Quarterly Investment Commentary
As at 31 March 2025

Yarra Growth Fund

Net returns as at 31 March 2025

	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.
Total Fund return (net)	-3.38	-1.65	4.36	7.85	7.95	11.57	6.64	7.09
Fund growth return (net)	-3.38	-1.65	3.94	6.73	5.60	8.04	1.25	1.96
Fund distribution return (net)	0.00	0.00	0.43	1.13	2.35	3.53	5.39	5.13
Benchmark*	-3.02	-1.51	3.58	7.83	9.24	12.49	8.26	8.31

Source: YFML, Citi. Total Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund minus Fund growth return. Past performance is not an indicator of future performance. Inception date: February 1996.
* The Fund's benchmark is a composite index constructed using the applicable asset class index, weighted according to the Fund's benchmark asset allocation of: 15% of Bloomberg AusBond Composite 0+ YR Index for Australian fixed interest, 30% of S&P/ ASX 200 Accumulation Index for Australian shares, 50% of MSCI All Countries World Index Net Total Return AUD Index (unhedged) for overseas shares, 0% of S&P/ASX 300 Australian Real Estate Investment Trusts (A-REITs) Accumulation Index for property securities (effective 16 December 2013. Prior to this was the S&P/ASX 200 A-REITs Accumulation Index), and 5% of Bloomberg AusBond Bank Bill Index for Cash.

Portfolio review

The Fund returned -1.65% for the quarter, underperforming its composite benchmark return of -1.51% by 14 basis points (bps).

Australian Equities

The Fund's Australian Equities allocation outperformed over the quarter. The Fund's investments in Australian equities are primarily in the Yarra Australian Equities Fund with smaller allocations to the Yarra ex-20 Australian Equities Fund and Tyndall Australian Small Companies Fund.

The S&P/ASX 200 Accumulation Index declined by 2.8% over the quarter, as higher P/E stocks and sectors experienced falls amid ongoing volatility. Which was driven by uncertainty surrounding President Trump's tariffs, as well a shift in investor focus towards China.

Sector returns were varied over the quarter, with positive returns observed in Industrials (+2.6%), Utilities (+2.2%), Communication Services (+1.5%), Materials (+0.7%), and Consumer Staples (+0.7%). While the remaining sectors reported negative returns, with the most significant decline in Information Technology (-17.5%), followed by Health Care (-9.1%), Real Estate (-6.9%), and Energy (-5.2%). Additionally, Consumer Discretionary (-2.6%) and Financials (-2.6%) also recorded negative returns.

Key relative contributors to performance from the Australian equities' allocation included Evolution Mining, which benefited from a surge in the price of gold (+21.0%) and copper (+9.4%). The fund benefited from its underweight position in Goodman Group, which underperformed following the announcement of a surprise A$4 billion capital raise to fund its data centre pipeline. The higher-than-anticipated capital intensity has led to increased caution among investors regarding the company's earnings multiple. Scrap metals processor Sims also contributed after reporting a solid half year result, up 184% compared to the previous corresponding period on the back of improved margins in North America.

Notable detractors to relative performance included positions in Block Inc., which underperformed after releasing slightly softer-than-expected fourth-quarter results. NextDC also lagged as the market grew impatient for anticipated large contract wins, compounded by concerns about AI's impact on global data centre demand. Iluka Resources underperformed following a fourth-quarter update, with an 9% decline in mineral sands revenue and a cautious near-term outlook, signalling flat production and a 6% rise in costs.

Global Equities

The Fund's Global Equities allocation underperformed over the quarter. The MSCI AC World Index, measured in AUD (unhedged), recorded a fall of -1.96%. The Fund's Global Equities allocation is primarily in the Yarra Global Share Fund, which underperformed, while the smaller allocation to the Yarra Global Small Companies Fund outperformed during the quarter.

Financial markets have proven themselves to be a beacon of contrasts. With the rise of "America First" policies initially seen as headwinds for economic growth in other parts of the world. However, the first quarter of 2025 has been a stark reminder that risk and volatility are never far away, and fundamental shifts in policy can have unintended consequences, such as the galvanizing effect of Europe coming together to shore up their own borders.

By the end of the quarter, everything, everywhere, all at once had turned upside down. Despite the huge rotation in markets and heightened policy volatility, the global benchmark declined only 1.96% over the quarter.

The best-performing sectors were those that struggled prior – Consumer Staples, Utilities, Telecoms and Healthcare. Though it wasn't just the defensive cohort that performed well, as Energy, Materials, and Financials also outperformed. Unsurprisingly, the high beta sectors, which also happen to be heavily weighted to artificial intelligence (AI) – Consumer Discretionary, Communication Services, and Information Technology – all materially underperformed.

