Yarra Market Neutral Fund

Net returns as at 30 June 2022

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Market Neutral Fund#	-4.23	-6.13	-6.22	7.67	7.84	NA	8.37
RBA Cash Rate**	0.02	0.06	0.13	0.32	0.79	NA	0.90
Excess return (after fees)‡	-4.26	-6.18	-6.35	7.36	7.05	NA	7.47

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: August 2016.
# Effective 31 May 2022, Yarra Funds Management Limited was appointed Investment Manager of the Fund. As part of this process, Portfolio Manager Andrew Smith became an employee of Yarra Capital Management, and the name of the Fund was changed from the Karara Market Neutral Plus Fund to the Yarra Market Neutral Fund. Performance prior to 31 May 2022 relates to the Karara Market Neutral Plus Fund. From June 2019, performance figures are those of the Karara Market Neutral PLUS Fund's series 1 units (net of all fees and assumes reinvestment of distributions). Between August 2016 and May 2019, performance is calculated using the actual exit to exit prices of series 1 units of the Ironbark Karara Market Neutral Fund (IKMNF) adjusted for the portfolio construction differences between the two funds as the Karara Market Neutral PLUS Fund security positions are double the size of the security positions held by the previous IKMNF. The effect of management fees of 1.50% p.a., expense recovery of 0.20% p.a. and performance fees of 20% p.a. form part of this calculation. Performance fees include a hurdle rate. Fees are stated inclusive of GST net of RITCs.
** The Fund has minor equity market exposure, with a low volatility target, making an equity index benchmark unsuitable. The Fund profits from stock positioning rather than from equity market moves. The underlying assets of the fund are of a higher risk profile then cash assets.
‡ Excess return: The difference between the Fund's return and the benchmark return.

Market review

Australian equities declined sharply during the June quarter as Australia's first interest rate hike since 2010 pressured valuations, with only the Energy and Utilities sectors recording positive returns.

The S&P/ASX 300 Accumulation Index returned -12.2% for the quarter, taking its 12-month return to -6.8%. Globally, the MSCI World Index fell 14.2%. The ASX 300's forward P/E declined from 16.0 times to 12.5 times as the RBA lifted the official cash rate by 75 bps to 0.85%.

Within Energy (+1.2%), Woodside Energy (WDS, -0.8%) held value amid the global energy crisis given its relatively high exposure to the European gas market. Elsewhere, Worley (WOR, +10.3%) continued to rally amid growing demand for its engineering services in both oil & gas and sustainability projects, while oil refiner Ampol (+11.7%) benefited from the widening spread in the price of crude oil and petrol.

Within Utilities (+1.7%), AGL Energy (AGL, +6.9%) outperformed amid higher wholesale electricity prices, even as its proposed demerger (into coal generation and energy retailing businesses) was rejected by shareholders. Gas pipeline operator APA Group (APA, +8.2%) outperformed given its inflation-linked revenues and a renewed focus on its opportunities in the energy transition.

Conversely, the worst performing sectors included Consumer Discretionary (-15.6%) and Information Technology (-26.3%). In particular, JB Hi-Fi (JBH, -29.1%) and Nine Entertainment (NEC, -38.6%) declined in response to the deteriorating consumer environment, while Xero (XRO, -25.1%) delivered a disappointing full-year result and, as a high P/E firm, was pressured amid higher real rates.

Elsewhere, Real Estate (-17.6%) also experienced widespread declines given its negative correlation to higher rates, led by Charter Hall Group (CHC, -33.2%), Scentre Group (SCG, -15.1%) and Dexus (DXS, -16.6%).

Portfolio review

Key Contributors

Long TPG Telecom (TPG) hedged with another domestic major telco company. TPG held its annual investor day which confirmed strong momentum in the mobile division and that the company should derive a 60% increase in addressable market via network sharing. This important new information helped TPG outperform.

Long Countpuls (CUP) hedged with short SPI futures. CUP provided a trading update for FY22 stating underlying EBITDA is expected to be between $10.5m-$11.0m which was pleasingly in-line with market consensus. Speculation from some parties that an earnings downgrade was likely were proven unfounded. Another positive was the announcement of a buyback of up to 11.4m shares funded by existing cash and debt facilities, evidencing the robustness of the balance sheet. The stock rallied 15% in a very weak market.

Key Detractors

Long Santos (STO) hedged to another major energy stock. The oil price fell over 10% in June. Santos is more leveraged to oil price movements on a relative basis, which drove underperformance as the oil price fell.

Long Westpac (WBC) short another domestic major bank. This position was a small detractor during the period, despite no specific news from either bank .

Long Genex Power (GNX) hedged to the SPI index futures. GNX suffered like many smaller listed companies as investors sought to sell down less liquid names amidst rising volatility through the ASX.

Pendal Group (PDL) hedged with another domestically listed fund manager. All fund managers suffered in June as the market extrapolated equity market declines and potential outflows into future earnings downgrades. Pendal marginally underperformed its hedge.

