

Yarra Australian Equities Fund

Gross returns as at 31 December 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Australian Equities Fund	6.80	6.45	13.12	10.97	10.34	7.61	10.48
S&P/ASX 200 Accumulation Index†	7.26	8.40	12.42	9.24	10.28	7.93	9.21
Excess return (before fees)‡	-0.46	-1.94	0.70	1.73	0.06	-0.32	1.28

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 31 December 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Australian Equities Fund	6.72	6.21	12.11	9.98	9.34	6.62	9.48
S&P/ASX 200 Accumulation Index†	7.26	8.40	12.42	9.24	10.28	7.93	9.21
Excess return (after fees)‡	-0.54	-2.18	-0.31	0.74	-0.93	-1.31	0.28

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 Australian Equities Fund: July 1996

† The benchmark for the Yarra Australian Equities Fund has been amended since the Fund's inception. Effective 28 February 2008 the benchmark is the S&P/ASX 200 Accumulation Index, replacing the S&P/ASX 200 ex Property Accumulation Index Monthly. Further information on changes to the Fund's benchmark is available upon request.

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

Market review

The Australian Equities market concluded the year with a solid quarter performance, with Real Estate being the best-performing sector and Energy being the weakest performer.

The S&P/ASX 200 Accumulation Index reported a +8.4% return for the quarter, taking its 12-month return to +12.4%. Similarly, the S&P/ASX 300 Accumulation Index also returned +8.4%, and globally, the MSCI World Index jumped by 11.1%.

Real Estate (+15.8%) recorded the most gain for the quarter, with all subsectors closing in positive territory. The sector performance was supported by the decline in bond yields, the Australian 10-year bond yield fell 52bps over the quarter. Goodman Group (GMG, +18.7%) was a key driver after the globally integrated property group released a robust 1Q24 update, emphasising significant data centre capacity in its pipeline. Scentre Group (SCG, +21.5%) and GPT Group (GPT, +22.2%) also supported the sector return.

Materials (+13.4%) rebounded strongly during the quarter, with BHP (BHP +13.9%) as a key driver of outperformance. The diversified miner benefitted from the increasing price of iron ore (Iron Ore 62% FE up by ~12.9% in 4Q23). Other notable contributors include Fortescue (FMG, +38.7%), Rio Tinto (RIO, +19.5%) and James Hardie (JHX, +38.5%).

In contrast, Energy (-9.1%) was the weakest sector for the quarter. The sector's performance was mainly driven by the drop in oil prices over the quarter following its September quarter highs. Petroleum exploration and production company, Woodside Energy (WDS, -14.9%) largely contributed to the underperformance after the Brent Crude oil dropped by ~16%, as well as concerns over near-term free cash flow generation for its Sangomar and Scarborough start-up projects.

Portfolio review

Key Contributors

Link Administration (LNK, overweight) – the third party administrative and share registry service company performed strongly during the period following a trifecta of positive news flow. The stakeholder vote for the proposed scheme of LNK's obligations resulting from its Fund Solutions business passed with an overwhelming majority and LNK renewed its largest client in its Retirement and Shareholder Solutions business, Australian Super, until 2028. These positive events were very quickly super ceded by a Board approved cash bid for the company by Mitsubishi UFJ Trust & Banking Corporation at \$2.26, a 33% premium to LNK's prior closing price.

Northern Star Resources (NST, overweight) – the gold producer performed strongly with gold prices increasing by around 10% during the quarter to close at US\$2,067/oz. The

company retained full year cost and production guidance, with expectations for a stronger 2H FY24 from grade improvements at KCGM and Jundee, ramp up of the Thunderbox mill and improved production at Pogo.

Vicinity Centres (VCX, overweight) – the national retail mall landlord rebounded strongly during the quarter, contributing to overall portfolio returns. At a broader REIT sector level, large-cap REITs were supported over the quarter from lower bond yields (the Australian 10-year bond rate fell 52bps). VCX provided a 1Q24 update during the period which was positive. Despite tenant specialty sales growth moderating to +2.7%, the stock benefitted from the recovery in CBD located assets and strong operating metrics with occupancy and leasing spreads improving. Importantly, FY24 guidance was reaffirmed.

Woolworths (WOW, underweight) – our underweight position in the supermarket was a positive contributor during the period, led by growing concerns that softening food inflation (+1.8% ex tobacco in 1Q24) may negatively impact Australian Food earnings. Additionally, WOW's NZ business has softened (EBIT now expected to be below 1H23). WOW saw strong margin expansion in the previous period (Australian Food EBIT margins +70bps to 6.0% in FY23), but consensus expectations remain elevated, with margins expected to grow to 6.1% (vs 5.3% in FY20). We believe WOW's premium multiple is unwarranted relative to our growth expectations for the business.

