVESTMENTS IN A NUTSHELL

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Infinitas Asset Management Ltd holds a portfolio of real asset projects through several specialised investment funds.

This case study series presents a selection of our picks, including utility & infrastructure, office properties, and student accommodation facilities to showcase our investment philosophy and results.

# PERFORMANCE SNAPSHOT

## UTILITY & INFRASTRUCTURE

Unique opportunities in energy and water market to generate reliable cash flows plus substantial capital gains.

1. Duet Group	19.7% p.a.
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2. Water Fund	18.5% p.a.
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## OFFICE PROPERTIES

A diversified portfolio of A and B Grade office properties in capital and regional cities delivering superior returns.

3. Centuria 175 Castlereagh Street Fund	20.9% p.a.
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4. APN Regional Property Fund	23.1% p.a.
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## ACCOMMODATION FACILITIES

A rising niche market of student accommodation powered by Australia's ever-growing education export.

5. Student Accommodation Fund

Student Accommodation Fund 3 - Melbourne	20.1% p.a.
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Student Accommodation Fund 4 - Adelaide	1.35% p.a.
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Student Accommodation Fund 6 - Brisbane	14.1% p.a.
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Student Accommodation Fund 7 - Melbourne	-4.4% p.a.
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\*Updated in 31 March 2019

# UTILITY & INFRASTRUCTURE

## 1. Duet Group

Everyone in their life will receive bills. No matter if it is gas, electricity, or water. For households, utility bills mean a regular payment, which, however, to investors represent a stable cash inflow.

At the core of Infinitas Asset Management is the preservation of our clients' wealth, so we believe that an exposure to utility sector helps with this goal. History has proven utility firms a reliable source of value as we see their stable and high dividend yield even in the market downturn<sup>1</sup>.

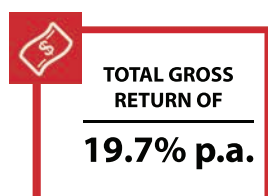
Among all utility firms, Duet Group (ASX: DUET, delisted due to takeover) represented a great opportunity to tap into the industry sector. As a diversified owner of regulated energy utility assets in Australia and other OECD countries, Duet Group controls a wide range of critical gas pipelines, the majority of which operate as monopolies.

With a surging need for more power supply to secure production and to meet growing household demand, we at Infinitas considered Duet Group a suitable target. Motivating our initial investment in July 2015, Duet Group was offering an 8% yield and almost 10% forecasted distribution growth.

In October 2015, subsequent purchases were made, and we increased our holding again for two more times in April 2016 and May 2016 as we were continuously convinced of its attractive and reliable yield.

