Yarra Emerging Leaders 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 Emerging Leaders Fund	7.19	6.29	14.28	7.12	10.64	10.10	11.02
Emerging Leaders Combined Benchmark†	7.05	6.64	7.82	3.86	9.04	8.66	7.03
Excess return (before fees)‡	0.13	-0.35	6.46	3.26	1.60	1.44	3.99

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 management costs, meaning they do not reflect the deduction of any investment management fees and expenses 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 Emerging Leaders Fund	7.07	5.95	12.87	5.80	9.27	8.73	9.71
Emerging Leaders Combined Benchmark†	7.05	6.64	7.82	3.86	9.04	8.66	7.03
Excess return (after fees)‡	0.02	-0.69	5.05	1.93	0.24	0.07	2.68

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* Inception date Yarra Emerging Leaders Fund: September 1997
† 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 concluded the year strongly, rebounding from previous quarter's weakness.

The Emerging Leaders Benchmark returned +6.6% for the quarter, taking its 12-month return to +7.8%. By comparison, the broader S&P/ASX 300 gained 8.4% for the period. Globally, the MSCI World Index also climbed by 11.1%.

Health Care recorded the largest gain (+16.5%) during the quarter, primarily driven by Neuren Pharmaceuticals (NEU, +125.8%). The share price jump was attributable to US sales partner, Acadia, reporting strong 3Q23 sales growth on its maiden drug, Daybue, and further propelled by solid results of its Phase 2 trial on NZ-2591 for Phelan-McDermid patients. Other notable contributors were Sigma Healthcare (SIG, +50.1%) and Imugene (IMU, +139.1%).

Real Estate (+14.9%) also rallied during 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. Vicinity Centre (VCX, +20.4%) was a key contributor on the back of its positive 1Q24 update. Another notable contributor was Charter Hall (CHC, +29.2%).

In contrast, Utilities (-11.7%) was the only sector to have negatively performed for the quarter. AGL (AGL, -11.7%) was the primary driver of underperformance after the market's confidence in the nation's largest electricity and gas distributor's long-term outlook weakened.

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.

Liontown Resources (LTR, underweight) – our underweight position in the lithium producer contributed as LTR underperformed during the month after Albemarle's $3/share takeover offer collapsed. Liontown is now in the process of raising equity at $1.80 per new share. Combined with debt funding, the company believes it is fully funded through to production at the Kathleen Valley lithium project. We continue to see downside risks from easing EV demand on slowing economic conditions and incremental mine supply, while pricing remains above cost curve support.

Evolution Mining (EVN, overweight) – the gold miner was a positive contributor during the period as gold prices increased by 11.9% during the quarter to close at US$2,067/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.

Collins Foods (CKF, overweight) – 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 opportunity and the Taco Bell business, which is not currently being valued.

Reliance Worldwide (RWC, overweight) – the stock was supported over the quarter following the release of RWC's September quarterly trading update in October, including confirmation of the company's FY24 group guidance. While the strength of the macro backdrop across RWC's key markets continues to be mixed, supportive data points for new housing activity in the RWC's key market of the USA, has provided a solid backdrop for stock performance with the stock trading closer to its long run average earnings multiple. Finally, growing expectations for interest rate cuts in the USA and other key markets for RWC in 2024 has additionally added to the performance.

Key Detractors

IGO (IGO, overweight) – the lithium and nickel miner underperformed during the period. Benchmark lithium prices (Platts 6% Spodumene) fell during the quarter, while nickel prices retraced. 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.

Megaport (MP1, overweight) – our overweight position in the software technology company was a detractor following the release of its quarterly result. Revenue and EBITDA growth were consistent with FY24 guidance; however operating metrics were modestly softer than expected, in particular new customer growth which led to underperformance during the period. We continue to hold the position as we believe customer volume trends will improve in the medium to long term as market conditions and execution improve. Furthermore, we would highlight that yield growth, low customer churn, margin expansion (including cost reduction programs) and lower capex will support a transition to free cashflow positive in CY24 with significant cashflow potential longer term.

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.

Integral Diagnostics (IDX, overweight) – radiology provider IDX underperformed during the period after a trading update that was below consensus expectations, given higher-than-expected wage inflation and a slower than expected recovery in volumes. 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.

Healius (HLS, overweight) – the pathology provider underperformed during the period as it remained challenged with the exposure to falling GP consults impacting pathology volumes and no indexation. HLS completed the institutional component of a discounted entitlement offer during the period which resulted in the poor performance of the share price. We see an opportunity under new CEO Maxine Jaquet to improve business focus, enhance operational margins and rebuild balance sheet resilience.

Key Purchases

IGO (IGO) – we took the opportunity to add to our position in the lithium and nickel producer during the month. With lithium prices approaching trough levels, we are seeking to increase our leverage to the commodity. Within the lithium sector, we favour IGO given its high-quality, low cost and long dated lithium assets, coupled with diversity offered by the company's nickel assets.

Iluka Resources (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 will be a critical component producer for the EV industry.

Evolution Mining (EVN) – we took the opportunity to initiate a position in the gold and copper producer Evolution Mining via their equity placement (at a 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.

Key Sales

TPG Telecom (TPG) – we took the opportunity to exit TPG, following the potential $6.3bn sale of its Vision/EG&W assets (and prior to the deal subsequently breaking). While we see evidence of improved operating momentum, the proposed sale would concentrate 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.

Hotel Property Investments (HPI) – we exited 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, which in turn could reduce the financial flexibility of the Trust. This outlook reduces the appeal of a seemingly attractive spot valuation metric with a dividend yield above 7%.

