

Yarra Emerging Leaders Fund (Direct)

Gross returns as at 30 November 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception [^] % p.a.
Yarra Emerging Leaders Fund (Direct) [^]	6.07	-5.31	3.14	5.63	8.45	9.54	12.65
Emerging Leaders Combined Benchmark [†]	6.19	-4.69	-3.49	2.56	6.92	8.21	7.86
Excess return (before fees) [‡]	-0.12	-0.61	6.63	3.07	1.52	1.34	4.80

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 November 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception [^] % p.a.
Yarra Emerging Leaders Fund (Direct) [^]	5.91	-5.75	1.22	3.65	6.28	7.23	10.36
Emerging Leaders Combined Benchmark [†]	6.19	-4.69	-3.49	2.56	6.92	8.21	7.86
Excess return (after fees) [‡]	-0.29	-1.06	4.71	1.10	-0.65	-0.97	2.50

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 Emerging Leaders Fund (Direct): November 1994

[†] Comprising 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries Accumulation Index

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

Market review

The Australian mid and small cap market rebounded strongly in November after a period of weaker performance.

The Emerging Leaders Benchmark returned +6.2% for the month, taking its 12-month return to -3.5%. By comparison, the broader S&P/ASX 300 returned +5.1% for the period. Globally, the MSCI World Index climbed by 9.4%.

Health Care (+16.0%) was the best performing sector during the month, with Pro Medicus (PME, +18.6%) surging on the back of new contract wins. Neuren Pharmaceuticals (NEU, +44.6%) was another positive contributor with the rare disease drug development company expected to receive significant royalties from sales partner, Acadia. Acadia's Q3 result release demonstrated strong sales growth of its maiden drug, Daybue.

The Information Technology (+12.5%) sector also rallied, with all subsectors closing in positive territory. Financial data provider, IRESS (IRE, +40.9%), upgraded its FY23 underlying EBITDA estimate. Other notable contributors were Codan (CDA, +16.8%) and Audinate Group (AD8, +19.6%).

In contrast, the Utilities (-12.3%) sector was the weakest sector performer. AGL (AGL, -12.3%) was the primary driver of underperformance as the market's conviction on the nation's

largest electricity and gas distributor's long-term outlook weakened.

Portfolio review

Key Contributors

Collins Food (CKF, overweight) – the position in the quick service restaurant (QSR) provider outperformed during the period after a stronger-than-expected half-year result. The result was largely due to better-than-expected KFC Australia and Europe margins, supported by increasing prices and early signs of moderating commodity costs. We continue to overweight CKF given the improving Australian KFC earnings outlook as margins increase from depressed levels, with continued defensive sales growth, pricing increases and lower commodity costs. Furthermore, the European KFC business has an overall strong growth outlook from the significant new store growth outlook and the Taco Bell business, which is not currently being valued.

Netwealth (NWL, overweight) – the leading independent wealth management platform outperformed on limited news flow following a softer period in the prior month. We believe NWL is set to continue delivering strong revenue growth for the foreseeable future, capturing an outsized level of funds under administration as Australia's wealth management

NO LONGER AVAILABLE FOR NEW INVESTMENT

industry fragments away from the historically dominant players.

Evolution Mining (EVN, overweight) – the gold miner was a positive contributor during the period. Gold prices increased by 3.1% to close the month at US\$2,046/oz. Global macro uncertainty continues to provide a supportive backdrop for the gold price in our view. We remain attracted to EVN's long-life assets, and meaningful leverage to copper production at the Ernest Henry mine. Continued drilling success across the portfolio should result in further resource/reserve increases in early 2024.

Key Detractors

Integral Diagnostics (IDX, overweight) – the radiology provider IDX underperformed during the period after a trading update that was below consensus expectations, given higher-than-expected wage inflation. However, we highlight that earnings are continuing to grow with revenue growth of +9% yoy and flat margins yoy. We continue to hold a small overweight position in IDX given the strong long-term fundamentals of radiology with indexation (price increases +4% yoy), market growth including from an aging population and new tests, productivity opportunities including from technology such as AI and the ability to expand margins in the medium-term given revenue growth and moderating wage inflation.