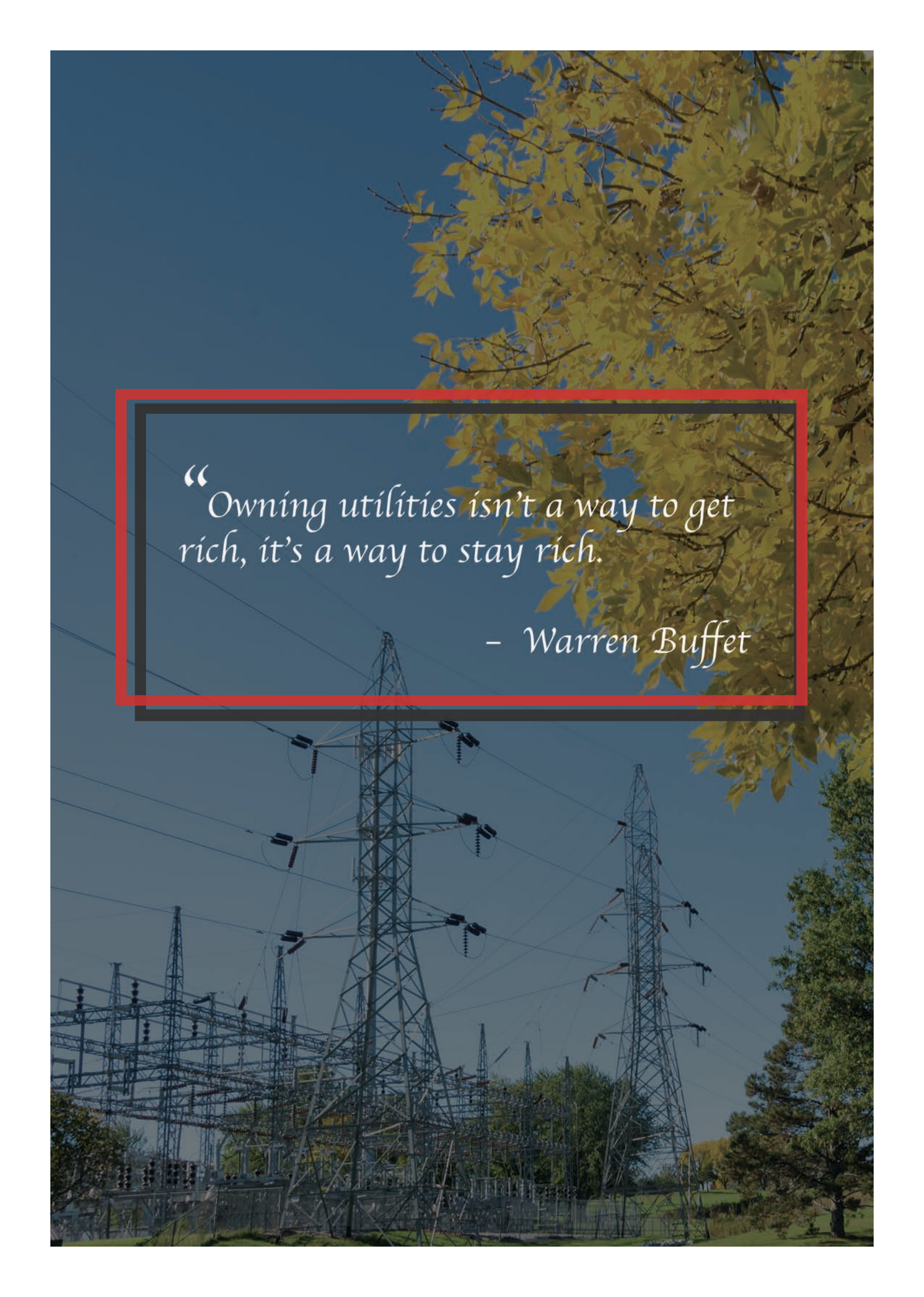
In April 2017, this company's potential was identified by Hong Kong infrastructure giant Cheung Kong, who then acquired Duet Group for \$7.4 billion dollars. We hence exited this investment as a result of this acquisition and sold our holding at a substantial premium.

As a result, Infinitas achieved a 19.7% p.a. total gross return from this investment over holding period of only 1.7 years.



<sup>1</sup>See for example S&P/ASX200 Utilities Index.





*“Owning utilities isn’t a way to get rich, it’s a way to stay rich.”*

*– Warren Buffet*

# UTILITY & INFRASTRUCTURE

## 2. Water Fund

After being an early investor in the Blue Sky Water Fund as early as the 2013/2014 financial year, during early calendar 2017, we decided to substantially increase our exposure to the asset class.

We decided on this course of action as we detected pricing themes that we saw the broader investment community was overlooking.

The period July 2016 to June 2017 was the wettest period on record for NSW. As expected, during that period we saw low-security, temporary water rights trade at up to 80% discounts to where they traded during the previous 12 months.

The theme that developed at the same time was that permanent, high-security water licence prices were steady on the previous year & in some cases, up marginally.





Our view was that if this was the pricing we witnesses during the wettest year on record, the risk profile with high-security water licences was asymmetric.

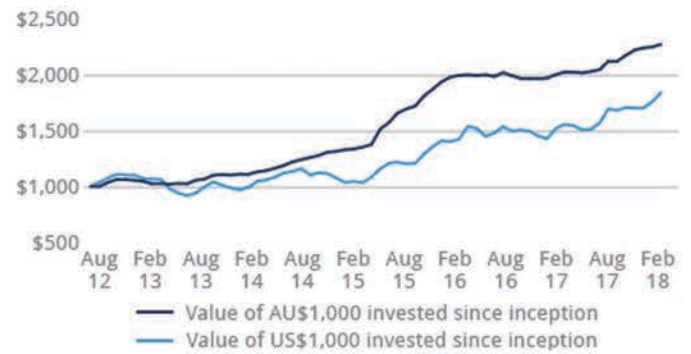
During April 2017 we substantially increased our exposure to the Water Fund.

