Yarra Australian Smaller Companies Fund

Gross returns as at 31 May 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception* % p.a.
Yarra Australian Smaller Companies Fund	4.51	1.65	11.08	7.25	N/A	9.87
S&P/ASX Small Ordinaries Accumulation Index	5.76	3.83	9.76	4.68	N/A	5.71
Excess return (before fees) ‡	-1.25	-2.18	1.32	2.57	N/A	4.17

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.	Since inception* % p.a.
Yarra Australian Smaller Companies Fund	4.43	1.43	10.14	6.34	N/A	8.95
S&P/ASX Small Ordinaries Accumulation Index	5.76	3.83	9.76	4.68	N/A	5.71
Excess return (after fees) ‡	-1.33	-2.39	0.38	1.66	N/A	3.24

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 Australian Smaller Companies Fund: August 2020.
‡ Excess return: The difference between the portfolio's return and the benchmark return.

Market review

The Australian small caps market strengthened during the month of May.

The S&P/ASX Small Ordinaries Index returned +5.8% for the month, taking its 12-month return to +9.8%. The broader S&P/ASX 300 Accumulation Index returned +4.2% for the period whilst globally, the MSCI World Index also strengthened, returning +5.9% for the month.

Materials (+2.4%), and in particular gold, was the largest sector contributor during the period with De Grey Mining (DEG, +15.5%), Capricorn Metals (CMM, +14.5%) and Regis Resources (RRL, +15.1%) all rising.

The Financials sector (+5.2%) was the second largest contributor during the month. Sub-sector performance was mixed, with Banks (-13.9%) detracting and Insurance (+8.7%) contributing. Within Banks, Judo Capital (JDO, -19.9%) detracted while Generation Development (GDG, +34.5%) and AUB Group (AUB, +8.1%) contributed.

Stocks within the Real Estate sector (+4.1%) also rose on the back of an interest rate cut in May and the start of a rate easing cycle. DigiCo Infrastructure REIT (DGT, +27.9%), Charter Hall Long WALE REIT (CLW, +7.6%) and Charter Hall REIT (CQR, +5.3%) are some examples of stocks that gained.

Health Care (-1.1%) was the only sector to detract with mixed results across stocks. Neuren Pharmaceuticals (NEU, +19.0%) and Regis Healthcare (REG, +19.7%) gained while Mayne Pharma (MYX, -29.6%) and Botanix Pharmaceuticals (BOT, -17.8%) detracted.

Defensive sectors such as Consumer Staples (+4.8%) were muted during the month, consistent with the market rally.

Portfolio review

Key Contributors

Megaport (MP1, overweight) – the network software company outperformed during the period despite no material company specific news. Megaport is exposed to high-growth end markets in cloud and AI, with revenue growth supported by market share gains driven by new products, improved execution and challenges faced by key competitors. We view the cost base as sustainable after multiple years of reinvestment in product and distribution. We expect the net cash balance sheet will continue strengthening supported by increasing positive free cash flow generation.

Kelsian Group (KLS, overweight) – the transport service company outperformed during the period after the company reiterated FY25 earnings guidance at the lower end of the prior range. We remain positive on Kelsian as we believe the Australian bus business will continue to generate earnings growth, given the defensive nature of existing contacts with cost pass through, additional charter work, and improved staff availability. The US bus business has a strong demand outlook from new and existing customers with pricing increases to offset cost inflation and the opportunity to redeploy capital from lower returning Marine and Tourism assets to industry consolidation opportunities.

Nufarm (NUF, underweight) – the agri-chemical producer and distributor underperformed materially during the month following its first half result which saw earnings fall 46% pcp due to weakness in NUF's seeds business. The decline in earnings and cash flow generation led to an alarming increase in leverage with net debt to EBITDA rising to 4.6x. This raises the prospect of a dilutive capital raising or a forced sale of their seeds business which is generally viewed as higher quality than the rest of their agri-chemical business.

Key Detractors

Judo Capital (JDO, overweight) – the small business lender underperformed in May following a modestly negative trading update which reiterated guidance but moderated loan book size expectations and provided FY26 guidance that was slightly below consensus. Higher loan book run-off was a key feature in the guidance downgrade, partly due to proactive book management undertaken in 1H25. Despite the underperformance, we remain constructive on JDO's medium term opportunity and added to our existing small position post the trading update. We see valuation support, with the company now trading around book value.