IGO (IGO, overweight) – the lithium and nickel miner underperformed during November. Benchmark lithium prices (Platts 6% Spodumene) fell 28% during the month, while nickel prices retraced 5.5%. Within the lithium sector, we continue to favour IGO given its high-quality, low cost and long-dated lithium assets, coupled with diversity offered by the company's nickel business.

CAR Group (CAR, overweight) – the online auto classifieds company underperformed during the month on limited news flow outside the reiteration of its full year guidance at its AGM. CAR has demonstrated strong yield growth in its recent acquisitions of Trader Interactive in the US business and Webmotors in Brazil as dynamic pricing models were introduced. Combined with a strengthened market position in Australian private car sales, there is now much greater visibility around continued price and yield increases across the business.

Key Purchases

Iluka (ILU) – we increased our position in the mineral sands company during the month. ILU's share price has been impacted by the market's concerns over the short-term outlook for mineral sands demand. While we recognise near-term headwinds, we continue to like mineral sands markets long-term and favour ILU's leverage as the world's largest Zircon producer and fifth largest producer of titanium feedstocks. Iluka is moving into Rare Earths production through the Eneabba refinery and would be a critical component producer for the EV industry.

Evolution Mining (EVN) – we have increased our position in the gold miner. Gold prices increased by 3.1% to close the month

at US\$2,046/oz. Global macro uncertainty continues to provide a supportive backdrop for the gold price in our view. We remain attracted to EVN's long-life assets, and meaningful leverage to copper production at the Ernest Henry mine. Continued drilling success across the portfolio, should result in further resource/reserve increases in early 2024.

Region (RGN) – we increased our position in the non-discretionary anchored shopping mall owning REIT. We view RGN's retail asset base as more defensive in nature compared to peers, given its high proportion of rents from supermarket tenancies and non-discretionary specialty tenants. We believe the stock price captures an excess level of direct asset valuation declines at current levels (6.4% dividend yield, 0.82-times NTA).

Key Sales

TPG Telecom (TPG) – we exited our position in the telecommunications company, reflecting a more cautious view on the mobile market and an increased reliance on the segment for earnings growth. Mobile pricing has accounted for the vast majority of group EBITDA growth over the last 12 months, and TPG's positioning as a value operator has offered the most leverage to this trend. This dynamic may prove more challenging moving forward as inflation eases and CPI-linked increases moderate, while the outlook for mobile competition remains a risk given Optus has faced network disruptions and is yet to move postpaid pricing.

Hotel Property Investments (HPI) – we reduced our holding in the hotel owning REIT over the period, using proceeds to fund more attractive REIT ideas. Notwithstanding quality in-place long-duration leases across the domestic pub portfolio (AVC being the largest tenant), we see some potential future valuation risk from rising cap rates, reducing the financial flexibility of the Trust. This outlook reduces the appeal of a seemingly attractive spot valuation metrics of a dividend yield above 7%.

Key Active Overweights

Reliance Worldwide (RWC) – we view the plumbing supplies company as a compelling opportunity, given its softer FY24 earnings year (P/E of only 13.7-times vs 17.0-times mid cycle). We believe this 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.

CAR Group (CAR) – we are overweight the online car classifieds company which has demonstrated strong yield growth potential across all its operating segments. In Australia, which represents approximately 50% of its valuation, CAR is seeing improving yields from products such as Instant Offer and Select in Australia, along with a strengthened competitive position in private sales. CAR's recent acquisitions of US business, Trader Interactive, and Brazilian business Webmotors have both demonstrated strong yield growth as new dynamic pricing models are introduced. The visibility on CAR's medium term revenue growth has improved, meaning

the 29.0 times FY25 earnings trading multiple relatively undemanding given these tailwinds.

NEXTDC (NXT) – the portfolio maintains an overweight position in leading Australian data centre owner and developer NXT. The company has a unique combination of strong long term growth earnings growth profile combined with infrastructure like characteristics, solid returns on capital and backed by a tangible asset base. NXT trades on 32.0 times FY25 EV/EBITDA, which compares favourably to more mature global peers.

Key Active Underweights

WiseTech (WTC) – we remain underweight the leading developer of software solutions for the logistics industry with a preference for other names in the technology sector given WTC's demanding valuation of 86.0 times 1-year forward P/E. We believe WTC have and are continuing to build an exceptional product in CargoWise which should continue to attract and retain large freight forwarders.

