Yarra Emerging Leaders Fund

Gross returns as at 31 January 2024

	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	-0.51	13.12	6.81	7.18	9.53	10.58	10.96
Emerging Leaders Combined Benchmark†	-0.64	12.96	0.81	3.88	7.84	8.91	6.98
Excess return (before fees)‡	0.13	0.16	6.00	3.30	1.69	1.67	3.98

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 January 2024

	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	-0.61	12.77	5.49	5.86	8.18	9.21	9.66
Emerging Leaders Combined Benchmark†	-0.64	12.96	0.81	3.88	7.84	8.91	6.98
Excess return (after fees)‡	0.03	-0.20	4.68	1.98	0.34	0.30	2.67

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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 was flat, following strong performance from the previous month.

The Emerging Leaders Benchmark returned -0.7% for the month, taking its 12-month return to +0.8%. By comparison, the broader S&P/ASX 300 Accumulation Index gained 1.1% for the period. Globally, the MSCI World Index also recorded a +1.1% return.

Energy (+8.2%) was the largest contributor for the month, led by Paladin Energy (PDN, +31.5%). The uranium producer released a positive December quarterly report and is also set to commence production activity at its Langer Heinrich project in Namibia. Whitehaven Coal (WHC, +13.3%) was another key contributor, driven by oversubscription for minority stakes in its new coking coal mines from the producer's steel industry pivot.

The Financials (+2.4%) sector also significantly contributed to performance for the period, with the majority of the subsectors closing in positive territory. The sector benefitted from expectations of a soft landing over the course of FY24. Notable stock contributors include Washington H. Soul Pattinson and Co (SOL, +5.0%), NIB (NIB, +10.2%) and AUB Group (AUB, +10.5%).

In contrast, Materials (-7.6%) was among the worst performers for the month. Evolution Mining (EVN, -18.9%) underperformed during the period following a poor December quarter production update, which fell short of consensus expectations resulting in a guidance downgrade at its Red Lake mine. Other detractors include Liontown Resources (LTR, -37.6%) and Lynas Rare Earths (LYN, -17.9%).

Portfolio review

Key Contributors

Megaport (MP1, overweight) – our overweight position in the software technology company was a contributor following the release of its quarterly result. A strong turnaround in profitability, while still investing in growth, saw Megaport deliver a positive result for the quarter. We continue to hold the position as we believe customer volume trends will progress in the medium to long termer as execution improves and the benefit of investment in sales capability impacts customer acquisition. 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.

Arcadium Lithium (LTM, underweight) – our underweight in the lithium producer was a source of outperformance during the period following continued weakness in lithium prices. The recent merger between Allkem (AKE) and Livent (LTHM.US) to form Arcadium has further increased LTM's exposure to South American lithium brine production and lithium chemicals processing. While we believe lithium prices are approaching trough levels, we continue to see margin compression in lithium processing, and prefer to gain exposure to lithium via Australian hard rock spodumene producers.

Netwealth (NWL, overweight) – the leading independent wealth management platform outperformed during the month followed by the release of its quarterly update. Netwealth reported a $6bn increase in its funds under administration over the quarter. 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 industry fragments away from the historically dominant players. In our view, the company's multiple for FY25 does not capture its long-term growth opportunity, high incremental margins, conservative accounting, and strong cash flow generation.

Key Detractors

Nanosonics (NAN, overweight) – the infection prevention company underperformed during the period following a disappointing update. NAN continues to experience ongoing uncertainty associated with the impact on the timing of capital unit sales due to hospital capital budgetary pressures. We remain positive on the long-term growth opportunity given the company's position as the global market leader in probe disinfection. We expect strong organic sales growth will be driven by adoption of the product in existing markets such as the US and Europe and expansion into new markets such as Japan and China.

Evolution Mining (EVN, overweight) – the gold producer underperformed during the period following a poor December quarter production update which fell short of consensus expectations and led to a guidance downgrade at the Red Lake mine. Despite shorter-term production headwinds, we remain attracted to EVN's long-life assets, and meaningful leverage to copper production at the Ernest Henry and Northparkes mines. Continued drilling success across the portfolio, should result in further resource/reserve increases in early 2024.

Worley (WOR, overweight) – the leading provider of global engineering services underperformed during the period driven by unfavourable arbitration results in relation to its Ecuadorian dispute. We are bullish on the stock as the revenue is expected to grow 13-15% in FY24, with leading indicators and structural drivers (capital investment required to decarbonize) pointing to strong top-line growth ahead.

