YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 May 2025

Yarra Australian Equities Fund

Gross returns as at 31 May 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Australian Equities Fund	4.46	3.09	11.61	9.85	13.06	7.51	10.46
S&P/ASX 200 Accumulation Index†	4.20	4.31	13.36	9.61	12.10	8.11	9.33
Excess return (before fees)‡	0.26	-1.23	-1.75	0.24	0.96	-0.60	1.13

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 May 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Australian Equities Fund	4.39	2.88	10.68	8.89	12.07	6.53	9.47
S&P/ASX 200 Accumulation Index†	4.20	4.31	13.36	9.61	12.10	8.11	9.33
Excess return (after fees)‡	0.19	-1.43	-2.68	-0.72	-0.04	-1.57	0.13

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* Inception date Yarra Australian Equities Fund: July 1996

† The benchmark for the Yarra Australian Equities Fund has been amended since the Fund's inception. Effective 28 February 2008 the benchmark is the S&P/ASX 200 Accumulation Index, replacing the S&P/ASX 200 ex Property Accumulation Index Monthly. Further information on changes to the Fund's benchmark is available upon request.

‡ Excess return: The difference between the portfolio's return and the benchmark return.

Market review

The Australian Equities market strengthened during the month, consolidating further on the gains in April as tensions surrounding President Trump's tariff policies eased and tariff pauses, including on Chinese goods, were introduced.

The S&P/ASX 200 Accumulation Index returned +4.2% for the month taking its 12-month return to +13.4%. The broader S&P/ASX 300 Accumulation Index returned +4.2% for the period whilst, globally, the MSCI World Index strengthened, returning +5.9% for the month.

Financials (+5.1%) was the largest sector contributor with the banking sector leading the gains. Commonwealth Bank of Australia continued to lead the gains (CBA, +5.6%) with Macquarie Group (MQG, +12.8%) and National Australia Bank (NAB, +7.7%) also rallying.

The Information Technology sector (+19.8%) posted a sharp increase with WiseTech (WTC, +21.0%), Technology One (TNE, +36.8%) and Xero (XRO, +12.2%) rising sharply as the enthusiasm around AI continued, along with positive earnings updates.

Real Estate (+5.1%) gained on the back of an interest rate cut in May and commentary around further cuts during the year. Goodman Group (GMG, +9.8%) was a strong performer in this sector.

Within the Materials sector (+1.8%) the majority of stocks rose, with Northern Star Resources (NST, +9.4%), Evolution Mining (EVN, +13.0%), Orica (ORI, +17.3%) and South32 (S32, +10.9%) some of the largest contributors. Gold stocks NST and EVN were solid despite the gold price being relatively flat as earnings upgrades continued. In contrast, Rio Tinto (RIO, -3.8%) and Fortescue (FMG, -4.9%) fell, with the former retreating on mixed commodity trends and macroeconomic uncertainty and the latter on the announcement of a delay to its Iron Bridge magnetite operation.

Gains in defensive sectors such as Consumer Staples (+1.2%) and Health Care (+1.6%) were muted during the month, consistent with the market rally.

Portfolio review

Key Contributors

Tabcorp (TAH, overweight) – the wagering operator outperformed during the period after a strong May update which confirmed a modest improvement in turnover (in contrast to peers Flutter/Entain who reported a challenged 1Q25) and progress on retail initiatives such as In-Play betting. In our view, TAH has continued to make meaningful progress on its turnaround, leaving the company well-placed to benefit from an improvement in the domestic wagering market and operating leverage which appears to be nearing an inflection point.

Xero (XRO, overweight) – the accounting software provider outperformed during the month after reporting a solid result which showed the business continues to grow both users and ARPU strongly and is on track to achieve 20% revenue growth in FY26. Management was also optimistic on the prospects of reaccelerating growth in the US, now that the company has a full product suite in that market.

