Yarra Ex-20 Australian Equities Fund

Gross returns as at 30 June 2024

	From 25 June 2018^	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.*
Yarra Ex-20 Australian Equities Fund	6.11	-0.70	-4.23	6.77	7.38	7.78	6.86	7.87
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index#	6.01	-0.85	-4.30	7.49	3.96	5.85	N/A	N/A
Excess return (before fees)‡	0.10	0.14	0.06	-0.73	3.41	1.93	N/A	N/A

Past performance is not a reliable indicator of future performance. Taxes payable by investors have not been taken into account. The figures shown have been provided for illustrative purposes – they are unaudited and subject to change. The total returns shown are gross of all fees, meaning they do not reflect the deduction of any investment management fees which would reduce returns and assume reinvestment of all distributions. Investment in the fund is not available on a fee free basis and this should be factored into any analysis of past performance.

Net returns as at 30 June 2024

	From 25 June 2018^	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.*
Yarra Ex-20 Australian Equities Fund	5.16	-0.78	-4.45	5.81	6.42	6.82	5.74	6.67
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index#	6.01	-0.85	-4.30	7.49	3.96	5.85	N/A	N/A
Excess return (after fees)‡	-0.86	0.07	-0.15	-1.68	2.46	0.97	N/A	N/A

Past performance is not a reliable indicator of future performance. Taxes payable by investors have not been taken into account. The figures shown have been provided for illustrative purposes – they are unaudited and subject to change. The total returns shown are prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.

^ **Effective 25 June 2018 the Fund's investment strategy, name and benchmark was changed. Performance prior to 25 July 2018 is provided here for consistency purposes only – the historical performance data shown relates to the previous strategy and should not be used to assess past or future performance of the Fund. Performance data relating to the previous strategy is available upon request. Past performance is not a reliable indicator of future performance. Taxes payable by investors have not been taken into account.** The figures shown have been provided for illustrative purposes – they are unaudited and subject to change. The total returns shown are prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.

* Inception date Yarra Ex-20 Australian Equities Fund: August 2010.

The benchmark for the Yarra Ex-20 Australian Equities Fund has been amended since the Fund's inception. Effective 25 July 2018, the benchmark is the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index, replacing the S&P/ASX 300 Accumulation Index.

‡ Excess return: The difference between the Fund's return and the benchmark return.

Market review

The Australian Ex-20 equities market fell during the second quarter of 2024.

The S&P/ASX 300 Ex-20 Accumulation Index weakened 4.3% for the quarter, taking its 12-month return to 7.5%. In comparison, the broader ASX300 returned 0.9% for the period. On a global scale, the MSCI World Index also generated a +2.2% return.

Utilities (+13.3%) was the strongest performing sector. Origin Energy (ORG, +18.0%) was the largest contributor following an increase in wholesale electricity prices during the period. AGL Energy (AGL, +29.9%) was also a strong performer following a positive trading update which included an improved profit outlook.

In contrast, Materials (-9.2%) was the largest detractor during the quarter. Mineral Resources (MIN, -23.9%) was the largest underperformer as iron ore prices fell during the period and following the closure of its Yilgarn Hub. Other notable detractors were Pilbara Minerals (PLS, -19.8%), Northern Star Resources (NST, -10.2%) and Bluescope Steel (BSL, -14.3%).

Real Estate (-10.9%) was also a detracting sector as the prospect of an August interest rate hike increased following a higher than anticipated June CPI print. Underperformance stemmed from across the sector with Mirvac Group (MGR, -18.1%), Stockland (SGP, -10.6%) and Charter Hall Group (CHC, -17.1%) all detracting during the period.

Key Contributors

Origin Energy (ORG, overweight) – the integrated energy company outperformed during the period, as the market factored in the recent uplift in wholesale electricity prices and the continued strengthening of the investment case in Octopus. ORG has a clear path towards transitioning its electricity supply to less carbon intensive sources as further evidenced by the announcement of the acquisition of a 1.5-Gigawatt wind farm development site during the month.

James Hardie (JHX, underweight) – the building materials supply company underperformed during the period driven by the release of a disappointing fourth quarter and full year update. Driving the weakness was a miss to fourth quarter profit expectations of 3%. In addition, JHX's guidance for FY25 earnings was well below the consensus estimate (-13% below). We retain an underweight position as we note a more challenged market share outlook, particularly given the excellent year in FY24 for share gains. Indeed, guidance implies a massive contraction from 11% primary demand growth in FY24 to 2% FY25.

Insurance Australia Group (IAG, overweight) – the insurance company showed strong performance during the period, largely due to a positive guidance update. The company's results were reported to be in line with expectations, trending towards the higher end of the projected ranges. Additionally, IAG announced a significant reinsurance agreement with National Indemnity Company. This deal provides IAG with an extra $680 million in annual protection, strengthening its risk management position. We anticipate a favorable 18-month period ahead for the company, primarily driven by robust growth in Net Earned Premium (NEP). This growth trajectory supports our positive view on IAG's near-term prospects.