During the next 12-month period, the weather patterns in NSW changed dramatically. The state had gone from a period of the wettest year on record to the driest year on record. Water licences of all varieties increased substantially.

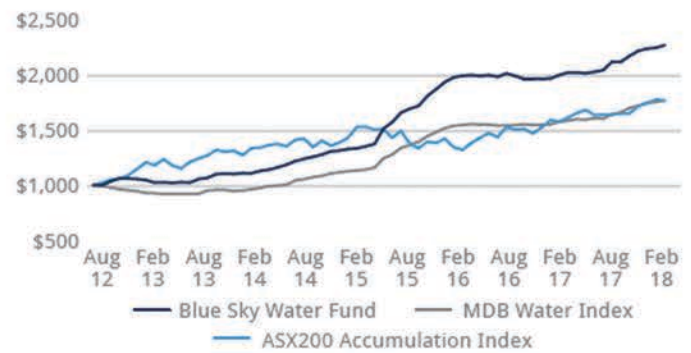
By the time we exited the Water fund in October 2018, clients received a total net return of 30% on their capital. This total return – net of all fees – to clients made the Water Fund one of the stand-out investments for the period.

<sup>2</sup>Murray-Darling Basin (MDB) is the world’s largest ‘cap and trade’ water market as a result of Australia’s bi-partisan National Water initiative (2007).

Performance Index Since Inception



Performance Index Since Inception



SOURCE: BLUE SKY ALTERNATIVE INVESTMENTS



**HIGH SECURITY  
WATER LICENCES  
ARE ON PAR WITH  
PROPERTY TITLES.**



**A STABLE POLITICAL  
& REGULATORY  
ENVIRONMENT  
ENSURES CERTAINTY  
OVER THE LICENSING  
REGIME.**



**ONGOING EXCESS  
DEMAND PROVIDES  
A SUITABLE  
MIXTURE OF  
GROWTH & YIELD.**

## OFFICE PROPERTIES

### 3. Centuria 175 Castlereagh Street Fund

Investments in commercial property can be tricky even for experienced investors. Apart from analysis of a property's location, intended tenants and more, many fail to recognise the importance of the market cycle and timing.

Back in 2013, the general mood of the office property market was quite negative, but our experience and analysis led to the view that Sydney was at or near the bottom of the market cycle, as vacancy rates started to improve while significant rental incentives were still being offered to tenants.

In the gloom we saw opportunity. With the CBD Light Rail Project moving forward, commuting to work would only become more convenient and time-saving, which would stimulate the demand of CBD properties.

In searching for targets, the underlying value of Centuria 175 Castlereagh Street Fund conformed to our expectations.



**This well located tower has strong fundamental with significantly more parking spaces than newer properties.**



**Its 9% yield was attractive, and the tower had improvement potential after appropriate renovation.**



**Predominantly government tenants provided us confidence in the reliability of rental yield.**

Lastly, given that the rollout of the new Sydney Metro would certainly take some commercial properties out of market, we believe that the tower would deliver a substantial capital gain either from direct government acquisition or from the reduction in mid-end office property supply in CBD area. We thus made our investment in April 2013.

Centuria, owner of the tower, then successfully removed the 20% of vacant spaces in the tower and increased rents by 20% through improved tenant demand and upgraded tenancies. Turned around during the ownership of Centuria, the tower was put on market for sale in 2015 and was subsequently acquired by the NSW State Government for its Light Rail Project at a significant premium.