Sandfire Resources (SFR, overweight) – our overweight position in copper producer Sandfire was a source of outperformance during the quarter. The company's September quarterly report was ahead of expectations, with the initial 3.2Mtpa phase of the Motheo mine in Botswana ramping up strongly, and full year cost guidance reduced by 10%. Additionally, during the quarter the company announced an important milestone had been achieved with first ore through the 5.2Mtpa expansion phase at Motheo. The expansion project increases mine capacity by 63% and remains on schedule and budget. We like copper as a commodity given its leverage to electrification as a key material in batteries and electric motors.

Key Detractors

Woodside Energy (WDS, overweight) – our overweight position in the oil & gas producer was a source of underperformance during the period with the Brent oil price marker declining 16% in 4Q23. The company hosted its annual investor day during the period, leading to some concerns around near-term free cash generation ahead of the start-up of the Sangomar and Scarborough growth projects.

Fortescue (FMG, underweight) – our underweight position in the iron ore producer was a detractor during the period as the stock outperformed on rising iron ore prices. As a high-cost iron ore producer, Fortescue is highly levered to movements in spot iron ore prices. We continue to view iron ore prices as unsustainably high relative to cost curve support and remain cautious on the potential for China to stimulate its economy through steel-intensive industries. As a result, we are happy to remain underweight FMG. BHP is our preferred exposure to

iron ore given higher grades, lower operating costs and a diversified commodity base.

QBE Insurance (QBE, overweight) – the global general insurer was a source of underperformance during the period reflecting concerns over potential claims from cyclone Jasper. We believe QBE will deliver strong earnings growth in 2024 and beyond, supported by sustained premium rate growth and the beneficial impact of higher interest rates on investment earnings. QBE has substantially improved its underwriting discipline and product focus over the last five years, and we believe its 8.7-times FY24 earnings multiple excessively discounts the risks inherent in its business model.

Tabcorp (TAH, overweight) – the wagering operator underperformed following quarterly reporting from its offshore competitors (Entain/Flutter), who signalled ongoing market weakness in Australia that is expected to persist into 2024. TAH had previously reported a -6.1% decline in 1Q24 revenue as the wagering turnover softened, reflecting a moderation in activity post-Covid and broader consumer weakness. We continue to see an opportunity in the stock over the medium term, and view TAH as a net beneficiary of the Victorian wagering license tender and regulatory alignment between retail and digital operators.

Iluka Resources (ILU, overweight) – the mineral sands company was a source of underperformance during the period. ILU's share price has been impacted by the market's concern over the short-term outlook for mineral sands. The Chinese property market remains stagnant with rutile markets being pressured. We continue to like the mineral sands market 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 which will be a critical component producer for the EV industry.

Key Purchases

Pilbara (PLS) – we have shifted our lithium exposure from IGO to PLS. PLS is a pure-play lithium producer and with lithium prices approaching trough levels, we are seeking to increase our leverage to the commodity. Additionally, we see lower capex and new project timeline risk within PLS relative to IGO.

Evolution Mining (EVN) – we took the opportunity to initiate a position in the gold and copper producer Evolution Mining via their equity placement (at an 8.2% discount to the closing price) used to fund their North Parkes acquisition. We view North Parkes as a classic EVN-type asset, the acquisition multiples are broadly consistent with where the company is trading, and the funding mix is consistent with current gearing. More broadly, the acquisition adds some additional portfolio diversification and a 50% increase in copper exposure to 30% of group revenues.

Vicinity Centres (VCX) – we increased our position in the shopping mall owning REIT in the period. Key supportive factors include VCX's retail asset mix, with over half its asset base exposed to more advantaged segments of bricks & mortar retailing (i.e. luxury, DFO outlets and recovering CBDs), more resilient in-place leases with high occupancy and fewer

holdovers. Additionally, VCX has a strong balance sheet (gearing 25.6% as at June-23) and attractive valuation, with the stock trading at 0.75-times net asset backing and offering a dividend yield in excess of 6.5%.

Region (RGN) – we increased our position in the shopping mall owning REIT. We view RGN's retail asset base to be highly defensive in nature, given the high proportion of rents from supermarket tenancies and non-discretionary specialty tenants. We believe the stock price captures excess level of direct asset valuation declines at current levels (0.83-times last book value).

Key Sales

Stockland (SGP) – we exited our position in SGP over the month. The main driver of the decision was the superior risk-return outlook offered by the portfolio's other REIT positions. Relative share price moves encouraged us to concentrate our REIT investments into VCX and RGN, while exiting SGP.