Washington H Soul Pattinson (SOL) – we do not hold a position in the diversified investment company. At this time, we see better direct investment opportunities available than those offered through SOL's broad suite of investments across the telco, mining, manufacturing, healthcare, and funds management sectors. We also remain cautious on the company's exposure to thermal coal via its 38% stake in coal miner New Hope (NHC).

Ampol (ALD) – we retain an underweight position in ALD, with structural challenges from declining retail fuel/tobacco volumes and dilutive returns from the EV transition expected to persist over the longer-term. While ALD has continued to execute against its Convenience strategy, the nature of the format remains uncertain and cyclical refining margins remain elevated. With the company trading on a FY24 earnings multiple of 12.1 times and a 5.8% dividend yield we believe better opportunities can be found elsewhere.

Market outlook

Financial market optimism in November was driven primarily by financial markets becoming increasingly convinced that central banks have now finished tightening monetary policy in the major developed economies and the prospects for easing in interest rates is growing. Indeed, inflation has surprised on the downside in the past month in Europe and the US and in concert with declining globally traded goods prices and ongoing moderation in wages growth, the case for a more sustained easing in inflationary pressures continues to strengthen.

Good news on inflation has also been met with signs of economic resilience in the US and Japan. Although Europe will likely record a technical recession into the conclusion of 2023, the strength of the recovery in Emerging Market industrial production bodes well for a recovery in European demand in 2024. This strength in Emerging Market growth has largely been in spite of China rather than because of China. Nevertheless, the bout of disinflation in China has largely run

its course and economic data has become more mixed rather than universally poor. We continue to see China delivering on a more meaningful infrastructure package into 2024 and further encourage credit expansion to the real economy which should underpin economic growth around 5% in 2024. As such, we expect China to begin to provide a more meaningful support to global economic growth next calendar year.

Slower growth in costs and improving growth expectations has resulted in the negative EPS revisions trend having now run its course with annual growth in EPS moving positive. Perhaps the biggest surprise during the months was the peaking in the US\$ and a sharp decline in bond yields which have provided support to equity market valuations. While we expect bond yields could rally further in coming weeks, we expect the yield curve to steepen as we move through 2024 via reductions in shorter term interest rates.

Economic growth has also slowed in Australia, recording just 0.4%q/q growth in the June quarter, repeating the same languid growth recorded in the March quarter. Indeed, with population growth running at a 2.5% annualised pace in the six-months to June and economic growth expanding at an annualised 1.8% pace over the same period, Australia has recorded its first per capita recession since mid-2006 (excluding the COVID lockdown period). It is clear the prior tightening of monetary policy is having a material impact on the interest rate sensitive parts of the economy. For instance, discretionary consumption volumes have declined 0.6% (six-month annualised) as non-discretionary household expenses and interest costs soared by 16%yoy – the fastest annual increase since 1989. Building approvals continue to decline – now down 43% from the 2021 peak - and are likely to fall further in coming months as declining housing affordability outweighs the impact of an under supplied housing market.

Post the September quarter CPI print the RBA was left with little option but to hike interest rates by 25bps. Both the quarterly print and the composition of the inflation print was sufficient to lift the RBA forecast path for inflation at a time when the RBA had already declared minimal tolerance for a slower normalisation in inflation. To be clear, the RBA retains a tightening bias, however, their updated guidance is that absent any unexpected inflation shocks the RBA's rate tightening cycle is complete. The RBA also revised down economic growth modestly to just 1.0% in 2023, acknowledging that local economic growth had faltered. It is of note that the RBA's forecasts for domestic growth are now below our own for the first time since 2019.

Australia should still be able to avoid a technical recession due to four key reasons:

1. Australia has been a net beneficiary of global commodity shortages and the prior surge in commodity prices. Commodity prices are now off their peaks, and although they remain very elevated from a historical perspective, the impact of moving through the peak will be for nominal GDP growth will slow quickly over the next six months, removing some of the

cushion that has protected corporate profits, tax receipts and wage growth.

