YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 October 2023

Yarra Global Share Fund

Net returns as at 31 October 2023

	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Global Share Fund#	-2.39	-4.38	-3.29	3.06	6.01	10.31	12.46	7.99
MSCI All Countries World Index^	-1.13	-3.81	2.36	11.60	10.43	9.92	11.49	7.12
Excess Return‡	-1.26	-0.58	-5.65	-8.54	-4.42	0.39	0.97	0.87

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 of Yarra Global Share Fund: November 1995.
# Effective 20 March 2023, the Fund was renamed from the Nikko AM Global Share Fund to the Yarra Global Share Fund. There was no change to the Fund's investment team, philosophy or process. The Fund gains exposure to global equities by investing in the Nikko AM Global Equity Fund (Underlying Fund) (a sub-fund of the Nikko AM Global Umbrella Fund which is an open ended investment company registered under Luxembourg law as a societe d'investissement, a capital variable).
^ Benchmark: MSCI All Countries World Index (with net dividends reinvested) expressed in Australian Dollars (unhedged).
‡ Excess return: The excess return figures shown represent the difference between the Fund's return and the benchmark.

Portfolio review

The Fund returned -2.39% (after fees) in October, to underperform the Index return of -1.13% by 126 basis points (bps).

Key contributors to relative performance:

- Microsoft Corporation outperformed following a strong set of quarterly results that were driven by sustained growth in the Office commercial business and better-than-expected growth in Azure, due to AI consumption and market share gains. This performance illustrated Microsoft's growing wallet share within enterprise IT organizations, resilient demand and the ramping generative AI opportunity.
- Netflix, Inc. shares reacted positively to robust quarterly results, which illustrated that the new strategy is working. Netflix has rolled out paid sharing in every region in which it operates, with cancellation rates much lower than management's expectations. Additionally, Netflix has successfully increased pricing for the Basic and Premium subscriptions, while maintaining strong user engagement. This strategy, alongside ongoing share buybacks, demonstrate that this is a high-quality business with superior management execution.
- Progressive Corporation shares climbed on the back of solid Q3 results, which demonstrated the company's ability to execute on achieving positive underwriting results despite a challenging loss environment. It was also encouraging to see that actions taken to improve margins have not hindered premium growth.
- Compass Group PLC outperformed after its peer Sodexo reported impressive quarterly results, which were supported by industry outsourcing tailwinds. Compass continues to benefit from the step up in outsourcing of contract catering in the context of higher interest rates for longer – continues to play out.
- Elevance Health, Inc. outperformed after the company posted reassuring quarterly results and raised guidance for the third time this financial year, despite the noise around healthcare utilization and GLP-1s. This speaks to the diversification of the business across Government and Commercial lines of insurance, Elevance's scale (and purchasing power that this affords them with providers) and the amount of data that they monitor daily – giving them real-time insights that most companies can't match and allowing them to respond to changes quickly.

Key detractors from relative performance:

- Rentokil Initial PLC shares declined following Q3 results, which highlighted that top-line growth is negatively impacted by a slowdown in consumer demand, and concerns around the Terminix acquisition. Ultimately, it feels like Rentokil management paid a premium for a turnaround asset that they will need to fix, and this is going to take longer than expected. The manager remains confident that the integration will be successful in the long run.
- TransUnion shares have been negatively impacted by cyclicality. Credit expansion has gone into reverse and insurance clients have lowered their marketing spend, impacting the volume of checks asked of the company. It appears that we are still early in a cyclical downturn and there is little that management can do to counter this.
- Danaher Corporation and Bio-Techne Corporation's underperformance was driven by ongoing negative commentary on the Life Science Tools industry, sparked by a peer, Sartorius, at its Q3 earnings. Near-term bioprocessing order intake dynamics are improving more slowly than anticipated. A weak biotech funding environment & capital preservation measures by companies ahead of the calendar year end have exacerbated this (along with an abrupt cooling in

investment by China).

- ChampionX Corporation underperformed after the company posted underwhelming Q3 results and lowered guidance for Q4 due to slowing activity in its North American on shore businesses. Despite this, the Offshore and International businesses, which are central to the long-term investment thesis, remained intact.

Market review

October saw equity markets continue to fall from the highs seen during the winter months, with both the S&P500 and the Nasdaq ending the month around 10% below their July peaks. The driver of the weakness was the same as in September, as bond yields continued to rise, with the yield on the US 10-year bond briefly surpassing 5% towards the end of the month.