The US market underperformed the global benchmark by more than 5% over the quarter, while Europe and the UK performed strongly. European Commission President Ursula von der Leyen announced her proposal for close to Euro 800 billion of spending to boost the bloc's defence capabilities, while Germany's incoming chancellor Friedrich Merz is also loosening the purse strings with proposals to ease off the debt brake for defence spending with a new Euro 500 billion infrastructure spending plan, driving European markets higher.

Emerging market equities, particularly in Hong Kong and Latin America, outperformed developed markets, while value stocks beat growth by over 10%. Smaller companies lagged due to rising trade uncertainty and inflation concerns.

Key contributors over the quarter included Cencora, Inc, a leading global pharmaceutical solutions company, which performed strongly, driven by solid fiscal results, the RCA acquisition, and the sale of Walgreens Boots' stake, which had been a stock overhang. Sony Group Corporation, a global conglomerate spanning electronics, entertainment, and gaming, reported strong gaming and music results, and an optimistic 2025 outlook, while its Web3 initiatives and upcoming leadership change added to positive sentiment. Progressive Corporation, a major U.S. insurance provider, posted impressive results, with an 18% rise in net premiums written and a 59% surge in net income, despite losses from the Los Angeles wildfires, reflecting investor confidence in its growth and resilience.

Notable detractors included Bio-Techne Corporation, a life sciences and diagnostics company, which faced a challenging quarter despite strong Q2 FY2025 results, with a 9% increase in organic revenue and higher EPS. The weakness was triggered by concerns over US Government plans to restrict funding for the National Institutes of Health, which, while under 5% of sales, raised fears of a slower recovery. Oracle Corporation, a global enterprise software and cloud services provider, despite strong bookings, saw its share price pressured by Q3 revenues and margins falling slightly short of expectations, with concerns about a tougher spending environment for clients. Amazon.com, Inc. reported solid Q4 2024 results with a 10% rise in net sales and strong operating income growth, but its stock underperformed due to broader market sentiment and uncertainty around the sustainability of AI spending and returns.

Australian Fixed Interest

The Fund's Australian fixed interest allocation, which is invested in the Yarra Australian Bond Fund, outperformed its benchmark over the quarter. The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned 1.29%.

Government bond yields experienced significant volatility, driven by global events such as U.S. trade tariffs, central bank actions and mixed economic data releases. Domestically RBA decisions and key indicators—like CPI and employment data—also influenced yield movements. Short-term (3-year) government bond yields declined, while long-term (10-year) yields rose, resulting in a steepening yield curve. The Fund's strategic positioning benefitted from this steepening.

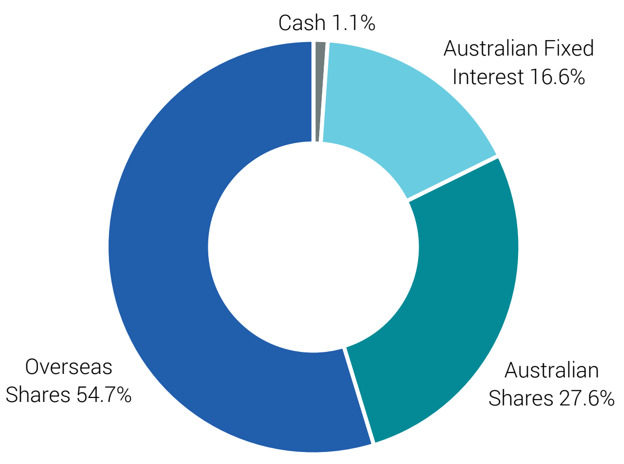
Sector allocation was another contributor to returns. The Fund maintained an overweight to spread, particularly in senior financials, RMBS, and high-grade corporates with maturities up to five years. The semi-government sector saw spreads widen in January due to state budget concerns but rebounded through the rest of the quarter as investors took advantage of valuation opportunities.

The Fund remains positioned to benefit from a steepening yield curve, with an overweight to spread in senior financials, residential mortgage-backed securities, and high-grade corporates. The semi-government sector, despite some volatility, is expected to offer higher relative value. The Fund will continue to monitor market developments and adjust positioning to capitalize on opportunities and manage risks.

Strategic Asset Allocation

Asset Class	Target Allocation (%)	Range (%)
Australian Shares	30	20-45
International Shares (unhedged)	50	35-65
Property Securities	0	0-10
Total growth assets	**80**	**70-95**
Australian Fixed Interest	15	5-25
Cash	5	0-20
Total income assets	**20**	**5-30**