Key Purchases

Worley (WOR) – we added to our existing position in 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.

Iluka Resources (ILU) – we took the opportunity to add to our existing 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.

Key Sales

Link Administration (LNK) – the third party administrative and share registry service company performed strongly during the period following 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. With the stock trading close to terms, we have taken the opportunity to deploy capital elsewhere.

Key Active Overweights

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 32.7 times FY25 earnings trading multiple is relatively undemanding given these tailwinds.

Reliance Worldwide (RWC) – we view the plumbing supplies company as a compelling opportunity, given its softer FY24 earnings year. 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.

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 earnings growth profile combined with infrastructure like characteristics, solid returns on capital and backed by a tangible asset base. NXT trades on 34 times FY25 EV/EBITDA, which compares favourably to more mature global peers.

Key Active Underweights

WiseTech Global (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 97.4 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 do not hold a position in the 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 52.8-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 36.7-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. With the company trading on a FY24 earnings multiple of 12.6 times and a 5.8% dividend yield we believe better opportunities can be found elsewhere.

Market outlook

Financial market's finished 2023 on a particularly strong note with the ASX200 returning 7.3% in the month of December and a further gain of 1.2% mom recorded in January. Optimism was driven primarily by financial markets becoming increasingly convinced that central banks have now concluded their tightening of monetary policy in the major developed economies and the prospect of easing 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 continues to toy with a technical recession, 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 expect China to deliver on a more meaningful infrastructure package into 2024 and further encourage 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 as we move through 2024.

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 packs less 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.

As we move into 2024, some additional factors are worth noting that support a more positive outlook.

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 a change to the details of the Stage 3 income tax cuts the package is equivalent to 1.0% of disposable income. In conjunction with the Federal Budget in surplus, the RBA rate cycle likely complete and an election looming in 2025 it 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% versus 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 Communication Services, Real Estate and Financials sectors, and are underweight Energy, Materials and Consumer Discretionary.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	11.21	7.03	4.18
Consumer Discretionary	9.09	11.49	-2.39
Consumer Staples	0.93	2.95	-2.01
Energy	0.00	6.77	-6.77
Financials	13.62	12.74	0.88
Health Care	5.69	5.17	0.51
Industrials	14.57	13.86	0.71
Information Technology	9.52	8.99	0.53
Materials	17.29	19.78	-2.49
Real Estate	12.38	10.23	2.15
Utilities	0.00	0.99	-0.99

Top 5 holdings

	Portfolio %	Benchmark %	Active %
CAR Group	6.54	2.34	4.20
NEXTDC	5.08	1.36	3.72
Reliance Worldwide	4.56	0.63	3.93
Worley	4.37	1.03	3.35
Evolution Mining	4.07	1.19	2.88

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
CAR Group	6.54	2.34	4.20
Reliance Worldwide	4.56	0.63	3.93
NEXTDC	5.08	1.36	3.72
Underweights			
WiseTech Global	0.00	2.52	-2.52
REA Group	0.00	1.78	-1.78
Ampol	0.00	1.63	-1.63

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	-0.73	-1.45	3.02	5.56
Distribution return	6.22	7.30	5.16	3.66

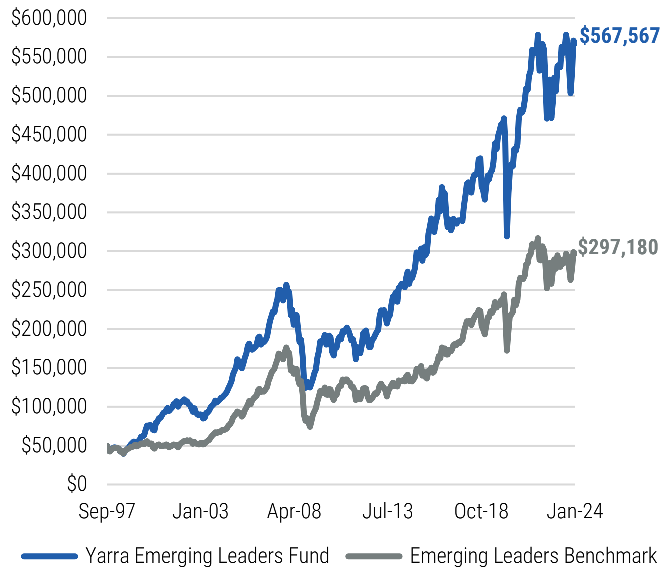
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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$91.4 mn as at 31 January 2024	
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 January 2024.



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 (comprising 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries 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.

Applications and contacts

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

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