Collins Foods (CKF) – following a period of outperformance the position in the quick service restaurant provider CKF was modestly reduced to fund other buying opportunities. We continue to hold a CKF overweight position given the improving Australian KFC earnings outlook as margins increase from depressed levels given continued defensive sales growth, pricing increases and lower commodity costs. Furthermore, the European KFC business has a strong growth outlook given the significant new store growth outlook and the Taco Bell business is currently being valued negatively.

Key Active Overweights

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.

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.

NEXTDC (NXT) – the portfolio maintains an overweight position in the leading Australian data centre owner and developer. The company has a unique combination of a strong long term growth earnings growth profile combined with infrastructure like characteristics, solid returns on capital and is backed by a tangible asset base. NXT trades on 31.5 times FY25 EV/EBITDA, which compares favourably to more mature global peers.

Worley (WOR) – we remain overweight the leading provider of global engineering services. WOR's earnings recovery is in its early stages following COVID-19 impacts across FY20-22. Revenue is expected to grow 13-15% in FY24, with leading indicators (Factored Sales Pipeline +36%, Rolling 12 Month Bookings +28%, Backlog +8%) and structural drivers (capital investment required to decarbonise) pointing to strong top-line growth ahead. Margins are also set to increase over the coming years as WOR benefits from a more consolidated industry structure, operating leverage, and active mix management towards higher margin sustainability work.

Evolution Mining (EVN) – we remain overweight the gold and copper producer Evolution Mining. 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.

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 92.9 times FY24 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.

REA Group (REA) – we hold an underweight position to Australia's largest online residential real estate platform business, and instead gain indirect preferred exposure to the online real estate segment via Domain Holdings (DHG) through the portfolios position in Nine Entertainment (NEC) (which owns 60% of DHG). REA trades on a multiple of 49.7-times FY24 P/E and we see superior risk adjusted returns in other high-growth online businesses such as Carsales.com (CAR) which trades on 33.4-times FY24 P/E.

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 12.3 times and a 5.8% dividend yield we believe better opportunities can be found elsewhere.

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).

Orica (ORI) – we retain an underweight position to the Australian-based mining and infrastructure solutions company ORI. From a chemicals exposure perspective, our stock preference is Incitec Pivot (IPL). Notwithstanding a number of improvements in the visibility of earnings growth for ORI (repricing low margin contracts, premiumization strategy in detonators), we believe the stock factors in these benefits with the company trading on a FY24 P/E of in excess of 17-times.

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 addition fiscal support will be announce 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 in large caps and 15% in small caps.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	11.07	6.76	4.31
Consumer Discretionary	8.62	11.51	-2.89
Consumer Staples	0.72	2.68	-1.97
Energy	0.00	6.22	-6.22
Financials	12.47	12.29	0.17
Health Care	6.46	5.19	1.27
Industrials	15.51	13.92	1.59
Information Technology	8.61	8.73	-0.13
Materials	18.18	21.46	-3.28
Real Estate	12.13	10.18	1.95
Utilities	0.00	1.05	-1.05

Top 5 holdings

	Portfolio %	Benchmark %	Active %
CAR Group	6.35	2.15	4.20
Reliance Worldwide	5.16	0.64	4.52
Evolution Mining	4.94	1.43	3.50
NEXTDC	4.89	1.30	3.60
Worley	4.76	1.18	3.58

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Reliance Worldwide	5.16	0.64	4.52
CAR Group	6.35	2.15	4.20
NEXTDC	4.89	1.30	3.60
Underweights			
WiseTech Global	0.00	2.53	-2.53
REA Group	0.00	1.71	-1.71
Ampol	0.00	1.58	-1.58

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	6.22	-1.50	4.07	5.09
Distribution return	6.65	7.30	5.21	3.64

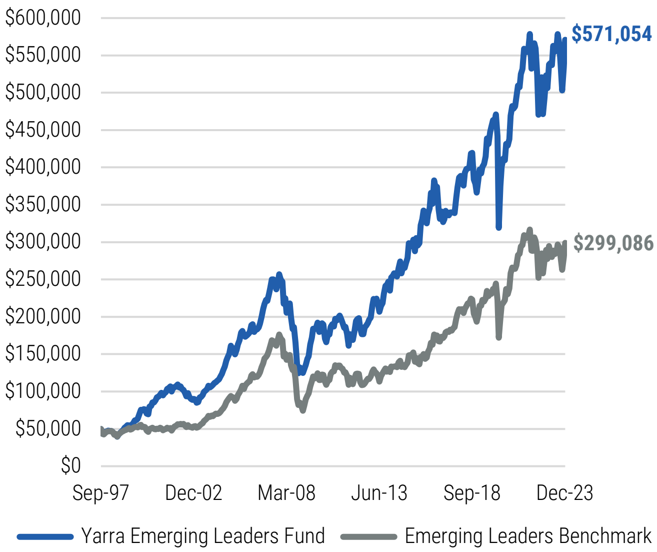
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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 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	September 1997	
Fund size	A$92.4 mn as at 31 December 2023	
APIR codes	JBW0010AU	
Estimated management cost	1.25% p.a.	
Buy/sell spread	+/- 0.20%	
Platform availability	Asgard Ausmaq BT Panorama BT SuperWrap Financial Index	Hub24 Macquarie Wrap Mason Stevens MLC Wrap OneVue

Investment performance comparison of $50,000

After fees, since inception of the Yarra Emerging Leaders Fund, September 1997 to December 2023.



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Applications and contacts

Investment into the Yarra Emerging Leaders Fund can be made by Australian resident investors only.

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