IGO (IGO) – we have shifted our lithium exposure from IGO to PLS. PLS is a pure-play lithium producer and with lithium prices approaching trough levels. We are seeking to increase our leverage to the commodity. Additionally, we see lower capex and new project timeline risk within PLS relative to IGO.

Chorus (CNU) – whilst we retain a favourable view on the outlook for CNU a decision was made in this portfolio to rotate the position into infrastructure names Transurban (TCL) and APA Group (APA) where we have a higher level of conviction.

TPG Telecom (TPG) – we took the opportunity to exit our position in TPG, following the potential \$6.3bn sale of its Vision/EG&W assets. While we see evidence of improved operating momentum, the proposed sale also concentrates TPG's exposure in mobiles, with medium term earnings growth contingent on repricing and ongoing mobile rationality. This may prove more challenging as inflation eases and CPI-linked increases moderate, while the outlook for mobile competition remains a risk given Optus has yet to move postpaid pricing.

Key Active Overweights

ResMed (RMD) – we remain overweight the medical equipment company which we view as the most attractive large-cap healthcare company on the ASX today. The stock has sold off due to concerns around a range of factors including the impact on its installed base of CPAP devices following the emergence of weight loss drugs (GLP-1s), recent gross margin slippage versus expectations and competitive landscape changes (Philips remains out of the market on hardware in the USA). We are not as bearish on these issues, with our favourable view predicated on RMD's large and underpenetrated market (sleep and COPD (chronic obstructive pulmonary disease), clear operating leverage over time (SG&A and R&D) and its strong track record of capital deployment as the business shifts further into digital, connected care solutions. Valuation is supportive with the stock trading on undemanding multiples (FY24 23.1x P/E, 17.2x EV/EBITDA) given the growth opportunity ahead.

Reliance Worldwide (RWC) – we view the plumbing supplies company as a compelling opportunity, despite the softer FY24

earnings year. We believe the 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.

Vicinity Centres (VCX) – we are overweight the shopping mall owning REIT. Key supportive factors include VCX's retail asset mix, with over half its asset base exposed to more advantaged segments of bricks & mortar retailing (i.e. luxury, DFO outlets and recovering CBDs), more resilient in-place leases with high occupancy and fewer holdovers. Additionally, VCX has a strong balance sheet (gearing 25.6% as at June-23) and attractive valuation, with the stock trading at 0.75-times net asset backing and offering a dividend yield in excess of 6.5%.

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 demonstrated strong yield growth as new dynamic pricing models are introduced. The visibility on CAR's medium term revenue growth has improved, meaning the 29.4 times FY25 earnings trading multiple is relatively undemanding given these tailwinds.

The Lottery Corporation (TLC) – we have an overweight position in the lottery operator. Infrequent jackpot activity has created short-term earnings volatility that we believe will normalise over time, creating a dislocation in a business that we view as highly defensive with low demand elasticity. With cash generative assets underpinned by long-dated licenses, we view TLC as an attractive blend of growth and yield at a reasonable asking price for what we view as a high-quality business (14.9 times FY25 EV/EBITDA).

Key Active Underweights

CSL (CSL) – we retain an underweight to the globally focused biotechnology company. Underpinning this position is our view that earnings growth from its core blood plasma division (approximately 65% of group earnings) will be more challenged due to elevated and sticky cost pressures, increased competition, relative product growth rates away from higher margin specialty products and longer-term product substitution risk. While its more recently acquired business Vifor (now approximately 15% of group earnings) does provide differentiation, we view the business as lower quality than CSL's core plasma franchise. Considering this operating outlook, we do not regard the current FY24 valuation (32.0-times P/E, 21.6-times EV/EBITDA) as overly attractive at this time, with a preference for ResMed in the large cap healthcare space.

National Australia Bank (NAB) – we remain underweight the Australian bank reflecting our negative sector view. Australia's major banks are facing material earnings pressures through declining net interest margins, elevated expense growth and a

normalisation in bad debt expenses, meaning sector EPS is likely to decline in FY24 and FY25.

Macquarie Group (MQG) – we remain underweight the stock based on the view that the strong earnings delivered in FY22 and FY23 were driven by its lower quality and highly cyclical businesses, which we view as unsustainable into the medium term. This was evident in MQG's 1H24 result, which saw a 38% decline in earnings compared to the prior comparative period, reflecting a level that we regard as more indicative of its underlying earnings power. On this level of earnings, the business trades on 18.9 times FY24 earnings multiple. Consensus has factored in a sharp rebound in cyclical earnings streams in 2H24 and beyond, however we would prefer to revisit on a lower multiple.