Key Detractors

Reliance Worldwide (RWC, overweight) – the plumbing supplies company gave back some of its strong CYTD returns during the period as the combination of higher interest rates in the USA and rising copper prices weighed on the share price. A push back in expectations of rate cuts in the US has the market applying a lower probability to a US housing market recovery in CY25, while a rising copper price creates an input cost headwind that RWC will need to address through active price increases into FY25. Nonetheless, at current levels, we believe the stock valuation doesn't give appropriate credit to the mid-cycle earnings power of the group considering the resilience of its end markets, the majority of which relates to more non-discretionary, repair type housing activity.

Sims (SGM, overweight) – the steel producer underperformed following an operational update that disappointed relative to expectations. The company expects to report an underlying 2H EBIT marginally lower than that achieved in 1HFY24. The outlook for SGM near term remains tough given China continues to over-produce steel and export the excess, but with the stock trading well below NTA, and evidence that NAM is finally turning a corner, we are happy to retain our overweight position.

Nine Entertainment Co. (NEC, overweight) – the media company's performance lagged during the period. Challenging advertising market conditions continue as inflation remains stubbornly persistent and consumers remain pessimistic about their outlook. However, NEC is well-positioned to benefit from the cycle when conditions do improve. Channel 9 holds a strong position in the Free-to-Air (FTA) television market which is increasingly being dominated by just the two players. The company has a strong set of customer data which should become even more valuable when Google phases out its third-party cookies. Lastly, the company possesses a high-quality portfolio of digital assets, including online print media and the streaming service Stan.

Key Active Overweights

NEXTDC (NXT) – the portfolio maintains an overweight position in Australia's leading data centre owner and developer. The company has a unique combination of structural long-term earnings growth driven by the adoption of cloud and artificial intelligence capabilities, combined with infrastructure-like characteristics, solid returns on capital and backed by a tangible asset base.

Origin Energy (ORG) – the portfolio has an overweight position in ORG which has a strong structural position to participate in Australia's energy transition. Despite recent takeover interest we still believe the market is underappreciating the combined value across its three main assets of Energy Markets, APLNG and Octopus. We anticipate ORG's strong cashflow generation will be more highly valued as ORG proves out its ability to effectively participate in Australia's energy transition and the value in its Octopus holding to continue to grow over time.

CAR Group (CAR) – we are overweight the online vehicle classifieds company which has strong growth potential across Australia (42% revenue), Trader Interactive (25% revenue), and Webmotors (16% revenue). CAR Group has materially stepped-up investment into product development recently which should permit for further yield growth across all geographies. In Australia, CAR's market position has strengthened in the private segment, in particular. The offshore businesses are less mature and have further runway for growth as key learnings (i.e. dynamic pricing) from the Australian business are applied offshore. The visibility on CAR's medium term revenue growth has improved, and we think the 33.0-times FY25 earnings trading multiple is relatively undemanding given these tailwinds.

Key Active Underweights

Suncorp (SUN) – whilst we maintain a favourable view on Australian general insurers, the portfolio is underweight SUN with positions held in preferred exposures of QBE Group (QBE) and Insurance Australia Group (IAG). Domestic insurers look set for a strong 2024 with widening margins on the back of double-digit premium increases across home and motor portfolios.

Cochlear (COH) – we remain underweight the global producer of hearing technologies. While we like the strong underlying ear implant demand outlook – supported by COH's ongoing investment into clinical awareness – we are conscious that COH's key developed, and emerging markets have now largely recovered following COVID as hospital capacity issues have normalised. Additionally, the upside from the successful product upgrade cycle is now well understood, making the valuation case difficult with the stock trading on in excess of 46.5-times NTM P/E.

Brambles (BXB) – we remain underweight the global provider of pallet pooling solutions to various FMCG producers.

Supported by a favourable pricing environment, Brambles currently has strong operating momentum with improving free cash flow. Looking forward however, we are cautious on the sustainability of the current high level of profit growth as customer demand and pricing dynamics normalise. Stock valuation in this environment (15.6-times FY25 P/E) looks to capture the remaining upside.

Market outlook

The 2023-24 financial year is now complete and concludes what we have broadly labelled the "hope" phase for financial markets – an environment where equities rally via PE expansion rather than via earnings growth. It's now time for the individual stocks to deliver on those growth expectations, which typically is a bumpier experience for markets. In broad terms, it was a good financial year for markets. A 20% return for global equity markets, regardless of whether you bothered to hedge or not, was only just eclipsed by a 21% return from gold, thanks in part to central bank buying. REITs returned a solid 17%, commodities rose a respectable 15%, and although it was a weaker finish to the financial year the AS200 returned an above average 12% - the same return generated by alternative assets. In contrast, Australian fixed interest returned 3.7% and global bonds a paltry 0.9%.

