Yarra Growth Fund

Net returns as at 30 June 2022

	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.
Total Fund return (net)	-4.09	-6.56	-11.18	-6.17	3.12	5.32	8.43	6.65
Fund growth return (net)	-7.34	-9.73	-14.19	-9.62	-1.43	-0.84	0.85	1.14
Fund distribution return (net)	3.25	3.17	3.01	3.45	4.55	6.16	7.58	5.51
Benchmark*	-5.06	-7.98	-11.99	-7.13	3.98	7.05	9.87	7.79

Source: YIML, BNP Paribas. Total Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund minus Fund growth return. Past performance is not an indicator of future performance. Inception date: February 1996.
* The Fund's benchmark is a composite index constructed using the applicable asset class index, weighted according to the Fund's benchmark asset allocation of: 15% of Bloomberg AusBond Composite 0+ YR Index for Australian fixed interest, 30% of S&P/ ASX 200 Accumulation Index for Australian shares, 50% of MSCI All Countries World Index Net Total Return AUD Index (unhedged) for overseas shares, 0% of S&P/ASX 300 Australian Real Estate Investment Trusts (A-REITs) Accumulation Index for property securities (effective 16 December 2013. Prior to this was the S&P/ASX 200 A-REITs Accumulation Index), and 5% of Bloomberg AusBond Bank Bill Index for Cash.

Portfolio review

The Fund returned -6.56% in Q2, outperforming its composite benchmark return of -7.98% by 142 basis points (bps) during the quarter, as the large equity allocations outperformed their respective benchmarks. The Fund's negative return over the quarter was driven by all the underlying asset classes which posted negative returns. The global equities allocation returned -6.37% over the quarter, the Australian equities allocation returned -7.79% and the Australian fixed interest allocation returned -4.29%.

Australian Equities

The S&P/ASX 200 Accumulation Index returned -11.9% during the quarter. Australian equities underperformed global equities which returned -7.9% as measured by the MSCI All Countries World Index (in AUD, unhedged). Equities were weaker over the quarter, as investors fretted over rising inflation levels and the chance of an economic recession.

Domestic economic data releases were mixed during the quarter. The Q1 inflation rate was up 2.1%, while the annual rate rose to 5.1% due to significant rises in fuel and new dwelling prices. The Australian economy expanded by 0.8% in Q1, exceeding market forecasts of 0.5%. It was the second consecutive quarter of expansion following a contraction in Q3. Employment has remained positive in recent months and rose by 66,600 positions in May, which was well above market expectations. The unemployment rate fell to 3.9% in March, the lowest on record and has remained at this level for the third straight month. The NAB Survey of Business Conditions fell 2 points to 16 index points in May, remaining well above average after a strong first few months of the year. Business confidence fell 4 points in May to 6 index points, remaining just above its long-term average. Retail sales were up 0.9% in May, recording the fifth straight month of growth, as the economy recovers from the COVID-19 disruptions of last year. National CoreLogic dwelling prices saw consecutive monthly falls in May and June, down 0.2% over Q2.

Sector returns were mostly weaker. The top performing sector was utilities (1.7%), followed by energy (1.5%) and industrials (-1.4%). Health care (-1.9%), consumer staples (-3.4%) and communication services (-10.1%) also outperformed the broader Index. Financials (-13.7%), consumer discretionary (-14.9%), materials (-16.1%) and real estate (-17.7%) all underperformed the Index. Information technology (-27.2%) was the worst performing sector during the quarter.

The Fund's Australian equity holdings outperformed the benchmark during the quarter. The largest contributors to performance were Ramsay Health Care, QBE Insurance and Coles Group. Ramsay Health Care outperformed, on the back of a proposal from a private equity consortium to buy 100% of the shares in Ramsay at $88, which was pitched above the prevailing share price of $65. QBE Insurance performed well as the market continued to focus on the impact from rising interest rates, which is favourable for the insurance sector as investment income on their premium float is set to benefit. Coles outperformed as the prospects of a recession along with higher inflation, led investors to favour the defensive characteristics of Coles Group's supermarket business, which allows for cost inflation to be readily passed onto consumers. The biggest detractors from performance were CSL, Insignia Financial and 29Metals. The underweight in CSL detracted from performance, as CSL's main blood plasma dependent business unit's outlook was boosted by data released indicating plasma collections had recovered to pre-pandemic levels. Insignia Financial underperformed, as weak equity markets weighed on the sector, resulting in negative mark-to-market revenue revisions and the continuation of meaningful numbers of advisers exiting the business also weighed on sentiment. 29Metals underperformed the market largely on the back of falling commodity prices, particularly copper and fears of a more prolonged slowdown in China's property sector.