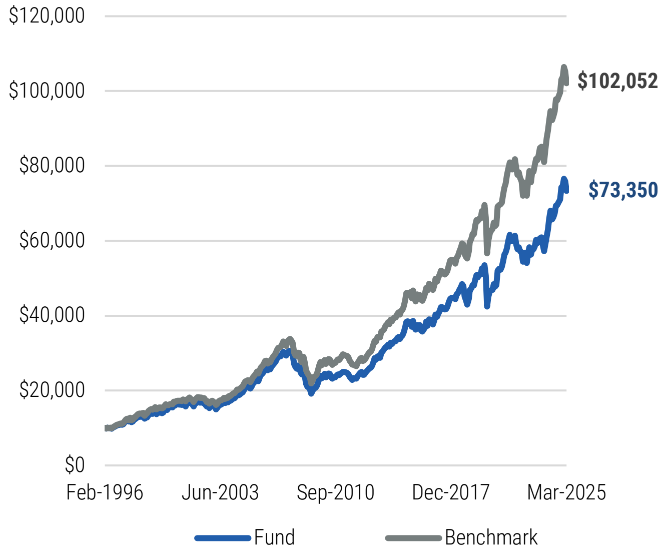
Asset Allocation at Quarter End



Source: YFM, Citi

Performance Graph

Value of $10,000 invested in the Yarra Growth Fund since inception:



Source: Citi & YFM. Past performance is not an indicator of future performance.

Market Outlook

“Liberation Day” has reinforced Trump’s reputation as a shock agent and it once again proved that financial markets were underestimating Trump’s intent. Financial market surveys revealed that market participants were expecting the effective US tariff rate to rise by no more than 12-15%. Trump’s reciprocal tariff announcement raised the US effective tariff rate to 28% before exclusions (and around 24% post-exclusions), essentially doubling market expectations and returning US tariffs to levels not seen since the first Model T Ford rolled off the production line in 1908.

The reaction in financial markets has been swift, with US equity markets down 18% from the peak at the time of writing and measures of volatility having spiked to historically significant levels. In recent months, we have cautioned that President Trump’s policies would, on balance, prove to be a net negative for US economic growth and for risk assets. We downgraded our US economic growth forecasts in December 2024 to well below consensus (1.75% and 1.5% in 2025 and 2026, compared to consensus of 2.4% and 2.0%), however, immediately following the US tariff announcement, we lowered our 2025 US growth view to just 1% and raised our 2025 core inflation forecast to 3.5%. This was based on no further retaliation or escalation of the trade war, which clearly has occurred. We have yet to conclude that a recession is inevitable, but the three main channels of how we typically end up in a recession are flashing red: financial conditions are tightening sharply thanks to widening credit spreads and weaker equities; survey readings are consistent with consumer restraint and rising unemployment; and firms are indicating that they are preparing to right-size their firms for a changing climate.

The questions that are exercising our minds include: Has the equity market adjusted enough to factor in the heightened risk of a near-term US recession, and what are the chances of de-escalation in the coming days? Since the 1950s, the average bear market decline of the S&P 500 during a US recession has been -38%, and the median decline has been -45%. On this measure, markets are unlikely to have fully priced a recession; indeed, we may only be halfway there. Equally, we acknowledge that de-escalation can also occur quickly if a series of Trump-styled ‘deals’ are made. When assessing these risks, we are mindful that Trump needs the tariff revenue to afford his tax cut agenda, so any ‘deal’ will still leave substantive tariffs in place and, as a result, leave substantial residual recession risk. From our perspective, Trump will likely keep the bulk of his tariff measures in place until he is confident that his tax plans will pass into law around mid-year. While we may soon pass through peak volatility and peak panic, we will still have to deal with the real-world consequences of these announcements for months to come.

Locally, Australia’s fragile economic recovery is clearly at risk from the external shock of a trade war, particularly one primarily targeted at our region and our largest trading partners. Nascent private sector demand growth is at risk of being snuffed out by this global shock. However, it is worth remembering three things: Australia’s exchange rate is playing its traditional shock-absorber role, which has been crucial in navigating prior shocks; the RBA will react, and we now expect them to cut interest rates by a further 100bps in 2025; and Australia benefits from having a relatively defensive equity market in a region with a well-capitalised banking system.

We are awaiting material revisions to US growth expectations, inflation, and earnings, together with any signs of a policy pivot by Trump or the Fed, before shifting to a more risk-friendly stance.

Unfortunately, given Trump’s stubborn belief and the Fed’s focus on inflation expectations, it’s likely to take an uncomfortable amount of time before someone blinks. From an equities perspective, we are observing uniform selling of markets due to general de-risking of portfolios.

Fund Objective

The Fund aims to provide a modest level of capital growth and income over the medium to long-term, with total returns (before taxes, fees and expenses) above the Fund's benchmark over rolling five-year periods.

Key Facts	
Responsible Entity Yarra Funds Management Limited	**Management Cost** 1.15% p.a.
APIR Code SUN0021AU	**Buy/Sell Spread** 0.15%/0.15%
Fund Size A$73 mn as at 31 March 2025	**Distribution Frequency** Half Yearly
Minimum Investment AUD 2,000	

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