Wesfarmers (WES) – we retain an underweight position in the diversified conglomerate, despite a strong FY23 result. We believe WES's core retail businesses (Bunnings/Kmart) will not be immune from the combination of broader slowdown in consumer spending and cost pressures, while WesCEF earnings are expected to moderate with commodity pricing (notwithstanding WES's lithium ramp-up). With the company still trading on a FY24 forward earnings multiple of 25.9 times P/E we believe better opportunities can be found elsewhere.

Rio Tinto (RIO) – we are underweight Rio as our preference amongst the major diversified miners remains BHP. We continue to see better value and growth opportunities in BHP over RIO given better cost control, greater exposure to copper, one of our preferred commodities; and fewer social licence challenges that remain a material headwind for RIO.

Market Outlook

Financial market's finished 2023 on a particularly strong note with the ASX200 returning 7.3% in the month of December and REITs returning an astounding 10%. For those awaiting a bond rally a 2.9% gain in December provided most of the 4.9% annual return in the final month. Optimism was driven primarily by financial markets becoming increasingly convinced that central banks are now finished tightening monetary policy in the major developed economies and the prospect for easing in interest rates is starting to come into view.

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 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 encouraging credit expansion to the real economy which should underpin economic growth of around 5% in 2024. As such we expect China to begin to provide a more meaningful support to global economic growth next calendar year.

Turning to Australia's prospects we continue to suggest that not only will Australia avoid a recession it will likely accelerate sequentially through 2024 with the improving global backdrop acting as a tailwind. No one should be disputing that 2023 likely felt like a recession for many Australians. A per capita recession and a negative income shock for those with high debt and young families has cascaded into weak discretionary spending as high interest rates coalesced with surging insurance, utilities, rates, education and food prices. Nevertheless, economic growth was held up by several unusual features this economic cycle vis-à-vis prior cycles;

1. Commodities. Prior commodity price strength continued to underwrite double digit nominal economic growth and profitability.
2. Backlogs. Much has been made of the backlog of work in housing construction that has nullified the typical cyclical shock that is transmitted via the housing construction sector during rate hiking cycles. Approvals and affordability are at very poor levels yet the level of home building has barely declined at all. The backlog in work yet to be done is now peaking at a very high level suggesting we shouldn't be looking at the housing sector as a source of new economic growth, but equally we shouldn't be expecting a precipitous collapse in 2024. That may come in 2025 if interest rates remain at current levels, but that is not our expectation. But less has been made of the backlogs in non-residential building (led by offices, warehouses, health and transport) which equates to 7% of GDP and the backlog of engineering construction (led by roads, railways, electricity and mining) which equates to 16% of GDP. This enormous backlog of work has kept upward pressure on the labour market and on input prices at a time when typically, a global slow down would have seen investment tumble between 10-15%.
3. Buffers and Asset prices. Newly indebted households without other forms of income producing assets feel the full force of rate hikes. However, the economy wide impact of interest rates is diluted the more that growth in income producing assets outstrip the growth in debt. The rising trend in net household assets as a share of income over time means that income from term deposits, financial assets and investment property ownership have all risen over time and all produce an income stream which even after 13 rate hikes this cycle is still in excess of the rise in interest payments on the outstanding debt. This explains the bifurcated nature of spending growth. Older asset rich households are largely impervious to the rate hikes and as such luxury spending categories remain strong whereas younger indebted households cashflow has turned negative and spending is being seriously challenged. In aggregate a rate hike pack less of punch compared to prior cycles but the young and indebted are taking a disproportioned beating.
4. Population pump priming. Net immigration has surged well through government projections taking population growth close to 2.5%yoy growth in 2H23. Quite simply,

it is very hard to record a recession with that type of population growth at your back. We do expect net migration to slow in 2024 as the government seeks to tighten up some education programs and entitlements, yet the risk remains that the flood of people entering Australia surprises on the upside until a more material rise in the unemployment rate is realised.

In the concluding weeks of 2023, some additional factors are worth noting that support a more positive outlook into 2024.