Global Equities

Global equity markets during June saw further notable retracement and completed a rather miserable quarter for investors. Investors are now recognising that demand suppression is the medicine of choice of Central Banks to restore their inflation fighting credibility and no doubt also the pressures on their highly leveraged balance sheets. Slowing economic activity is being embraced and the wealth effect of a correction in financial asset prices is actually helpful in this regard.

The performance of sectors over the quarter overall reflected these concerns, with more cyclical sectors such as information technology, consumer discretionary and communication services (particularly excluding more defensive telecom companies) leading the declines. During June it was also notable that prior winners such as materials and energy experienced notable corrections, though energy still remained the best performing sector over the second quarter. With this increasing pessimism over the growth outlook, more defensive business models are being valued highly from a relative perspective and reflecting this, both healthcare and consumer staples outperformed during both June and the overall quarter.

The Fund's global equity holdings outperformed the benchmark during the quarter. The largest contributors to performance included AdaptHealth, Coca Cola and Progressive Corporation. AdaptHealth outperformed following positive commentary from management on the resolution of market-related CPAP issues. The potential completion of the Philips recall in early 2023 and likely easing of chip supply issues should quickly restore organic revenue growth and increase profitability. Coca Cola benefitted from a recovery in consumer staples, with investors leaning into defensive names in the face of a looming recession. Progressive Corporation shares rose during the quarter, benefitting from improving margins in its personal auto business and from its sensitivity to rising interest rates, via its large investment book. Notable detractors from performance included Deere & Co, Intercontinental Exchange and Schneider Electric. Deere & Co shares experienced notable profit taking, reflecting a broader trend in US machinery stocks. Intercontinental Exchange underperformed following an announcement that the company is acquiring Black Knight, a software, data and analytics company that serves the housing finance continuum. While the strategic rationale of the transaction has not received a lot of push-back, the purchase price, potential regulatory scrutiny and timing are key areas of concern. Schneider Electric struggled to perform in the context of a challenging macroeconomic backdrop with supply chain constraints likely to remain an issue throughout 2022.

Australian Fixed Interest

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned -3.81% in the June quarter. Volatility hit the market during the quarter, resulting in a significant steepening of the yield curve. 3-year government bond yields ended the quarter 78 basis points (bps) higher at 3.12%, while 10-year yields rose 82 bps, to close at 3.66%. Short-term bank bill rates shot up over the quarter with the 1-month rate rose 113 bp to 1.14%, while the 3-month rate was up 158 bps to 1.81% and the 6-month rate up 196 bps to 2.67%. The Australian dollar ended the quarter weaker, closing at USD 0.69.

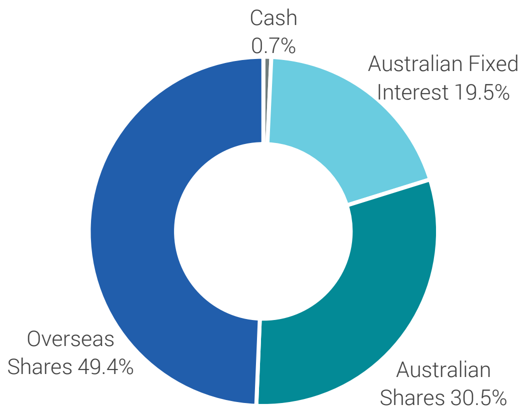
Monetary policy settings changed drastically over the quarter as the Reserve Bank of Australia (RBA) began to normalise interest rates. The RBA lifted the cash rate twice, by 25 and 50 basis points respectively during the quarter, taking the cash rate to 0.85%.

