

Yarra Ex-20 Australian Equities Fund

Gross returns as at 31 January 2024

	From 25 June 2018 [^]	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.*
Yarra Ex-20 Australian Equities Fund	5.77	0.36	11.88	8.83	9.78	8.69	7.32	7.78
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index [#]	5.88	0.44	12.97	4.33	6.30	7.84	N/A	N/A
Excess return (before fees) [‡]	-0.11	-0.08	-1.10	4.50	3.48	0.84	N/A	N/A

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 January 2024

	From 25 June 2018 [^]	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.*
Yarra Ex-20 Australian Equities Fund	4.81	0.29	11.63	7.86	8.80	7.71	6.17	6.57
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index [#]	5.87	0.44	12.97	4.33	6.30	7.84	N/A	N/A
Excess return (after fees) [‡]	-1.06	-0.16	-1.35	3.53	2.50	-0.13	N/A	N/A

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.

[^] Effective 25 June 2018 the Fund's investment strategy, name and benchmark was changed. Performance prior to 25 July 2018 is provided here for consistency purposes only – the historical performance data shown relates to the previous strategy and should not be used to assess past or future performance of the Fund. Performance data relating to the previous strategy is available upon request. 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 Ex-20 Australian Equities Fund: August 2010.

[#] The benchmark for the Yarra Ex-20 Australian Equities Fund has been amended since the Fund's inception. Effective 25 July 2018, the benchmark is the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index, replacing the S&P/ASX 300 Accumulation Index.

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

Market review

The Australian equities market was flat following strong performance in the previous month.

The S&P/ASX 300 Ex-20 Accumulation Index returned +0.5% for the month, taking its 12-month return to +4.3%. In comparison, the broader ASX300 gained slightly more, +1.1% for the period. On a global scale, the MSCI World Index also generated a +1.1% return.

The largest contributor was the Financials (+4.1%) sector, as the sector benefitted from expectations of a soft landing over the course of FY24. QBE Insurance (QBE, +7.0%) was positively impacted by the strong 2023 fourth quarter results of its US peers. A solid outlook into 2024 for QBE's most volatile (North America) division also supported the share price increase. Within the Insurance subsector, Insurance Australia (IAG, +6.7%) and Medibank Private (MPL, +7.9%) were the other key contributors.

Energy (+8.1%) outperformed during the month, with Paladin Energy (PDN, +31.5%) as a key contributor. The uranium

producer rallied on the back of a positive December quarterly report release and is on track to commence production activity at its Langer Heinrich project in Namibia. Whitehaven Coal (WHC, +13.3%) was another notable contributor, driven by oversubscription for minority stakes in its new coking coal mines from the producer's steel industry pivot.

In contrast, Materials (-5.3%) was one of worst performing sectors largely explained by the performance of the Metals & Mining subsector. Mineral Resources (MIN, -14.4%) was a detractor, despite strong lithium volumes with Mt Marion and Wodgina both ahead of consensus. Other negative contributors were Evolution Mining (EVN, -18.9%), Liontown Resource (LTR, -37.6%) and Arcadium Lithium (LTM, -21.2%).

Key Contributors

ResMed (RMD, overweight) – the medical equipment company outperformed during the month following its second quarter result. ResMed reported an increase of 12% in revenue which was ahead of consensus. Despite the focus on risks posed by GLP-1 s we expect RMD to delivery another quarter of robust top line growth, driven by masks/accessory sales. Given

elevated Cost of Goods Sold (COGS) inflation, we are expecting minimal uplift in gross margin vs 1Q24 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.

Car Group (CAR, overweight) – the online car classifieds company was a positive contributor during the month with limited material news. CAR 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.

Mineral Resources (MIN, underweight) – our underweight position in the mining services and lithium producer was a source of positive contribution in January. Lithium prices continued to weaken during the month on slower than expected demand growth for electric vehicles, the Platts 6% Spodumene marker fell ~16% to close at US\$840/t. At current lithium prices, MIN's assets are struggling to generate positive cash flow, placing further pressure on an already stretched balance sheet.

Key Detractors

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.

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.

Reliance Worldwide (RWC, overweight) – the plumbing supplies company underperformed during the month with limited material news. We like the scope for recovering activity estimates (USA, EMEA) as CY24 unfolds. New construction data is starting to pick up, the recent cold weather should give a boost to 2H24 earnings. Current 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.

Key Purchases

Bapcor (BAP) – we initiated a position in the automotive supplier, reflecting our view that BAP's trade and wholesale businesses remain attractive despite a period of management turnover. While Autobarn has been impacted by a softer consumer, Burson has remained relatively resilient despite a deferral of service volumes and retains an entrenched position within the aftermarket category. With the stock trading at discount to history (13.8 times P/E vs 19.9 times 10-year average), this valuation does not capture the structural growth opportunity on offer and represents an attractive entry point despite some near-term uncertainty.

Evolution Mining (EVN) – we took the opportunity to add to our position in the gold miner. 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.