Imdex (IMD, overweight) – the mining services company underperformed during the period after a trading update indicated a slight delay to the expected recovery. We continue to hold a positive view towards IMD given cyclical upside in exploration spending globally, continued long term market growth from critical metals demand growth and the growing difficulty in finding new resources. Furthermore, there is a significant global market share opportunity from organic and acquired technologies such as Devico. Valuation upside remains attractive given the strong growth outlook and conservative accounting.

Nanosonics (NAN, overweight) – the medical device business underperformed during the month after a period of strong performance, despite no new news. We remain confident in the company's ability to drive value across multiple dimensions in the long term. This includes Trophon adoption in ex-US markets, increasing the value of the existing installed base (upgrades, maintenance, new products) and the rollout of the new product, Coris, over time.

Key Active Overweights

Gold Road Resources (GOR) – we are overweight the gold producer, based on our positive view on the company's large and low-cost Gruyere gold mine. The company, which is currently under an agreed takeover from Gruyere JV partner Gold Fields, continues to provide leverage to the gold price through the Northern Star holding following the DeGrey takeover.

Megaport (MP1) – we are overweight the network provider given the significant global growth opportunity. Megaport is exposed to high-growth end markets in cloud and AI, with revenue growth also supported by market share gains from new products, improved execution and challenges faced by key competitors. We view the cost base as sustainable after several years of reinvestment in product and distribution. We expect the net cash balance sheet to continue strengthening supported by growing positive free cash flow generation.

Auckland International Airport (AIA) – we view New Zealand's major airline hub as a very high quality, defensive exposure. The company's key asset is a gateway airport, with a favourable and well settled regulatory structure and strong long-term growth outlook. AIA trades on 18.7-times EV/EBITDA for FY26 which is an attractive multiple, however this does not capture the embedded value in its large land bank around the airport, the multiple high return reinvestment opportunities, and the ability to compound earnings growth over time.

Key Active Underweights

Perseus Mining (PRU) – we are underweight the African gold miner. We remain cautious about the company's elevated sovereign risks operating in Africa, particularly given there are numerous investment alternatives in the ex-ASX100 gold sector. We prefer lower risk jurisdictions, and our holdings Genesis Minerals (GMD), Gold Road (GOR) and Bellevue Gold (BGL) all operate solely in Western Australia.

Ventia Services Group (VNT) – we remain underweight the essential infrastructure services provider. Ventia has a competitive low margin contract base with high associated execution risk. The valuation looks expensive post recent outperformance and our preferred stocks in this segment are Monadelphous (MND) and Maas Group (MGH).

Capricorn Metals (CMM) – we are underweight the gold producer as we believe the current share price more than reflects fair value. CMM is trading at 10.4-times EV/EBITDA (FY26), the highest multiple in the sector and close to double the sector average (5.8-times). We see better value in peers Genesis Minerals (GMD), Gold Road Resources (GOR) and Bellevue Gold (BGL).

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 in the Health Care, Financials and Industrials sectors and are underweight Consumer Discretionary, Materials and Communication Services.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	2.50	6.23	-3.73
Consumer Discretionary	8.67	14.56	-5.89
Consumer Staples	0.92	2.60	-1.67
Energy	2.12	4.73	-2.60
Financials	18.99	13.50	5.49
Health Care	9.39	4.94	4.45
Industrials	13.36	8.48	4.88
Information Technology	9.52	5.96	3.56
Materials	22.23	26.95	-4.72
Real Estate	10.53	12.05	-1.53

Top 3 holdings

	Portfolio %	Benchmark %	Active %
Gold Road Resources	4.90	1.33	3.57
Megaport	4.32	0.78	3.54
Netwealth Group	4.11	1.44	2.67

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Gold Road Resources	4.90	1.33	3.57
Megaport	4.32	0.78	3.54
Auckland International Airport	3.92	0.98	2.95
Underweights			
Perseus Mining	0.00	1.92	-1.92
Ventia	0.00	1.46	-1.46
Capricorn Metals	0.00	1.45	-1.45

Features

Investment objective	To achieve medium-to-long term capital growth by investing in a diversified portfolio of smaller Australian companies. In doing so, the aim is to outperform the S&P/ASX Small Ordinaries Accumulation Index over rolling 3-year periods.
Recommended investment time frame	5 - 7 + years
Fund inception	August 2020
Fund size	A$93.7 mn as at 31 May 2025
ARSN code	642 665 263
Estimated management cost	0.85% p.a.
Buy/sell spread	+/- 0.30%