

Yarra Australian Equities Fund

Gross returns as at 28 February 2023

	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	-1.38	1.42	8.27	8.28	7.13	7.93	10.50
S&P/ASX 200 Accumulation Index [†]	-2.45	0.30	7.16	7.93	7.89	7.95	9.18
Excess return (before fees) [‡]	1.07	1.12	1.11	0.35	-0.76	-0.02	1.32

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 28 February 2023

	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	-1.44	1.20	7.30	7.31	6.15	6.93	9.50
S&P/ASX 200 Accumulation Index [†]	-2.45	0.30	7.16	7.93	7.89	7.95	9.18
Excess return (after fees) [‡]	1.00	0.89	0.14	-0.62	-1.74	-1.02	0.32

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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 S&P/ASX 200 Accumulation Index returned -2.5% for the month, taking its 12-month return to 7.2%. The broader ASX300 returned similarly, -2.6% for the month, as did global indices (MSCI World Index, -2.4%).

Utilities (+3.4%) was among the top performing sectors during the month led by Origin Energy (ORG, +9.4%) which outperformed on the proposed purchase of the business by suitors Brookfield and EIG.

Information Technology (+2.3%) had a good run during the period after facing multiple headwinds in 2022, led by Link Services (LNK, +19.3%) and Computershare (CPU, +5.7%).

Conversely, the largest lagging sector was Materials (-6.6%), with sub-sector Metals & Mining (-7.4%) being the poorest performer. With Gold prices declining by 5% to US\$1817/oz at month end, the producers took a hit, in particular Northern Star (NST, -17.4%) and Evolution Mining (EVN, -14.4%).

Portfolio review

Key Contributors

QBE Insurance (QBE, overweight) – the general insurer performed strongly during the month, reporting a solid full year

result which was largely in line with expectations, with guidance for gross written premium growth for 2023 of mid to high single digits leading to upgraded earnings expectations. QBE has made material progress in de-risking its portfolio which, combined with the strong revenue environment and the benefit to earnings from higher interest rates, have led to strong earnings and return outlook.

Link Administration (LNK, overweight) – the outsourced services provider appreciated during the month as the company made material progress in resolving the uncertainty overhanging its UK Fund Solutions business. LNK announced that it had an in-principal agreement with potential acquirer Waystone to purchase its Fund Solutions business, with the UK regulator (FCA) agreeing that the proceeds from the sale would be sufficient to cover its restitution claims for unitholders in the collapsed Woodford funds.

The Lottery Corporation (TLC, overweight) – the gambling company outperformed during the period, with the stock reporting a strong result underpinned by both a solid Lotteries print and improving Keno momentum. TLC also continued to exhibit attractive defensive characteristics in what remains a rapidly changing environment, delivering margin expansion and earnings growth while lifting its dividend payout ratio and reducing gearing. With cash generative assets underpinned by

long-dated licenses, we view TLC as an attractive blend of growth and yield at a reasonable asking price for what we view as a high-quality business (17.0 times EV/EBITDA and a 3% dividend yield).

Key Detractors

Northern Star (NST, overweight) – the gold producer was a negative contributor during the month. Following a period of strong outperformance late in 2022, NST tracked the gold price lower in February, with gold declining 5% to US\$1,817/oz at month end. We continue to favour NST's solid assets and strong cost control. Aspirations to grow the business from current production of ~1.5Moz p.a. to >2Moz p.a. by 2026 remain achievable within the current portfolio, led by the Thunderbox mill expansion project and improving grades at its Super Pit and Pogo (Alaska) assets. The company remains the quality name in the gold sector, in our view.

PEXA (PXA, overweight) – the electronic conveyancing company underperformed during the period, despite reporting a solid result for the six months to December 2022. With the background of the anticipated slowdown in house transaction volumes in Australia already an overhang on the stock, PXA guided to a slower roll out of its UK platform and higher than anticipated losses in its startup digital business.

Macquarie Group (MQG, underweight) – the financial services provider performed strongly during the period on limited news flow, albeit that continued winter volatility in US and European energy markets should be positive for MQG's commodity business. We remain underweight the stock based on the view the recent earnings uplift is driven by its lower quality and highly cyclical businesses, which we see as unsustainable into the medium term.

Key Purchases

Insurance Australia Group (IAG) – we added to our position in the general insurer during the month, following a period of underperformance as the market digested the impact on earnings in current and future years from flooding and cyclone events in New Zealand. IAG is achieving strong price increases to offset high claims, is seeing improved volume growth and appears to have passed the peak of claims inflation pressures.