APA Group (APA) – we added to the portfolio's exposure to this high-quality infrastructure stock with optionality around its participation in the energy transition. The valuation is supportive with stock trading on 11.3 times EV/EBITDA and 6.7% div yield.

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.

Vicinity Centres (VCX) – we took the opportunity to recalibrate the overweight position size in light of strong stock performance (VCX +19.2% vs ASX200 +12.3% over the two months ending Dec-23) reducing our upside to target price. Strong stock performance can be attributed to both macro (lower bond yields) and stock specific factors including ongoing strong sales (+2.7% above pcg in Sept-quarter) and positive re-leasing spreads +4.5%.

Telstra (TLS) – the decision to trim our position in the telecommunications company was predicated on our view of a tougher outlook for the business, as earnings growth from its key mobile division becomes more challenging and weakness in fixed and enterprise persists. TLS has done a good job in recent years linking mobile pricing more to CPI-linked increases, although this dynamic may prove more challenging moving forward as inflation eases and cost pressures persist. Proceeds from the TLS reduction have been used to fund more attractive investment ideas.

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.

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.

Origin Energy (ORG) – the portfolio maintains an overweight position in integrated energy producer and retailer. Recent takeover interest has highlighted the strength of ORG's strategic positioning as we head into the energy transition. The stock is now trading 13% below the final takeover price, a level that we do not believe captures the optionality in ORG's asset portfolio, strong balance sheet and cash generation or value in its Octopus investment.

Key Active Underweights

James Hardie (JHX) – we retain an underweight position in the leading building materials supply company. Notwithstanding a number of quality aspects to JHX's business (i.e., share growth, a responsive operational and manufacturing footprint) we remain cautious of the ongoing strength in end markets for JHX (a portion of discretionary renovation spend, often labelled as remodelling activity) as well as the impact of normalising input costs on margins. These factors are suggestive of future earnings vulnerability, making it difficult to support the stock at current valuation of 23.7-times FY24 P/E. Our preferred building material company remains Reliance Worldwide (RWC), which trades on 15.5-times forward earnings.

Brambles (BXB) – we remain underweight the global provider of pallet pooling solutions to various FMCG producers. Supported by a favourable pricing environment, Brambles currently has strong operating momentum with improving free cash flow. Looking forward however, we are cautious on the sustainability of the current high level of profit growth as customer demand and pricing dynamics normalise. Stock valuation in this environment (18.1-times FY24 P/E) looks to capture the remaining upside.

Cochlear (COH) – we remain underweight the global producer of hearing technologies. While COH's key developed and

emerging markets have largely recovered following COVID as hospital capacity issues normalise, we are cautious on the outlook for some operating costs in the higher inflation environment, and on the implied stock valuation metrics of 47.9-times FY25 P/E. Given strong underlying ear implant demand globally – supported by COH's ongoing investment into clinical awareness – we do think the company is well positioned to return to its historical growth rates, and indeed should be supported by the release of its new Nucleus 8 sound processor.

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, Utilities and Consumer Discretionary and underweight Industrials, Energy and Financials.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.96	5.02	7.94
Consumer Discretionary	12.15	7.66	4.49
Consumer Staples	0.00	3.45	-3.45
Energy	0.00	3.83	-3.83
Financials	12.41	15.99	-3.58
Health Care	6.27	9.41	-3.13
Industrials	8.04	12.83	-4.79
Information Technology	10.44	6.85	3.59
Materials	18.09	20.05	-1.96
Real Estate	8.88	11.54	-2.67
Utilities	8.37	3.38	4.99

Top 5 holdings

	Portfolio %	Benchmark %	Active %
ResMed	6.27	1.62	4.65
CAR Group	5.62	1.36	4.25
Origin Energy	5.18	1.61	3.58
QBE Insurance	5.09	2.59	2.50
NEXTDC	4.33	0.79	3.54

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
ResMed	6.27	1.62	4.65
CAR Group	5.62	1.36	4.25
Origin Energy	5.18	1.61	3.58
Underweights			
James Hardie Industries	0.00	2.79	-2.79
Brambles	0.00	2.23	-2.23
Cochlear	0.00	2.18	-2.18

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	6.59	6.64	5.54	3.59
Distribution return	1.27	2.17	2.18	2.57

The Growth Return is measured by the movement in the Fund's unit price, 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 Australian Securities Exchange listed securities excluding the largest 20 by market capitalisation (as defined by the S&P/ASX 20 Index). In doing so, the aim is to outperform the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index over rolling 3-year periods.	
Recommended investment time frame	5 - 7 + years	
Fund inception	August 2010	
Fund size	A\$35.9 mn as at 31 January 2024	
APIR code	JBW0052AU	
Estimated management cost	0.90% p.a	
Buy/sell spread	+/- 0.15%	
Platform availability	BT Panorama Hub24	Praemium

Applications and contacts

Investment into the Yarra Ex-20 Australian Equities Fund can be made by Australian resident investors only.

Website www.yarracm.com

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com

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