1. Commodity prices are rising again. A falling USD and stronger global demand have seen commodity prices rising in Q4 which will provide a fillip for profits, tax revenue and nominal economic growth.
2. Fiscal support and tax cuts. Despite pressure for change, Stage 3 income tax cuts remain an election commitment of the ALP. The cut is equivalent to 1.1% of disposable income and skews to higher income households which under our analysis suggests over 50% of the tax cuts will be saved. Nevertheless, with the Federal Budget in surplus, the RBA rate cycle likely complete and an election looming in 2025 is likely that additional fiscal support will be announced in 1H24 to support lower- and middle-income households.
3. Inflation moderation to drive rate cuts. We expect inflation to move into the top of the RBA target band before the end of 2024, setting up the prospect of the RBA easing in August and again in November 2024. While we are expecting a relatively shallow rate easing cycle it will likely come earlier than most expect and importantly the RBA has renewed firepower to drive a more powerful economic recovery should inflation surprise on the downside.
4. Capex intentions have lifted. We were pleasantly surprised to see that the ABS measure of investment intentions rose through 2H23 and now suggests business investment will rise 10% in 2023-24 – well above the RBA's 1-2% forecast. Indeed, not only has business investment been robust, but there are also signs it is accelerating.

As a consequence, we are relatively optimistic on the outlook for the Australian economy and constructive on the equity market outlook for 2024. We expect economic growth to average 2.25% v a consensus forecast of 1.5%, bond yields to finish the year at 4.0%, the \$A/\$US to reach 74c, and Australian equities to return 10% in large caps and 15% in small caps.

We are most overweight stocks within the Information Technology, Communication Services and Utilities and are underweight Financials, Health Care and Consumer Staples.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	7.91	3.94	3.97
Consumer Discretionary	7.86	6.79	1.07
Consumer Staples	0.00	4.23	-4.23
Energy	4.60	5.01	-0.41
Financials	19.09	28.36	-9.26
Health Care	5.30	9.61	-4.31
Industrials	9.95	6.80	3.15
Information Technology	6.71	2.37	4.33
Materials	24.95	25.27	-0.31
Real Estate	6.94	6.25	0.69
Utilities	5.23	1.38	3.85

Top 5 holdings

	Portfolio %	Benchmark %	Active %
BHP Group	12.33	11.30	1.02
Commonwealth Bank of Australia	6.24	8.29	-2.04
Westpac Banking	4.70	3.55	1.14
Woodside Energy	4.60	2.61	1.99
Transurban	4.15	1.87	2.28

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
ResMed	3.80	0.57	3.23
Reliance Worldwide	3.12	0.15	2.96
Vicinity Centres	2.93	0.35	2.58
Underweights			
CSL	1.50	6.13	-4.63
National Australia Bank	0.00	4.25	-4.25
Macquarie Group	0.00	2.92	-2.92

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	6.66	-2.04	-3.82	-3.03
Distribution return	5.45	12.02	13.17	9.64

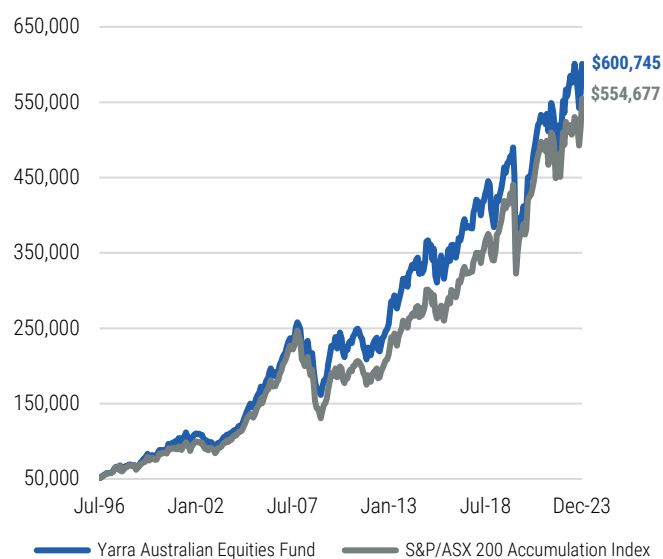
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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 companies listed on the Australian Securities Exchange. In doing so, the aim is to outperform the S&P/ASX 200 Accumulation Index over rolling 3-year periods.	
Recommended investment time frame	5 - 7 + years	
Fund inception	July 1996	
Fund size	A\$115.1 mn as at 31 December 2023	
APIR codes	JBW0009AU	
Estimated management cost	0.90% p.a.	
Buy/sell spread	+/- 0.15%	
Platform availability	Asgard Ausmaq BT Panorama BT Super Wrap FirstWrap GrowWrap	Hub24 IOOF Pursuit Macquarie Wrap Netwealth Oasis Powerwrap

Investment performance comparison of \$50,000

After fees, since inception of the Yarra Australian Equities Fund, July 1996 to December 2023.



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 S&P/ASX 200 Accumulation Index 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. Note that the minimum initial investment amount for the Yarra Australian Equities Fund is \$10,000.

Applications and contacts

Investment into the Yarra Australian Equities Fund can be made by Australian and New Zealand resident investors only.

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