CSL (CSL, underweight) – our underweight position in the ASX's largest diversified biotech company contributed to returns as multiple headwinds built up across the group, putting pressure on its profit growth trajectory. Specifically, these pressures include increased competition and market share for the core plasma business, a subdued flu vaccination demand environment for the Seqirus business in the US, and the potential negative impact of pending US pharmaceutical tariffs which are expected to leave the Vifor business most vulnerable to margin pressure.

Key Detractors

Macquarie Group (MQG, underweight) – following a number of downgrades throughout the prior 12 months, the global financial services company outperformed following its FY25 result which was largely in line with expectations. While the market has formed a view that MQG's earnings have now found a base, the range of outcomes remains wide given prevailing global geopolitical and macroeconomic uncertainties, which we do not believe is reflected in the stock's 19.5-times trading multiple.

Treasury Wine Estates (TWE, overweight) – the global winemaking and distribution business underperformed during the period, with management churn, tariff uncertainty and softening US consumer datapoints weighing on expectations for the business. Although guidance was already trimmed towards the bottom-end of the prior range, retailer scan data has indicated a further decline in sell-through, including in US Luxury brands such as DAOU/Frank Family. However, we remain confident on the outlook for Penfolds (>60% EBIT) and believe TWE is approaching an inflection point in its product portfolio which is not captured in the valuation at present (12.5-times FY26 P/E vs 22.9 times 10-year average).

BlueScope Steel (BSL, overweight) – our overweight position in the diversified steel manufacturer was a source of underperformance as US steel tariff expectations eased during the month. US tariffs represent a potential upside risk to US steel spreads and present a material tailwind for BSL's US-based North Star steel mill. Meanwhile, BSL remains a well-managed company with capital management opportunities and valuation upside from both US protectionism and improving macro conditions in China.

Market outlook

May saw a sharp recovery in both global and local equity markets, driven by a combination of US tariff policy reversals, strong earnings from the US tech sector, and progress through the House of Representatives of the "One Big Beautiful Bill Act", that would enact President Trump's tax and spending priorities. The strength of the rally is somewhat surprising given the weakening tone in US economic data, recent downward earnings revisions and ongoing policy uncertainty. Nevertheless, the Australian equity market performed strongly, with the S&P/ASX 200 gaining 4.2%. S&P/ASX Small Caps also kept pace with global equities, rising 5.8% and 5.9% respectively.

Other asset classes recorded mixed performance in May. Global bonds declined 0.4%, with yields rising amidst Moody's downgrade of the US's last perfect credit rating over concerns about the government's ability to repay its debt. Australian fixed interest returned 0.2%, led by corporate bonds as spreads compressed amid rising risk sentiment. The strong gold price rally paused, but gold remains up a remarkable 25% calendar year to date. The Australian dollar also continued its recovery, appreciating 0.5% month-on-month and 3.6% over the past three-months.

From our perspective, financial markets are adopting an overly optimistic assessment of how little damage US policy volatility will have on the real economy. While equity markets have quickly priced in President Trump's preponderance to back down from his policy threats – referred to by some market participants as the "TACO trade" (Trump Always Chickens Out) – the true impacts of higher prices and slower economic growth is likely to only be revealed through the second half of 2025.

Locally, Australia's fragile economic recovery again disappointed in the March quarter, with subdued consumption keeping economic growth to just 0.2% quarter-on-quarter and 1.3% year-on-year. However, we believe that the Reserve Bank of Australia (RBA) has now set its course to return interest rates to a neutral setting and will ultimately implement a deeper rate cutting cycle than expected. Our rationale is that the RBA staff's assessment of the 'neutral rate' of interest has been lowered by around 50bps. In addition, with the RBA forecasting underlying inflation to remain near the mid-point of its inflation target, it's clear the RBA is preparing to reduce interest rates steadily until it approaches the 'neutral' rate.

It is also worth noting that that the RBA has adopted an optimistic outlook on China's ability to withstand a trade war with the US and has put more weight on the currency as a transmission path for monetary policy. The implication being should China's growth data falter or the Australian dollar appreciate meaningfully, then the case for earlier and deeper rate cuts will strengthen.

