YARRA CAPITAL MANAGEMENT

Investment Commentary
Quarter to 30 June 2025

Yarra Ex-20 Australian Equities Fund

Gross returns as at 30 June 2025

	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	7.06	0.06	8.12	12.94	14.38	11.73	7.87	8.20
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index#	7.43	0.98	10.07	16.36	12.84	10.30	N/A	N/A
Excess return (before fees)‡	-0.37	-0.92	-1.95	-3.42	1.54	1.43	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 30 June 2025

	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	6.10	-0.01	7.88	11.94	13.36	10.74	6.77	7.01
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index#	7.43	0.98	10.07	16.36	12.84	10.30	N/A	N/A
Excess return (after fees)‡	-1.33	-0.99	-2.19	-4.43	0.52	0.43	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 Ex-20 equities market strengthened during the second quarter of 2025. Despite the uncertainty caused by the threat of US import tariffs from the Trump Administration and continued geopolitical tensions, including the Iran/Israel conflict, the market gained strongly, reversing the dip seen in the first quarter of the year.

The S&P/ASX 300 Ex-20 Accumulation Index gained +10.1% for the quarter, taking its 12-month return to +16.4%. Similarly, the broader S&P/ASX 300 Accumulation Index returned +10.8% whilst, globally, the MSCI World Index also rose, returning +9.5% for the quarter.

Financials (+14.3%) and Information Technology (+26.9%) were the largest sector contributors during the period. Within Financials returns were mixed with Insurance Australia Group (IAG, +17.1%), Suncorp Group (SUN, +12.4%) performing well while Insignia Financial (IFL, -13.6%), HMC Capital (HMC, -18.1%) and Judo Capital (JDO, -14.5%) detracted. IAG and SUN continued to benefit from positive sentiment in the insurance sector. In Information Technology, WiseTech (WTC, +34.2%), Technology One (TNE, +47.5%) and Xero (XRO, +16.2%) are examples of some of the stocks that outperformed as enthusiasm for the AI trade returned.

In the Industrials sector (+10.9%), Brambles (BXB, +22.6%) and Qantas Airways (QAN, +18.7%) outperformed. Brambles outperformed on the back of strong results highlighting pricing power. Qantas outperformed on the back of robust results, lower fuel prices and increasing travel demand.

In the Health Care sector, Pro Medicus (PME, +42.7%), ResMed (RMD, +12.8%) and Cochlear (COH, +14.5%) were the main contributors. Pro Medicus rose on the announcement of contact wins in the United States.

Returns in the Materials sector (+5.2%) were mixed with James Hardie (JHX, +13.1%) and Evolution Mining (EVN, +9.6%) posting gains while South32 (S32, -9.6%) and Pilbara Minerals (PLS, -20.8%) retreated.

The only sector to post a mild negative return was Consumer Staples (-0.2%) with mixed results across stocks as Metcash

(MTS, +23.7%) posted a strong return which was offset by the fall in Treasury Wine Estates (TWE, -19.9%).

Portfolio review

Key Contributors

Evolution Mining (EVN, overweight) – the gold producer outperformed during the quarter alongside a rising gold price (+6%). 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 over time.

NextDC (NXT, overweight) – the data centre owner and developer outperformed during the period, driven by record growth in contracted utilisation and a surge in AI-related customer wins. During the quarter, NXT announced contracted capacity increases of 68MW to 244MW (+39%), driven primarily by an AI focused hyperscale contract win in Melbourne and a smaller hyperscale win in the new Kuala Lumpur (KL1) facility.

Block Inc (XYZ, overweight) – the US financial technology company bounced back following a disappointing annual result earlier in the year. Recent strength can be attributed to the market becoming more comfortable with the outlook for the US consumer and XYZ's current financial year guidance. We remain positive on the company's growth, with our thesis supported by the expectation of improved growth underpinned by new merchant wins, and improved monetisation driven by users directly depositing their wages in CashApp (only 2.5mn users out of 57mn currently).

Key Detractors

Treasury Wine Estates (TWE, overweight) – the global winemaking business underperformed during the period, with distributor changes, tariff uncertainty and softening consumer datapoints weighing on expectations. Although FY25 trading was broadly in-line with consensus, TWE's FY26 outlook indicated a decline in sell-through in US Luxury brands and modest revisions to Penfolds guidance. However, we remain confident on the longer-term outlook for Penfolds (>60% EBIT) and believe TWE is approaching an inflection point in its product portfolio which is not being captured in the valuation at present (12.5-times FY26 P/E vs 22.9 times for the 10-year average).