Market outlook

Geopolitical events and surging commodity prices have taken centre stage in 2022, shaking risk sentiment and challenging consensus' optimistic forecast for global growth. From our perspective, although for the past six months our forecasts for global growth in 2022 have been below consensus, we believe a series of downgrades will soon be evident for global earnings growth in most major markets. Surging commodity prices and ongoing supply shortages have resulted in further upside to the inflation outlook and risks forcing the hand of central banks in coming months to try to contain rising inflation expectations. The reality for 2022 is likely a world of higher inflation, slower growth and higher financing costs awaits.

Australia does have some key natural advantages in such a climate. The most notable is that Australia's export dominance of iron ore, coal, LNG, gold, wheat and base metals contribute close to 80% of Australia's exports and each of these commodities have seen strong price rises in 1H 2022 which will translate into a large positive national income boost even if spot prices retreat in coming weeks. Indeed, Australia presents as a safe haven market which is far from the conflict in Europe, an exporter of in demand raw materials and given its own undershooting of its inflation target since 2015 it has ample room to adjust policy settings at a gradual pace.

Australia also has the benefit of recovering underlying household income growth, $230bn in 'excess saving', strong corporate profit growth, robust capex expectations in concert and improving government finances which suggests Australian economic growth in 2022 will remain more robust than its developed economy peer group. In CY2022 we expect the Australian economy to expand at an above 'potential' rate of 3%. While this is slower than the 4% pace recorded in 2021 it is still sufficient to see further employment growth gains and we expect the unemployment rate will soon fall below 4% and below the RBA's estimate of non-accelerating inflation rate of unemployment (NAIRU) and further wage pressure will become evident into mid-2022.

While the RBA has been later than most other developed nations in tightening policy, tighter financial conditions in 2022 are likely to come via both significantly higher cash rates and a stronger currency. The A$/US$ has in recent months been buffeted by concerns of a peak in global industrial growth indicators and slowing China economic momentum. Nevertheless, Australia's external accounts are in their best position since the early 1970s and surging commodity prices in early 2022 is providing an incentive for the A$/US$ to commence an appreciation cycle, together with the attractive carry on offer. We expect the A$ will finish 2022 at around 76 cents, albeit the risk to this forecast is on the upside.

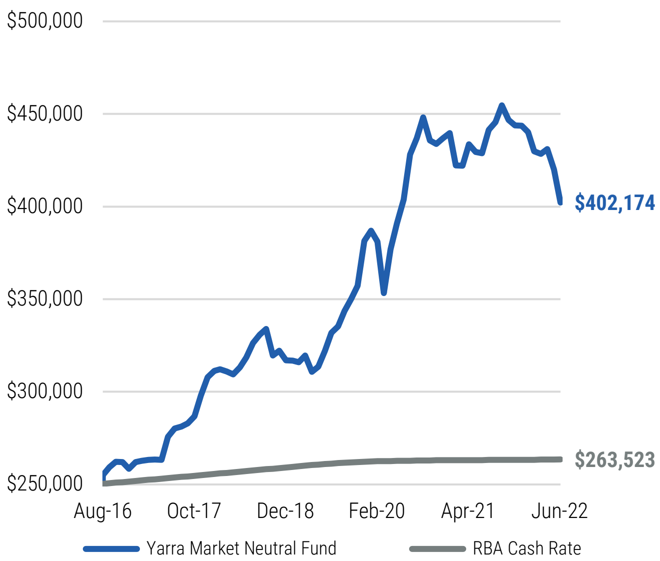
Features

Investment objective	To outperform the RBA Cash Rate (after fees) over rolling 5-year periods.
Recommended investment time frame	Long term, at least 5 years
Fund inception	June 2019
Strategy inception	August 2016
Fund size	A$11.2 mn as at 30 June 2022
APIR code	PER2486AU
Estimated management cost	1.35% p.a.
Performance Fee	20% of excess performance above benchmark (after fees are adjusted to add back any performance fees accrued but not yet paid) provided specified performance hurdle is met
Fund Expense Recovery^	Capped at 0.20% p.a. of NAV
Buy/sell spread	+/- 0.25%

This fund is appropriate for investors with "High" and "Very High" risk and return profiles. A suitable investor for this fund is prepared to accept high risk in the pursuit of capital growth with a medium to long investment timeframe. Please refer to the PDS and TMD for further information.

Investment performance comparison of $50,000

After fees, since inception of the Yarra Market Neutral Fund, August 2016 to June 2022.



For illustrative purposes only. Past performance does not guarantee future results, which may vary. The total net fund returns shown are prepared on an exit to exit basis (i.e. they include all ongoing fees and expenses and assume reinvestment of all distributions). They do not take personal taxation into account. The comparison with the benchmark is for comparative purposes only. Index returns do not allow for transactional, management, operational or tax costs. An index is not managed and investors cannot invest directly in an index.

Applications and contacts

Investment into the Yarra Market Neutral Fund can be made by Australian resident investors only.

Website www.yarracm.com

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