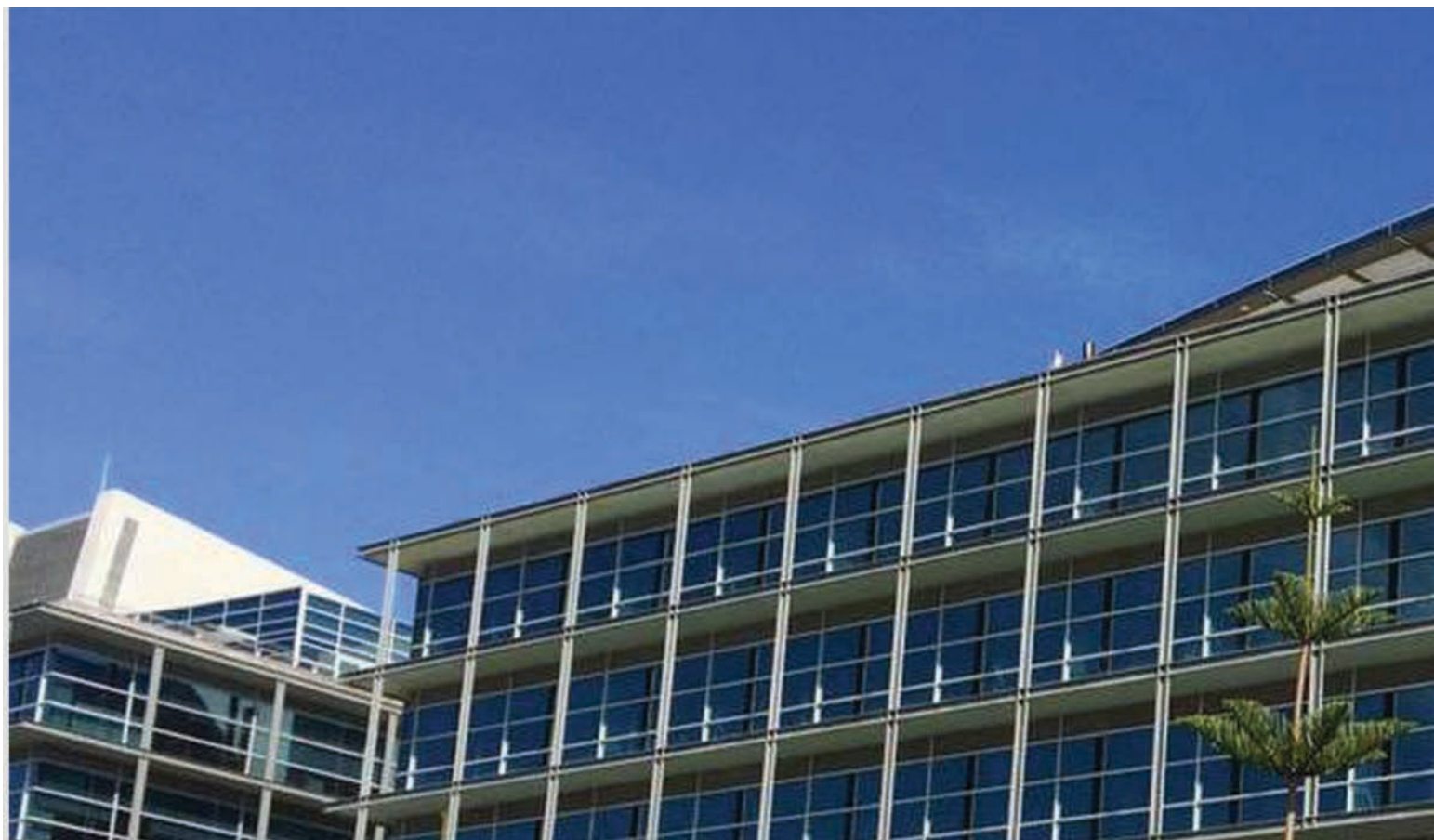
The government acquisition adds to our already successful investment. As a result, we achieved a gross return of 20.9% p.a. over a holding period of 2.6 years.





**TOTAL  
GROSS RETURN OF  
20.9% P.A.  
OVER 2.6 YEARS**

- 1. WE WERE BUYING AT THE BOTTOM OF SYDNEY CBD OFFICE CYCLE.**
- 2. IT HAD AN ATTRACTIVE YIELD WITH PREDOMINANTLY GOVERNMENT TENANTS.**
- 3. SIGNIFICANTLY GREATER AMOUNT OF PARKING SPACES THAN NEWER PROPERTIES.**