We adopted a top-down pro-risk stance heading into Q4 2023, in part because we expected consensus to lift their economic growth forecasts, lower their inflation forecasts and for interest rates to commence declining across the major economies from mid-2024. Interest rate reductions in Sweden, Switzerland, Canada and the Euro Area are likely to be met with the Bank of England likely easing in August and we believe the Fed will commence its easing cycle in September. All of this is good news, however, there is now less of a gap between our long held more optimist views on global growth and the consensus. There are also signs that the positive momentum for global economic growth is starting to falter. Broadly, we think most of the good news we have been flagging is now largely imbedded in market pricing and we are somewhat uncomfortable with the narrow nature of the equity rally and what promises to be a drawn out and we think ultimately demoralising US election campaign. In short, we are expecting that transitioning from the more thematic driven "hope" phase of the cycle to the more stock specific mid-cycle phase for financial markets will not come without some growing pains in Q3 2024.

Turning to Australia, a recession has been avoided, yet Australia continues to operate near stall speed. GDP increased just 0.1%qoq taking the annual rate to 1.1%yoy. Excluding COVID this is the slowest annual rate of growth in 32 years. GDP per capita declined 0.4%qoq – the 4th consecutive decline - taking the annual rate to negative 1.3%yoy. This is the worst contraction since December quarter 1991 excluding the COVID period, and this measure has only expanded once in the past 7 quarters. No one should be disputing that the past 12 months likely felt like a recession for many Australians.

The Reserve Bank of Australia (RBA) is caught between a relatively weak economy and persistent wage growth and consumer inflation, nevertheless, the RBA should be buoyed by signs that the decline in productivity appears to have passed and wage pressures appear to have peaked. With respect to the latter, the 3.75% increase in awards, compared to the 5.75% in 2023, will help expedite an easing in wage pressures through 2H2024.

Australia, like many of its developed nation peers, also printed above consensus inflation in 1Q and the volatile monthly CPI measure points to high and persistent inflation in 2Q. However, we believe the upside surprise in Australia's CPI overstates the real-time price pressures. Much of the upside came via government administered prices, which tend to reflect where inflation was in the prior year rather than current cost pressures, and the prevalence of residual seasonality in inflation pressures at the start of the calendar year. Traded goods prices are trending lower and once administered prices are removed, private sector services prices are expanding at an inflation target consistent pace. While we can't rule out the RBA choosing to hike again in August, we remain of the view that inflation will finish 2024 inside the RBA's target band of 2-3% and the RBA will commence a modest easing cycle for interest rates in 4Q 2024.

Against this moderation in inflationary pressure we expect economic growth to accelerate sequentially through 2024, albeit remaining well below 'potential' growth. We expect the upswing in global industrial production to provide a tailwind for Australian economic growth. Rising capex intentions in concert with investment backlogs should support business investment growth and the consumer outlook should be supported by a recovery in real household income growth driven by ongoing wage growth, income tax cuts, cost of living support delivered in the Budget and the commencement of the rate easing cycle later in 2024.

As a consequence, we are relatively constructive on the outlook for the Australian economy and the equity market outlook for 2024-25, even if there are some nearer term headwinds. We expect economic growth to average 1.75% v a consensus forecast of 1.3% in 2024, bond yields to finish the year at 4.5%, the $A/$US to reach 72c, and Australian equities to return 10%.

We are most overweight stocks within the Communication Services, Utilities and Consumer Discretionary and underweight Industrials, Real Estate and Energy.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	11.49	4.88	6.61
Consumer Discretionary	11.89	7.48	4.41
Consumer Staples	0.00	3.60	-3.60
Energy	0.00	3.80	-3.80
Financials	10.39	14.36	-3.98
Health Care	7.34	10.38	-3.05
Industrials	7.56	13.41	-5.84
Information Technology	10.09	8.59	1.51
Materials	18.22	19.02	-0.80
Real Estate	5.73	10.60	-4.87
Utilities	9.66	3.88	5.78

Top 3 holdings

	Portfolio %	Benchmark %	Active %
Origin Energy	5.94	2.04	3.89
NEXTDC	5.37	1.16	4.21
CAR Group	5.34	1.45	3.88

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
NEXTDC	5.37	1.16	4.21
Origin Energy	5.94	2.04	3.89
CAR Group	5.34	1.45	3.88
Underweights			
Suncorp Group	0.00	2.42	-2.42
Cochlear	0.00	2.38	-2.38
Brambles	0.00	2.21	-2.21

Portfolio holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.

Income and growth

	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Growth return	4.36	4.38	4.83	3.22
Distribution return	1.45	2.03	1.99	2.52

The Growth Return is measured by the movement in the Fund's unit price, ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders by way of income distribution in a 12-month period. It does not include capital distributions.

Features

Investment objective	To achieve medium-to-long term capital growth through exposure to Australian Securities Exchange listed securities excluding the largest 20 by market capitalisation (as defined by the S&P/ASX 20 Index). In doing so, the aim is to outperform the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index over rolling 3-year periods.
Recommended investment time frame	5 - 7 + years
Fund inception	August 2010
Fund size	A$51.9 mn as at 30 June 2024
APIR code	JBW0052AU
Estimated management cost	0.90% p.a
Buy/sell spread	+/- 0.15%
Platform availability	BT Panorama Praemium Hub24

Applications and contacts

Investment into the Yarra Ex-20 Australian Equities Fund can be made by Australian resident investors only.

Website www.yarracm.com

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