United Malt Group (UMG) – we increased our position in the global commercial malt processor and distributor during the period. The company has faced a number of short-term headwinds (e.g. Canadian drought, heightened freight, grain, and energy costs) and with ineffective contractual terms, which led to significantly reduced FY22 earnings. Most of these short-term pressures have already started to ease, and the company is advanced with regard to improving contractual terms which will see customers bear these risks going forward. We think investor concerns regarding the need to raise capital are overblown, and that this concern should ease as earnings improve.

Key Sales

OZ Minerals (OZL) – we exited our position in OZ Minerals during the period. The \$28.25/share takeover bid from BHP is supported by the OZL board and has been deemed "fair and

reasonable" by the Independent Expert. As a result, we view risks to deal completion as low. OZL is trading close to deal terms, meaning we see limited potential for future outperformance.

JB Hi-Fi (JBH) – we reduced our position in the retailer during the period ahead of an anticipated deterioration in consumer spending, with growing evidence that high value/housing-related goods appear to be softening in response to rising interest rates. While we continue to regard JBH as a high-quality retailer that is well positioned to navigate the volatility ahead, we remain wary that earnings headwinds may persist for some time and weigh on the business. With strong cash generation and a robust balance sheet, we retain a position in JBH but await more certainty on the outlook.

Key Active Overweights

QBE Insurance Group (QBE) – the general insurer remains our preferred insurance exposure, which we expect to deliver strong earnings growth into 2023 and beyond driven by the earn through of strong volume growth, sustained rate growth and the beneficial impact of higher interest rates on investment earnings. QBE has substantially improved its underwriting discipline and product focus over the last five years, and we believe its 10.1 times FY23 earnings multiple excessively discounts the risks inherent in its business model.

Reliance Worldwide (RWC) – the market is showing concern for a falling demand environment and the plumbing supplies company's FY23 estimates have been lowered after recent updates. We believe RWC is a compelling opportunity, with the market pricing for a significant decline in earnings (P/E of only 14 times vs 17 times mid cycle) whereas we remain constructive on the demand environment given the defensive nature of the majority of RWC's repair and remodelling sales.

Aristocrat Leisure (ALL) – our positive investment view remains premised on the gaming company's dominant position in Land-Based Games and significant opportunities from Digital. We see the near-term normalisation in Digital as temporary and expect a return to growth over the medium term. ALL remains undervalued at 19 times forward earnings (broadly in line with the Industrials Ex-Financials multiple and its long-term average) when considering the company's superior long-term growth potential and balance sheet optionality, with the potential for accretive M&A and/or capital management.

Key Active Underweights

CSL (CSL) – we retain an underweight position, with a preference for ResMed (RMD) in the high quality large-cap healthcare space. Overall, we struggle to see an earnings trajectory ahead of expectations to warrant the earnings multiples (34 times P/E, 24 times EV/EBITDA NTM). Positive trends are emerging in Berhing, the company's core blood plasma business, but the margin trajectory remains difficult to predict due to a combination of internal and external factors. While the new acquisition, Vifor, does provide differentiation, we view the business as deserving to trade on a lower multiple than the core business.

National Australia Bank (NAB) – we remain underweight the bank, due to our negative sector view. The favourable dynamics around expanding net interest margins (NIM) due to higher interest rates are now well understood, and we do not expect the gains to be sustained into the medium term. Further the banks are facing material earnings offsets through elevated expense growth and a normalization in bad debt expenses which will mean sector EPS is likely to be approaching peak levels. We hold small overweight positions in Westpac Bank (WBC), where the valuations are more supportive at current levels.

Macquarie Group (MQG) – we remain underweight the stock based on the view the recent earnings uplift is driven by its lower quality and highly cyclical businesses, which we see as unsustainable into the medium term. We see downside risk to consensus forecasts beyond FY23, which currently reflect a strong contribution from lumpy items including gains on sale, performance fees and low loan-loss provisions. We do not expect growth in the more stable business to be able to offset this. As a result, we regard MQG's headline forecast P/E multiple of 15.0 times consensus forward earnings as unattractive.

Market outlook

As we near the end of the March quarter, some of the initial enthusiasm for risk has started to fade on the combination of stronger than consensus expectations data in the US and the US Fed raising the prospect of returning to 50 bps hikes, after stepping down to a 25 bps increment in January. This combination of events has seen bond yields rise in an environment where earnings revisions remain in downward revision mode, resulting in a relatively sharp decline in equity risk premia and leaving the equity market somewhat more vulnerable from a valuation perspective.

On balance, the better data in the US in early 2023 can be mostly attributed to unusually warm weather and we still believe the US and Europe remain near recession-like economic growth conditions in 1H23 and inflation dynamics will change sufficiently for policy makers to conclude that the monetary policy is sufficiently restrictive to halt the tightening cycle in coming months.