Ansell (ANN, overweight) – with around 40% of group sales in the USA, the global PPE (personal protective equipment) manufacturer and distributor underperformed during the period, primarily due to the announced U.S. import tariffs which are expected to increase the cost of purchasing raw materials from their Asia Pacific concentrated manufacturing footprint. Notwithstanding this challenge, we believe the PPE industry has some capacity to offset this with higher pricing, while ANN's differentiated product range (boosted by the Kimberley Clarke acquisition) provides additional benefit. Looking forward, we see solid demand growth across ANN's key end markets returning, delivering stronger top-line performance for ANN's Industrial division.

Worley (WOR, overweight) – the leading professional engineering company underperformed during the period despite limited new company specific news. The underperformance mostly reflected the announcement of U.S. tariffs leading to heightened fears of a global economic slowdown. With exposure to both traditional and renewable energy project activity, Worley is well placed in the medium-long term with strong top-line growth prospects, operating leverage and upside to valuation.

Market outlook

Another month of heightened geopolitical tensions in June did little to dent risk appetite. The S&P/ASX 200 returned +1.4% for the month, building on the +4.2% surge in May. However, Small Caps and REITs lagged the ASX200, returning +0.8% and +0.5%, respectively.

Global equities rose +1.9% in June in unhedged A$ terms, however, a strong +2.3% A$ rise in the month eroded a +4.3% return in the month that was available for hedged global equities. The strong A$ rise was aided by US dollar weakness and a bounce in commodities which returned +4.5% in June.

Gold returned a more modest +0.4%, following a flat May. Despite two relatively modest months, gold has delivered a return of +26% in 1H25 and +42% over the year, easily the best performing asset class.

In fixed interest markets, global bonds returned 1.9% in June and 4.5% for the quarter, whereas Australian fixed interest returned a more modest 0.7% return in June and 2.6% for the quarter. Within Australian fixed income markets, government bonds were the best performing in June, returning 0.8% for the month.

Ranking 1H25 returns reveal that, excluding gold, hedged global equities led the way with a +9.5% gain. The S&P/ASX 200, S&P/ASX Small Ordinaries and the A$ each returned +6.4% over the same period. This reinforces our suggestion since the start of 2025 for investors to consider hedging international equity exposure in 2025. Notably, global bonds returned an impressive +7.3% in 1H25, easily eclipsing the +4% return from local bonds, despite ongoing fears of unstainable US fiscal debt accumulation.

Locally, Australia's fragile economic recovery again disappointed in the March quarter, with subdued consumption holding economic growth to +0.2% (q/q) and +1.3% (y/y). However, we believe that the RBA has now set its course to return interest rates to a neutral setting and will ultimately deliver a deeper rate cutting cycle than expected. Our rationale is that the RBA's assessment of the 'neutral rate' of interest has been lowered by around 50 bps and, combined with the RBA now forecasting underlying inflation to be around the mid-point of the inflation target throughout its forecasts, it is clear that the RBA in now setting to reduce interest rates at a regular cadence until it approaches the 'neutral' rate.

It is also worth noting that that the RBA has adopted an optimistic assumption for 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 A$ appreciate meaningfully, then the case for earlier and deeper rate cuts can be made.

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

We are most overweight stocks within the Communication Services, Utilities and Information Technology sectors and underweight Industrials, Real Estate and Energy.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	14.04	5.04	9.01
Consumer Discretionary	6.40	6.77	-0.36
Consumer Staples	3.62	2.83	0.79
Energy	0.00	2.91	-2.91
Financials	15.96	15.47	0.49
Health Care	10.02	12.10	-2.09
Industrials	4.09	11.93	-7.83
Information Technology	10.46	8.76	1.70
Materials	19.55	20.25	-0.70
Real Estate	5.43	10.60	-5.17
Utilities	9.04	3.34	5.69

Top 3 holdings

	Portfolio %	Benchmark %	Active %
ResMed	6.43	2.22	4.21
Northern Star	6.07	2.45	3.62
IAG	5.93	2.03	3.90

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
ResMed	6.43	2.22	4.21
Block	4.56	0.53	4.03
NextDC	4.84	0.88	3.96
Underweights			
Suncorp Group	0.00	2.23	-2.23
Computershare	0.00	2.10	-2.10
WiseTech Global	0.00	1.94	-1.94

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	9.93	11.47	8.64	4.29
Distribution return	2.01	1.89	2.10	2.48

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$116.1 mn as at 30 June 2025
APIR code	JBW0052AU
Estimated management cost	0.90% p.a
Buy/sell spread	+/- 0.15%
Platform availability	BT Panorama Praemium Hub24

Applications and contacts

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

Website www.yarracm.com

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