## OFFICE PROPERTIES

### 4. APN Regional Property Fund

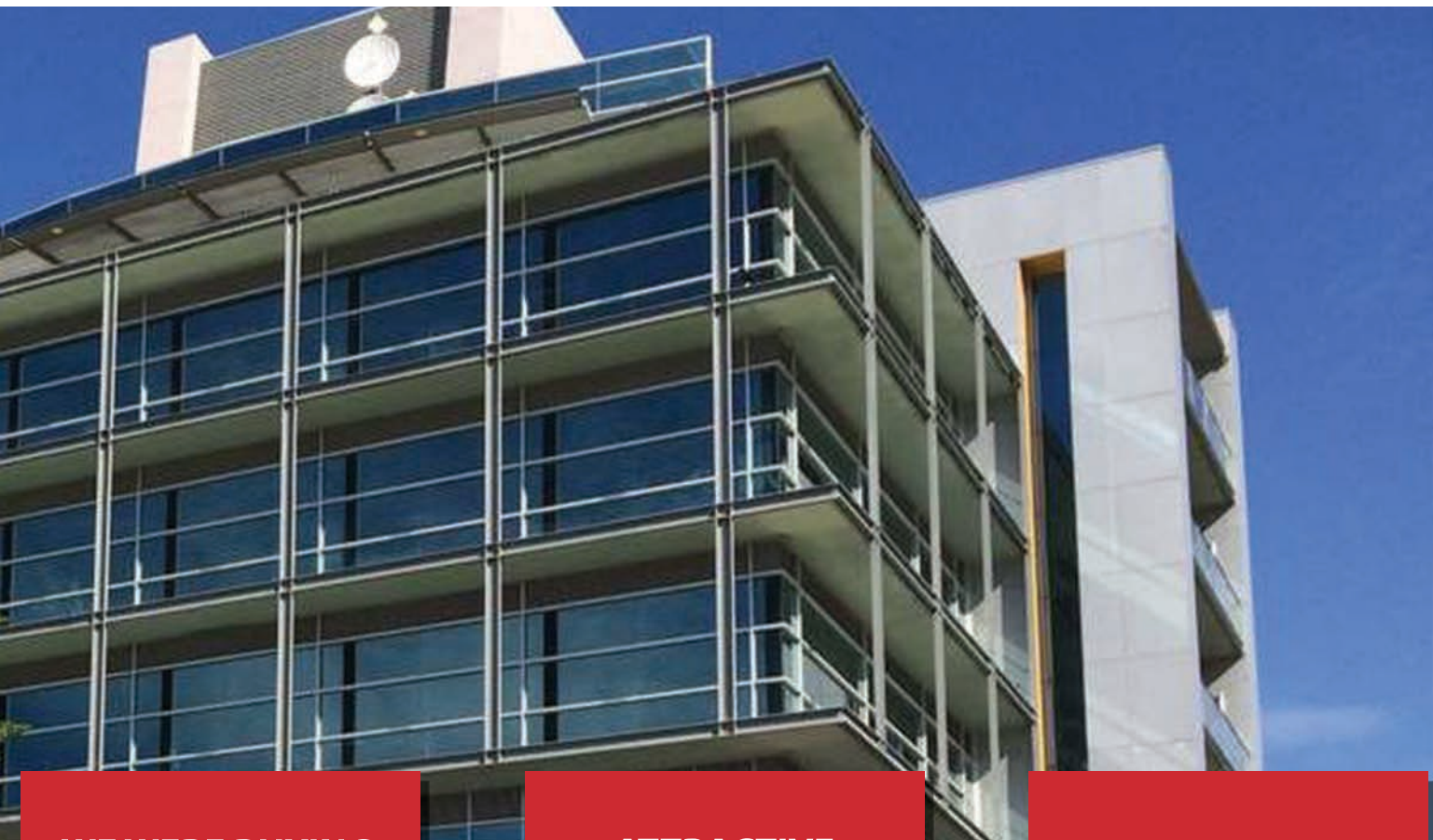
While most property investors primarily focus on Australian capital cities, we at Infinitas saw the opportunities in other significant urban areas. We consider investments in these areas a complement to our commercial property portfolio as well as a diversification for better risk management.

In late 2014, we held the view that the Newcastle CBD office market was at the bottom of its cycle, coinciding with an investment target identified by our research – one of the first modern A-Grade office properties in Newcastle CBD situated at 26 and 28 Honeysuckle Drive, developed and managed by APN Property Group.

