

BWP Trust Limited (BWP), Buy Altor Social Infrastructure Fund (ASIF)

November 2024

Property plays a key role in portfolios, providing exposure to real assets that generate consistent income. Exposure to property can come in many forms, though the most common for investors is via unlisted or listed variants – providing different return profiles in exchange for liquidity, volatility and investment horizons. Unlike direct property investments, both forms allow market entry without substantial upfront capital.

However, in a high-interest-rate environment, listed REITs face challenges such as increased borrowing costs, which pressure profit margins and may hinder growth, potentially impacting returns in the near term.

For context, Newmark Hardware Trust which was originally an unlisted unit trust, was favoured in client portfolios for its stable unit price and dependable, higher distributions that provided a steady income stream for clients. However, following the float of the ASX listing as Newmark Property REIT (NPR) in December 2021 and the subsequent rise in gearing amid higher interest rates, NPR began trading at a substantial discount to NTA, which diminished its appeal. Reflecting on this transition, we continue to favour the attributes of the original unlisted structure for its stability and consistent distributions, which aligned well with our income-focused investment approach.

Following this, BWP Trust (ASX: BWP) which is a listed REIT that invests in and manages commercial properties acquired Newmark Property REIT (ASX: NPR) in mid-2024, resulting in NPR holders receiving BWP Shares, and BWP's total asset base surpassing \$3.5 billion.

We recommend selling BWP Trust (BWP)

For context, the portfolio primarily comprises large-format retail properties, most of which are leased to Australia's leading hardware chain, Bunnings Warehouse. Wesfarmers, which owns Bunnings Warehouse, holds a 23% stake in BWP and acts as its external manager.

BWP's rental income is structured to grow with the Consumer Price Index or at a fixed annual rate of about 3%. However, distribution growth may remain muted in the medium term due to challenges, including Bunnings vacating some older properties and rising debt costs.

These factors could increase vacancy rates, putting downward pressure on earnings. As such, we anticipate subdued earnings growth over the next decade, as new lease terms with Bunnings may not be as favourable for BWP. Additionally, Bunnings seems to hold a stronger position in its landlord-tenant relationship with BWP; while BWP has historically shared in Bunnings' success, we believe Bunnings will increasingly treat BWP like any other landlord.

Further to this, we are cautious of potential challenges the trust may face, especially with the current market outlook suggesting interest rates could stay higher for longer, which we believe may put further downwards pressure on the trust's ability to increase its distribution to shareholders.

As such, we recommend selling BWP Trust.

We recommend purchasing the Altor Social Infrastructure Fund.

The Altor Social Infrastructure Fund ("The Fund") provides investors with exposure to a diversified portfolio within the social infrastructure sector, targeting a cash distribution rate of 8% p.a. payable quarterly.

The Altor Social Infrastructure Fund invests in essential physical assets backed by government-funded industries that provide stable cash flows through the non-cyclical nature of essential services.

The Fund aims for long-term stable returns by investing in essential sectors such as Specialist Disability Accommodation (SDA), healthcare, education and childcare centres. These sectors offer defensive qualities and growth potential, supporting the fund's goal of stable income and resilience amid economic uncertainties.

When investing in SDA, The Fund seeks core attributes such as reputable operators, operators with a "participant-led" approach, and a solid track record with a commitment to achieving both financial and social impact outcomes.

The investment team has over 80 years of combined experience in property development, credit, banking, finance, and investment, with a successful track record of deploying \$680 million in projects. They work closely with each project delivery team at the control group level to ensure successful project execution.

All investments will undergo a thorough due diligence process in which the Manager assesses project feasibility, examining delivery, costs, team capabilities, asset performance, valuation, and risk identification and mitigation. Each asset must align with the Fund's mandate.

The Fund pursues investments in social infrastructure assets through a range of strategies, selected for optimal risk-adjusted returns. These may include preferred equity, debt financing, direct property ownership, joint ventures, fund-through structures, or development roles. The portfolio's target Loan-to-Value Ratio (LVR) is set between 35% and 50%, with a maximum cap of 65% to maintain responsible leverage levels.

Distributions from the fund are expected to be on a quarterly basis (March, June, September and December) with payments issued the following month.

Since its launch in July 2024, the fund has been in its ramp-up phase, actively investing in a mix of preferred equity and debt investments across assets in South-East Queensland. Its most recent transaction was a senior debt facility for a third SDA asset.

Given the nature of the fund's underlying exposure to real assets, the Fund is anticipated to be illiquid, with an 18-month lock-up from the initial unit allocation. Afterwards, redemptions will be available quarterly, requiring a 60-day notice. Redemptions are capped at 5% of the Fund's total net asset value per quarter.

This structure is intended to support the Fund's focus on stable, long-term returns in essential infrastructure, in line with Altor's investment discipline.

With these elements in mind, we see the Altor Social Infrastructure Fund as a compelling choice for investors seeking both income generation and capital appreciation through real asset exposure, with the added benefit of resilience against broader market volatility.

As such, we recommend investing in the Altor Social Infrastructure Fund.

For further details, please refer to the Information Memorandum (IM) linked below.

This LoA confirms the reasons for our recommendation, the consequences and any costs associated with this advice. It does not address any other financial planning needs other than those stated above.

Trade Timeframe

Redemption

Please note that once this advice is accepted, BWP will be sold in line with market volume to execute at the best possible execution price. Proceeds from the sale are anticipated to be credited to cash accounts within three business days.

Application

We expect applications to be made once proceeds from the sale of the BWP Trust (ASX:BWP) credit your cash account.

Applications to the Altor Social Infrastructure Fund are processed monthly, with a cut-off three business days before the last business day of each month. Applications received after this cut-off will be processed in the following month.

Alternatively, if you wish to buy the Altor Social Infrastructure Fund immediately through cash, please contact your financial adviser to discuss.

Please note that following acceptance of this advice, a designated client services representative will be in contact with you to complete the appropriate application form.

If you have any queries or would like to speak with us regarding the above, please contact your Financial

Adviser or Client Services on 1800 064 959.

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Yours sincerely,

Primestock Securities Ltd

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