The Fund's Australian fixed interest allocation underperformed the benchmark. The main detractors to active performance came from duration and spreads. The overweight duration position was a key detractor for the quarter as additional positions were added as yields sold-off. Overall spread positioning detracted from performance. A higher than benchmark running yield was positive for performance, which had key contributions from supranational and credit securities.

Strategic Asset Allocation

Asset Class	Target Allocation (%)	Range (%)
Australian Shares	30	20-45
International Shares (unhedged)	50	35-65
Property Securities	0	0-10
Total growth assets	**80**	**70-95**
Australian Fixed Interest	15	5-25
Cash	5	0-20
Total income assets	**20**	**5-30**

Asset Allocation as at Quarter End



Source: YIML, BNP Paribas

Market Outlook

The global economy faces a number of challenges, including the continuing war in Ukraine, ongoing disruptions from COVID-19, particularly in China, and declining consumer purchasing power due to higher inflation. The Australian economy has remained resilient however, and the recovery is ongoing despite the effects of increasing COVID-19 cases. The RBA revised some of its economic forecasts. The RBA's central economic forecasts for GDP are largely unchanged, showing expectations for 4.25% GDP growth in 2022 and 2.00% over 2023. However, their forecast unemployment rate continues to trend lower, with expectations it will fall to around 3.50% by early 2023 and remain around this level. This would be the lowest unemployment rate in almost 50 years. Inflation is expected to rise further in coming quarters but then moderate. Headline inflation is now expected to reach 6.00%, while underlying inflation is estimated to reach 4.75% over 2022 but ease by mid-2024 to around 3.00%.

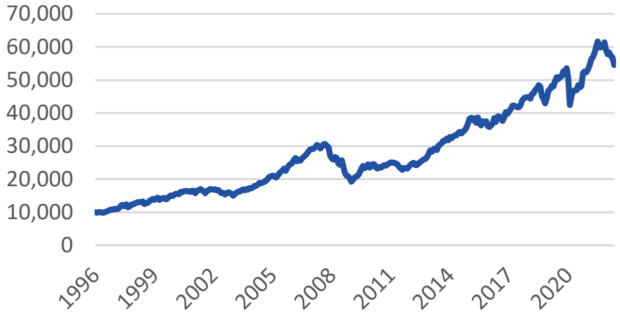
The RBA has begun to withdraw the extraordinary monetary support that was initiated during the pandemic. The RBA has acknowledged that further interest rates rises are needed but will closely monitor the balance of risks as it determines the timing and extent of future rate increases. Despite the increasing cash rate, we maintain our view that the markets expectation of the terminal cash rate is still too high.

More recently economic data has begun slowing in the United States and Europe, creating concerns that recessionary conditions could be occurring. There is some merit to these expectations as the pace at which global central banks have been removing policy accommodation is the fastest in decades. While the economic situation in Australia is robust, any concerns seen offshore will likely influence our market over the next few quarters.

It is encouraging to see equity investors shift back to investing capital with realistic expectations of future compounding rather than just deploying into the fashionable 'pipe dreams' of the day. Whilst we caution against any expectation of a return to the giddy valuation levels experienced during the COVID-19 period, it is encouraging that valuation levels are now more in line with historical norms. The next test however will be the shape of future profitability, as the increasing volatility of central bank policies dampens both company and household spending.

Performance Graph

Value of $10,000 invested in the Yarra Growth Fund since inception



Source: BNP Paribas & YIML. Past performance is not an indicator of future performance.

Fund Objective

The Fund aims to provide a modest level of capital growth and income over the medium to long-term, with total returns (before taxes, fees and expenses) above the Fund's benchmark over rolling five-year periods.

Key Facts	
Responsible Entity Yarra Investment Management Limited	**Management Cost** 1.15% p.a.
APIR Code SUN0021AU	**Buy/Sell Spread** 0.15%/0.15%
Fund Size AUD 70.6 million	**Distribution Frequency** Half Yearly
Minimum Investment AUD 2,000	

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