In February 2015, we made our initial purchase of APN Regional Property Fund and established a direct exposure to this riverside office complex with two premium office buildings and strong parking provisions. The appealing fundamentals of the property leads to an occupancy at 99%, with major tenants including government departments, retail giants Coles and Target, and big-name corporates like PwC, Noble Resources and Sparke Helmore Lawyers.

As such, the fund has been delivering a high and reliable yield since inception.





**WE WERE BUYING  
AT THE BOTTOM  
OF THE  
NEWCASTLE CBD  
OFFICE CYCLE**

**ATTRACTIVE  
YIELD WITH  
PREDOMINANTLY  
GOVERNMENT  
TENANTS**

**SHORTAGE OF  
SUPPLY OF A  
GRADE OFFICE  
PROPERTY IN  
NEWCASTLE**

Furthermore, there was only a 5% vacancy rate for A-Grade buildings in Newcastle, and thus the resulting excess demand provides for upward pressure on rental levels allowing for growth of future yield.

Our initial investment made at the bottom of cycle was then followed by additional purchases in March, April and May of 2015 as we saw the strong performance of the fund coupled with a recovering property market.

As at the end of March 2019, we have achieved a 23.06% p.a. gross return over 4.1 years from this investment.



# ACCOMMODATION FACILITIES

## 5. Student Accommodation Fund

Over the years we have seen a rising middle class in several Asian countries, willing to afford a better education resource for the next generation. Meanwhile, after a decade of growth at 6.3% p.a. , education is now Australia’s third largest export after iron ore and coal.

Under this macroeconomic theme, however, there is a chronic shortage of supply for student accommodation in Australia, and hence a great investment opportunity. We at Infinitas also conducted a survey on students’ choices of living places and concluded that purpose-built accommodation facilities are preferred by international students for its safety, location convenience and managed services, which together motivated our investments in the Student Accommodation Funds. The funds facilitate the construction and maintenance of various student accommodation facilities across Australia, and present annuity style income flow post development completion, combined with potential for capital growth.

The table below lists our investments in the fund series, where we have recorded outstanding performances delivered over short holding periods from 6 months to 1.6 years. We plan to continue our holdings of these investments whilst their prospects remain bright.

Infinitas Portfolio of Student Accommodation Facilities

Fund		Initial Investment	Gross Return
Student Accommodation Fund 3	Melbourne	May-16	20.1% p.a.
Student Accommodation Fund 4	Adelaide	May-16	1.35% p.a.
Student Accommodation Fund 6	Brisbane	Aug-16	14.1% p.a.
Student Accommodation Fund 7	Melbourne	Apr-17	-4.4% p.a.

Returns are calculated as at 30 June 2018.



