

Yarra Global Share Fund

Net returns as at 31 March 2024

	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Global Share Fund#	3.48	18.41	21.85	26.25	10.27	13.60	14.19	8.72
MSCI All Countries World Index [^]	2.94	13.16	18.85	26.49	12.61	12.80	12.71	7.71
Excess Return [‡]	0.54	5.24	3.01	-0.25	-2.34	0.80	1.48	1.01

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 of Yarra Global Share Fund: November 1995.

Effective 20 March 2023, the Fund was renamed from the Nikko AM Global Share Fund to the Yarra Global Share Fund. There was no change to the Fund's investment team, philosophy or process. The Fund gains exposure to global equities by investing in the Nikko AM Global Equity Fund (Underlying Fund) (a sub-fund of the Nikko AM Global Umbrella Fund which is an open ended investment company registered under Luxembourg law as a société d'investissement, a capital variable).

[^] Benchmark: MSCI All Countries World Index (with net dividends reinvested) expressed in Australian Dollars (unhedged).

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

Portfolio review

The Fund returned 3.48% (after fees) in March, to outperform the Index return of 2.94% by 54 basis points (bps). Over the longer term (10 years), the Fund's return of 14.19% per annum (p.a.) is 148 bps p.a. ahead of the Index return of 12.71% p.a.

Key contributors to relative performance:

- **NVIDIA Corporation** shares continued to climb higher. The company hosted its semi-annual GPU technology conference, which highlighted the significant runway for AI adoption and NVIDIA's central positioning within this ecosystem. The CEO announced a new Blackwell GPU architecture with increased compute power and software packages for custom and pre-trained AI models. They also showcased their progress in bringing robotics into the physical world through successful demonstrations with companies like Siemens. These discussions highlighted NVIDIA's unique position as the only chip company capable of creating its own market.
- **Schlumberger N.V.**, along with other energy companies, saw a rebound in their share price on the back of higher crude oil prices. In a strategic move, Schlumberger announced that it would be entering a joint venture with Aker Carbon Capture, to further strengthen its positioning in carbon capture solutions.
- **Encompass Health Corporation**, the market leader in inpatient rehabilitation, performed strongly following an update from the Centers for Medicare and Medicaid Services (CMS), which proposed the 2025 rate for inpatient rehab facilities. The headline rate of 2.8% was largely in line with expectations. Importantly, the update made no mention of the home health transfer payment policy – a reimbursement concern that came to light this time last year. This suggests that CMS is unlikely to pursue the policy, which is a significant positive development for

Encompass.

- **Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC)** outperformed after monthly results confirmed that the company is growing both cyclically and structurally. Smartphone end demand has been gradually recovering and demand for chips has improved substantially. Growth created through the adoption of AI is also supportive.
- **Palomar Holdings, Inc.** continued to outperform following the release of strong FY23 results in the prior month. The manager believes that there is significant runway for top-line growth across the company's defined product segments: earthquake, inland marine, casualty and crop. Furthermore, efforts to reduce volatility have proven successful, with Palomar delivering a more consistent margin and a lower level of risk exposure on the books. Reinsurance renewals are also expected to be more manageable moving forward.

Key detractors from relative performance:

- **Accenture PLC** shares were weaker after the company published underwhelming quarterly numbers and lowered guidance for the full year. The company continues to see client caution in IT projects, particularly among smaller businesses, indicating subdued demand in the near term. However, the manager maintains a favourable long-term view on the business, citing Accenture's strong position to assist clients in adopting AI and navigating the next wave of digital transformation.
- **Abbott Laboratories** underperformed following a US court ruling against infant formula peer, Reckitt Benckiser. A jury awarded US dollars 60 million in damages to a mother whose baby died of necrotizing enterocolitis (NEC), a disease which is speculated to have been caused by specialty infant formula. There is no strong scientific evidence linking NEC to specialty infant formulas, however, the payout awarded by the jury was larger than expected

and multi-district litigation on the same topic is due to start in the latter half of 2024. It is likely that this negative news flow will remain an overhang on the shares of specialty infant formula producers for some time.

- **Hoya Corporation** shares underperformed. While there was no stock specific news, the weakness of the yen made performance look worse in US dollar. News flow has been quite supportive around Hoya's EUV mask blanks business, such as ASML's comments indicating a potential bottoming in demand after a period of destocking.
- **Bio-Techne Corporation** shares were weaker, as the market continued to digest the fact that the path to recovery in bioprocessing & life sciences will be more gradual than initially expected. As a higher beta play within the industry, Bio-Techne is more sensitive to this news flow than Tools peers. Despite this, the manager believes that Bio-Techne offers more upside than peers from any sustained recovery in biotech capital markets, as 20% of its sales are derived from early-stage biotech (vs.<10% for peers).
- **Synopsys, Inc.** shares saw a period of profit taking after a strong run leading up to its Investor Day in March. The company has been benefiting from accelerating top line growth in its Electronic Design Automation (EDA) division, selling software tools that play a mission critical role in enabling the development of next-generation AI chip solutions. The significant complexity increases in accelerated compute (AI) chip solutions, combined with the faster pace of new product introductions, is driving strong demand for chip design software tools and expanding their Total Addressable Market (TAM) and customer base, which now includes hyperscalers.