2. The household sector continues to hold a significant buffer of excess savings which can be used to smooth consumption growth amid acute cost of living pressures. Nevertheless, our analysis suggests that the residual of the savings buffer skews to older households, leaving younger and more indebted households exposed. As such, we remain particularly cautious on discretionary retail spending.
3. Australia remains incredibly well placed to benefit from the global energy transition. Lithium is already a A\$10bn export industry domestically and Australia is the world's dominant producer. Electric Vehicle sales are forecast to increase 10 times by 2030 and Australia has the world's second largest copper resource. LNG is an important energy transition fuel – it currently accounts for 23% of global electricity generation – and Australia just happens to be the world's equal largest exporter of LNG. The limiting factor nearer term is that escalating costs and project delays risk pushing out the economic benefits.
4. Net migration into Australia contracted in 2021 for the first time since 1945. However, a very strong recovery was recorded through 2022 and a record level of net migration has occurred in recent months, ensuring that Australia's population growth will exceed 2.5% in 2023. This will be the primary mechanism keeping Australia out of recession, yet it comes with the complication of exacerbating the rental shortage evident across all capital cities.

While the RBA has been later than most other developed nations, we believe financial conditions are now firmly in the restrictive zone. While interest rate hikes in Australia will remain a month-to-month proposition, our analysis suggests that the RBA should now have concluded its hiking cycle. Moreover, we do expect that the RBA will commence a modest easing cycle in 2H24, most likely commencing in August 2024.

The A\$/US\$ has finally started to appreciate, supported by financial markets' expected 150bps of rate cuts in the US through 2024 and relative flat interest rates in Australia, improving commodity prices and improving Chinese sentiment. With Australia's external accounts remaining in excellent health, the Federal Government positioned to post another surplus, our expectation that Australia's economic growth will prove more robust, and the prospect the US\$ down trend, our long-expected rally in the A\$/US\$ into the low-70s before mid-2024 is now coming into grasp.

We are most overweight stocks within the Communication Services, Real Estate and Health Care sectors, and are underweight Energy, Materials and Consumer Discretionary.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	11.31	6.53	4.78
Consumer Discretionary	8.60	11.41	-2.81
Consumer Staples	0.90	2.80	-1.91
Energy	0.00	6.31	-6.31
Financials	12.59	12.36	0.23
Health Care	6.72	5.08	1.63
Industrials	15.51	13.98	1.53
Information Technology	8.56	8.82	-0.26
Materials	18.20	21.62	-3.43
Real Estate	12.46	9.96	2.50
Utilities	0.00	1.12	-1.12

Top 5 holdings

	Portfolio %	Benchmark %	Active %
CAR Group	6.35	2.05	4.30
NEXTDC	5.26	1.32	3.95
Evolution Mining	5.10	1.47	3.63
Worley	4.98	1.22	3.75
Reliance Worldwide	4.95	0.60	4.35

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Reliance Worldwide	4.95	0.60	4.35
CAR Group	6.35	2.05	4.30
NEXTDC	5.26	1.32	3.95
Underweights			
WiseTech Global	0.00	2.39	-2.39
Washington H. Soul Pattinson and Co.	0.00	1.61	-1.61
Ampol	0.00	1.60	-1.60

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	0.02	2.65	5.42	6.27
Distribution return	1.20	1.00	0.86	0.96

The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), 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 small and medium sized Australian companies that are considered to possess strong capital growth potential. In doing so, the aim is to outperform the benchmark over rolling 3-year periods.
Recommended investment time frame	5 - 7 + years
Fund inception	November 1994
Fund size	A\$92.3 mn as 30 November 2023
APIR codes	JBW0007AU
ARSN code	089 909 106
Distribution frequency	Semi-Annually
Estimated management cost	1.90% p.a.
Buy/sell spread	+/- 0.20%

The Yarra Emerging Leaders Fund (Direct) is not available for new investment. Where existing reinvestment instructions are in place, distributions may be reinvested.

Applications and contacts

The Yarra Emerging Leaders Fund (Direct) is no longer available for new investment. The reinvestment of distributions is still allowed where an existing reinvestment instruction is in place.

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Disclaimers

The Yarra Emerging Leaders Fund (Direct) is substantially invested in the Yarra Emerging Leaders Pooled Fund ('Pooled Fund'). References in this document to the underlying assets or investments of the Fund generally relate to the assets held in the Pooled Fund. The Fund's benchmark comprises 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries Accumulation Index.

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