**CHRONIC SHORTAGE OF SUPPLY OF PURPOSE BUILT  
STUDENT ACCOMMODATION IN AUSTRALIA**



**STRONG GROWTH IN INTERNATIONAL STUDENT NUMBERS,  
EDUCATION ALSO BEING AUSTRALIA'S 3RD LARGEST EXPORT**

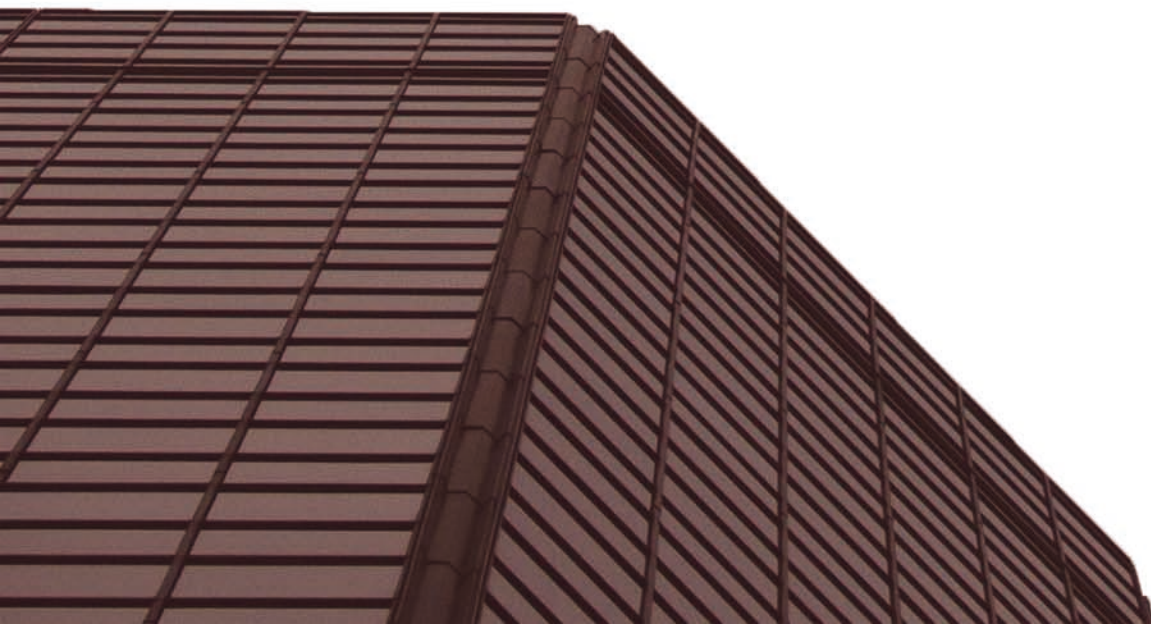


**YIELDS UPON DEVELOPMENT COMPLETION (18MTHS)  
ESTIMATED TO BE 10%+**

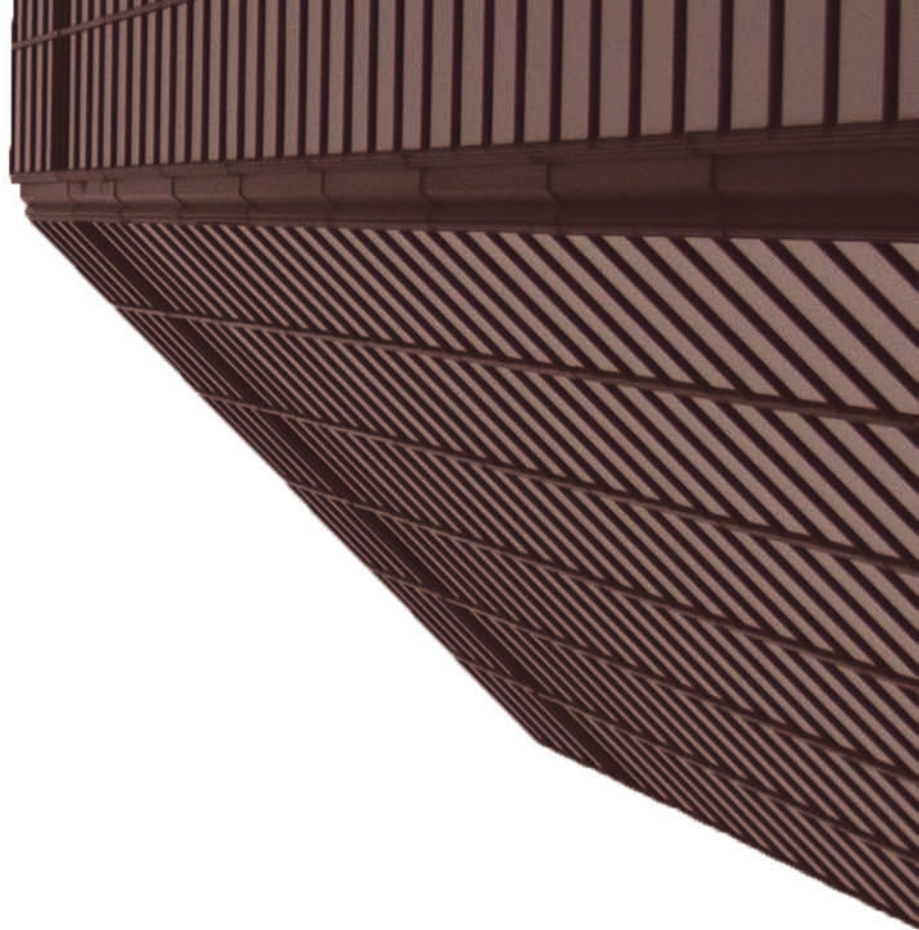
## DISCLOSURE & DISCLAIMER

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