Market review

Markets have been exhibiting an unusual dream-like behaviour, marked by all-time highs in various indices and commodities such as the Nasdaq, S&P 500, TOPIX, Cocoa, Uranium, Gold, and Bitcoin, a strange mix that might suggest speculation is rife. From an investor's perspective, waves of innovation often usher in conditions ripe for speculation. But so far equity returns have largely been driven by earnings surprises. This has primarily happened because the FAANG stocks plus Microsoft have cashflow margins approaching 30%, whereas other growth stocks have mid-teens cash flow margins and the rest of the market below 6%. Incremental top line growth is driving significant operational gearing which leads to sizeable upgrades which "almost" explains the full extent of many share price moves. The most graphic example of this is NVIDIA Corporation, whose 2025 forecast earnings estimate has gone up 5x, whereas the share price has "only" risen 3x since June of 2023. NVIDIA's shares have materially derated.

The sustainability of top line growth will of course be important and perhaps the AI Infrastructure roll out is a bubble in the making. But in the meantime, AI stocks are not trading anywhere near prior bubble peaks, like those observed in prior technology advancements, such as the mainframe, PC or Internet eras. The challenge becomes monitoring the pace of

adoption and ensuring that those active are generating economic value. In the meantime, we are in the early stages of a boom in the build out of AI Infrastructure, with little indication to date of indigestion. Over time this investment will result in the transformation of just about every industry and of course, which industries and which companies benefit is a primary focus for us.

If AI is to have the effect that many are predicting, it will most likely be picked up in the earnings of a wide range of corporations and theoretically could offer outsized boosts to productivity, margin, and profitability. This phenomenon is still isolated to only a small number of companies though the market is starting to identify second and third derivative winners in the AI space, such as providers of electrical equipment, server cooling expertise, energy management – reflecting the scale of the energy requirements as AI and Data center expansion rolls out. CEOs of these companies – such as Schneider Electric SE – are already highlighting an acceleration in top line growth and expansion in TAM, which has not been lost on investors. The strength of companies in the industrials sector is unusual and worthy of note.

When it comes to stock markets, cashflows have the propensity to act like gravity, particularly when share prices take on dream-like behaviour. While the manager does not believe we are in a bubble yet – there is a possibility we may be headed in that direction. The Future Quality philosophy and the managers consistent process of reviewing the portfolio and ranking stocks will help separate dreams from reality.

Top 10 holdings (underlying Fund)

	Portfolio %	Benchmark %	Country
Microsoft Corp	6.60	4.12	United States
NVIDIA Corp	5.49	3.09	United States
Meta Platforms	3.73	1.49	United States
Netflix, Inc.	3.55	0.37	United States
Amazon.com	3.30	2.32	United States
Taiwan Semiconductor Manufacturing Co.	2.91	0.83	Taiwan
Broadcom Inc.	2.82	0.82	United States
Abbott Laboratories	2.76	0.27	United States
Compass Group plc	2.67	0.07	United Kingdom
Encompass Health Corp	2.53	0.00	United States

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.

Country / regional exposure

	Fund %	Benchmark %
United States	67.45	63.82
Japan	4.44	5.52
China	0.00	2.51
United Kingdom	6.62	3.41
Canada	0.00	2.76
Europe ex UK	5.31	11.87
Asia Pacific ex China & Japan	13.17	7.81
Emerging Europe, Middle East, Africa	0.00	1.42
Latin America	0.00	0.88
Cash	3.00	0.00

Sector exposure

	Fund %	Benchmark %
Communication Services	7.27	7.56
Consumer Discretionary	15.56	10.90
Consumer Staples	6.21	6.43
Energy	3.47	4.55
Financials	14.50	16.06
Health Care	17.13	11.14
Industrials	5.27	10.80
Information Technology	25.64	23.68
Materials	1.96	4.23
Real Estate	0.00	2.20
Utilities	0.00	2.46
Cash	3.00	0.00

Income and growth

	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Growth return	26.25	10.27	13.60	13.22
Distribution return	0.00	0.00	0.00	0.98

Fund growth return is the change in redemption prices over the period. Fund distribution return equals total Fund return minus Fund growth total return. Total Fund returns are post fees, pre tax using redemption prices and assume reinvestment of distributions.

Features

Investment objective	The Fund aims to achieve capital growth over the long term, with total returns (before fees) 3% above the MSCI All Countries World ex-Australia Index (with net dividends re-invested) expressed in Australian Dollars (unhedged) over rolling three-year periods.	
Recommended investment time frame	5+ years	
Fund inception	November 1995	
Fund size	A\$338 mn as at 31 March 2024	
APIR code	SUN0031AU	
Estimated management cost	0.99% p.a.	
Buy/sell spread	+/- 0.15%	
Platform availability	AMP North Asgard BT Panorama Hub24 Macquarie Wrap MLC Navigator MLC Wrap	Netwealth OneVue PortfolioCare Praemium uXchange Wealth02 Xplore Wealth

Applications and contacts

Investment into the Yarra Global Share Fund can be made by Australian resident investors only.

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