This is good news for Australian-based risk assets. We expect the main beneficiaries to be the housing construction and consumer sectors. However, the unusual combination of the prospect of lower interest rates and a higher Australian dollar could provide a powerful amplifying effect for smaller companies and will likely sustain offshore investor interest in Australian assets. Should US economic data continue to soften in coming months, Australia appears well-placed to benefit both economically and from a financial market perspective.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	6.68	3.99	2.69
Consumer Discretionary	4.85	7.74	-2.89
Consumer Staples	2.10	3.81	-1.71
Energy	5.00	3.53	1.48
Financials	26.49	34.23	-7.74
Health Care	8.15	9.37	-1.23
Industrials	6.92	7.43	-0.50
Information Technology	6.25	3.34	2.91
Materials	21.59	18.30	3.29
Real Estate	2.99	6.87	-3.88
Utilities	5.20	1.40	3.80

Top 3 holdings

	Portfolio %	Benchmark %	Active %
BHP Group	9.16	7.67	1.50
Commonwealth Bank of Australia	8.52	11.63	-3.11
Westpac Banking	5.79	4.41	1.38

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Woodside Energy	5.00	1.67	3.34
ResMed	3.84	0.89	2.95
Block	2.95	0.19	2.76
Underweights			
National Australia Bank	0.00	4.61	-4.61
Wesfarmers	0.00	3.72	-3.72
Commonwealth Bank of Australia	8.52	11.63	-3.11

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	7.52	2.29	1.50	-2.31
Distribution return	3.16	6.60	10.56	8.84

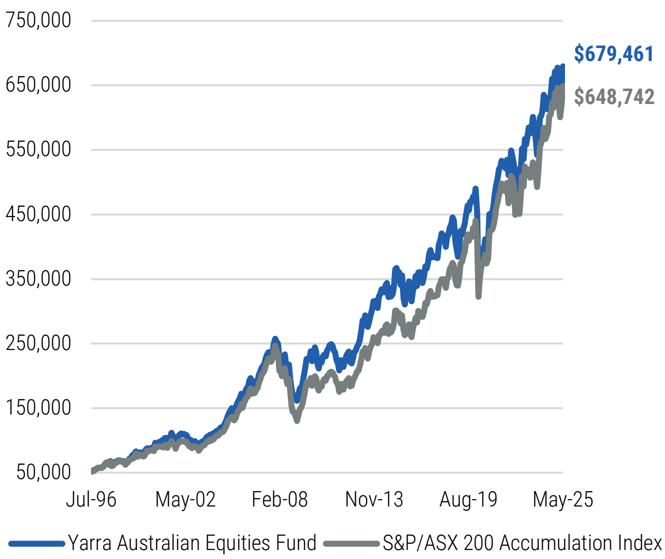
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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 companies listed on the Australian Securities Exchange. In doing so, the aim is to outperform the S&P/ASX 200 Accumulation Index over rolling 3-year periods.	
Recommended investment time frame	5 - 7 + years	
Fund inception	July 1996	
Fund size	A$129.7 mn as at 31 May 2025	
APIR code	JBW0009AU	
Estimated management cost	0.90% p.a.	
Buy/sell spread	+/- 0.15%	
Platform availability	Asgard Ausmaq BT Panorama BT Super Wrap FirstWrap GrowWrap	Hub24 IOOF Pursuit Macquarie Wrap Netwealth Oasis Powerwrap

Investment performance comparison of $50,000

After fees, since inception of the Yarra Australian Equities Fund, July 1996 to May 2025.



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 S&P/ASX 200 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. Note that the minimum initial investment amount for the Yarra Australian Equities Fund is $10,000.

Applications and contacts

Investment into the Yarra Australian Equities Fund can be made by Australian and New Zealand resident investors only.

Website www.yarracm.com

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