The 'higher for longer' narrative received further support this month, as some US economic data continued to exhibit surprising resilience. GDP and retail sales both came in notably above economists' expectations during the month. Whilst higher structural inflation (and interest rates) remains a possible explanation for the spike in yields, it would be fair to say that it is not the only explanation. There remains considerable uncertainty over the potential impact of other factors, such as US Treasuries' demand versus supply. Whilst there have been reports of weaker demand for Treasuries from China and Japan, it seems that an abundance of supply is a more likely factor that has been driving down the price of Treasuries, as the US continues to run a substantial fiscal deficit.

Part of the reason that we are less convinced about any meaningful fall in demand is the long-term proven appeal of US dollar-denominated assets in times of geopolitical turmoil. This month's tragic events in Israel and Palestine once again underlined the heightened geopolitical stresses that exist at present. It is to be hoped that the fighting there does not turn into the latest proxy war, between countries closely aligned with the US and those that are not.

Despite the rise in bond yields this month, growth stocks proved marginally more resilient than their value counterparts. One reason for this was the latest round of quarterly reports, with tech giants such as Microsoft once again confirming the durability of their revenue growth (and strong cash generation). This allowed the information technology sector to be one of the best performing sectors over the month. Other sectors to outperform included utilities and consumer staples.

Cyclical sectors continued to retreat in October, as fears grew over future economic growth. The consumer discretionary sector was the weakest performer (with poor corporate earnings from index heavyweight Tesla contributing significantly to the weakness). The industrials, energy and materials sectors all failed to keep pace with the market also.

Regionally, the US was the only major region to outperform, helped once again by its relatively heavy exposure to Big Tech. All other major regions underperformed the market in October, although there was little difference between their respective returns.

Country / regional exposure

	Fund %	Benchmark %
United States	61.99	62.64
Japan	4.36	5.48
China	0.00	3.17
United Kingdom	9.74	3.67
Canada	0.00	2.79
Europe ex UK	5.01	11.98
Asia Pacific ex China & Japan	14.24	7.83
Emerging Europe, Middle East, Africa	0.00	1.52
Latin America	0.00	0.92
Cash	4.66	0.00

Sector exposure

	Fund %	Benchmark %
Communication Services	6.35	7.48
Consumer Discretionary	13.03	11.00
Consumer Staples	7.53	7.20
Energy	4.19	5.16
Financials	14.72	15.70
Health Care	16.25	11.70
Industrials	8.00	10.27
Information Technology	22.92	22.06
Materials	2.34	4.47
Real Estate	0.00	2.26
Utilities	0.00	2.71
Cash	4.66	0.00

Top 10 holdings (underlying Fund)

	Portfolio %	Benchmark %	Country
Microsoft Corp	7.52	4.04	United States
NVIDIA Corp	3.69	1.71	United States
Meta Platforms	3.30	1.13	United States
Netflix	3.05	0.31	United States
Synopsys	3.01	0.12	United States
Haleon plc	2.99	0.04	United Kingdom
Compass Group plc	2.90	0.07	United Kingdom
Accenture plc	2.75	0.32	United States
Schlumberger N.V.	2.73	0.13	United States
Coca-Cola Co.	2.65	0.39	United States

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	3.06	6.01	10.31	11.30
Distribution return	-	-	-	1.15

Fund growth return is the change in redemption prices over the period. Fund distribution return equals total Fund return minus Fund growth total return. Total Fund returns are post fees, pre tax using redemption prices and assume reinvestment of distributions.

Features

Investment objective	The Fund aims to achieve capital growth over the long term, with total returns (before fees) 3% above the MSCI All Countries World ex-Australia Index (with net dividends re-invested) expressed in Australian Dollars (unhedged) over rolling three-year periods.	
Recommended investment time frame	5+ years	
Fund inception	November 1995	
Fund size	A$275 million as at 31 October 2023	
APIR code	SUN0031AU	
Estimated management cost	0.99% p.a.	
Buy/sell spread	+/- 0.15%	
Platform availability	AMP North Asgard BT Panorama Hub24 Macquarie Wrap MLC Navigator MLC Wrap	Netwealth OneVue PortfolioCare Praemium uXchange Wealth02 Xplore Wealth

Applications and contacts

Investment into the Yarra Global Share Fund can be made by Australian resident investors only.

Website www.yarracm.com

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