We continue to argue that Australia presents as a safe haven from both the perspective of more robust growth relative to the G7 peer group and as having good leverage to signs of a trough in the economic cycle in China. Although both the RBA and we expect economic activity to slow significantly in 2023 to average just 1.5%, we believe Australia should be able to avoid a technical recession due to four key reasons:

1. Australia has been a net beneficiary of global commodity shortages. This surge in commodity prices saw Australia's export prices in A\$ terms move to their highest levels since the 1880s in 1H22, and even though commodity prices are now off their peaks they remain very elevated from a historical perspective. The consequence has been strong national income growth, profits growth and an improving underlying fiscal

position. Indeed, the Commonwealth Budget will likely be close to surplus for the 2023 financial year.

2. The household sector continues to hold a significant buffer of over \$270bn of excess savings relative to pre-COVID levels. Although we expect the impact of higher interest rates and higher living expenses will curtail consumer spending, we do expect the combination of rising wage growth and a run down in the level of savings to continue to support consumption spending. Albeit we remain particularly cautious on discretionary retail spending, given most of the excess savings can be traced to older and wealthier households.
3. Australia remains incredibly well placed to benefit from the global energy transition. Lithium is already a A\$10bn export industry for Australia and Australia is the world's dominant producer. Electric Vehicle sales are forecast to increase 10 times by 2030 and Australia has the world's 2nd largest copper resource. LNG is an important energy transition fuel, and currently accounts for 23% of global electricity generation. Australia just happens to be the world's equal largest exporter of LNG. Iron ore obviously remains Australia's biggest export and China the dominant customer. However, we expect the global energy transition will be steel intensive, opening up new customers.
4. Net migration into Australia contracted in 2021 for the first time since 1945. However, a very strong recovery was recorded through 2022 and a record level of net migration appears likely in coming months, ensuring that Australia's population growth will be close to 2% in 2023.

While the RBA has been later than most other developed nations in tightening policy, tighter financial conditions in 2022 have come via both significantly higher cash rates, higher government bond yields and wider corporate bond spreads. Following the February and March rate hikes of 25 bps, we believe financial conditions are now in the restrictive zone and the RBA is now close to the finish of the tightening cycle. Importantly, it is clear the RBA is now openly considering pausing the hiking cycle. From our perspective the RBA's focus on global growth, trends in household spending and the outlook for inflation and labour markets in informing their future decisions suggest that multiple additional hikes are unlikely to be required. Interest rate hikes in Australia will remain a month-to-month proposition for the next six months, however, our bias is that the last hike has likely been delivered this cycle.

The A\$/US\$ has been under downward pressure as markets grappled with a seemingly more hawkish Fed and a relatively more dovish RBA. Nevertheless, both central banks are in the concluding phases of the tightening cycle. With Australia's external accounts remaining in excellent health, our expectation that Australia's economic growth will prove more robust and the prospect the US\$ down trend will persist as the Fed pivots from its aggressive hiking strategy, we expect the A\$/US\$ will appreciate to the mid-70s through 2H 2023.

We are most overweight stocks within the Communication Services, Information Technology and Consumer Discretionary sectors and are underweight Financials, Real Estate and Health Care.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	11.52	3.89	7.63
Consumer Discretionary	9.05	6.41	2.63
Consumer Staples	2.04	4.95	-2.91
Energy	7.13	6.01	1.12
Financials	21.44	28.15	-6.70
Health Care	4.44	9.91	-5.47
Industrials	6.00	5.91	0.09
Information Technology	9.26	2.79	6.47
Materials	22.99	24.32	-1.33
Real Estate	0.00	6.23	-6.23
Utilities	3.05	1.42	1.63

Top 5 holdings

	Portfolio %	Benchmark %	Active %
BHP	10.52	10.65	-0.13
Commonwealth Bank of Australia	6.18	7.93	-1.76
Westpac Banking	5.08	3.67	1.41
Telstra	4.49	2.24	2.25
Woodside Energy	4.25	3.17	1.08

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
QBE Insurance	3.94	1.04	2.90
Reliance Worldwide	2.97	0.13	2.84
Aristocrat Leisuer	3.74	1.12	2.62
Underweights			
CSL	1.70	6.64	-4.94
National Australia Bank	0.00	4.40	-4.40
Macquarie Group	0.00	3.20	-3.20

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	-3.79	-6.60	-6.60	-2.81
Distribution return	11.09	13.91	12.76	9.74

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\$102.0 mn as at 28 February 2023	
APIR codes	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 February 2023.



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

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com

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