

Yarra Australian Equities Fund

Gross returns as at 31 January 2021

| | 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 | 0.24 | 11.63 | -6.87 | 3.59 | 7.70 | 7.44 | 10.40 |
| S&P/ASX 200 Accumulation Index [†] | 0.31 | 11.89 | -3.11 | 6.99 | 10.02 | 7.85 | 9.19 |
| Excess return (before fees) [‡] | -0.07 | -0.26 | -3.75 | -3.40 | -2.32 | -0.41 | 1.21 |

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 January 2021

| | 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 | 0.17 | 11.38 | -7.70 | 2.64 | 6.70 | 6.44 | 9.40 |
| S&P/ASX 200 Accumulation Index [†] | 0.31 | 11.89 | -3.11 | 6.99 | 10.02 | 7.85 | 9.19 |
| Excess return (after fees) [‡] | -0.14 | -0.51 | -4.59 | -4.36 | -3.32 | -1.42 | 0.21 |

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 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

Australian equities were flat in January as global uncertainty offset stronger economic data domestically.

The S&P/ASX 200 rose a modest 0.3% in the month, taking its 12-month return to -3.1%. The local index outperformed global indices, with the MSCI World Index and S&P500 falling -0.7% and -1.0% respectively during the month due to uncertainty around the new COVID UK and South African variants, weaker US economic data and as retailer investors coordinated high profile short squeezes on select stocks.

At a sector level the banks (+4.1%) provided support, with the sector leveraged to improving economic data domestically. Employment is now only 0.5% below December 2019 levels and home lending continued to surge, led by construction of new dwellings (+94% y/y). As a result, bank earnings and dividends are expected to recover, with potential for surplus capital as bad debts turn out to be more benign than feared.

Elsewhere, Consumer Discretionary (+4.7%) was also strong as retailers like Wesfarmers (WES, +8.4%), JB Hi-Fi (JBH, +6.5%) and Harvey Norman (HVN, +13.9%) continued to benefit from strong housing-related consumer demand.

Conversely, Transportation Infrastructure (-5.0%) and Real Estate (-4.4%) weighed on the benchmark. In the former,

Sydney Airport (SYD, -10.8%) declined amid an outlook for a more protracted recovery in international travel. In the latter, Office REITs (-4.5%) and Industrial REITs (-6.3%) were the largest source of underperformance.

Portfolio review

Key Contributors

Westpac Bank (WBC, overweight) – the bank outperformed alongside its peers as the market began to factor in dividend and earnings recoveries for the sector, including the potential for capital management, after APRA removed its payout ratio limit at 50% of earnings and deferred loans resumed repayments. We remain overweight WBC on the grounds that challenges to its outlook – including higher costs relating to risk compliance and mortgage processing – are more than reflected in WBC's valuation, particularly relative to other banks such as NAB and CBA (which the portfolio is underweight). The stock trades at 14.0 times forward earnings, a significant discount to CBA at 18.9 times and National Australia Bank (NAB) at 14.8 times. In our view COVID-19 represents an earnings issue – not a balance sheet issue – with bank capital ratios more than double those leading into the GFC and strong liquidity levels.

Incitec Pivot (IPL, overweight) – the company outperformed in response to improved fertiliser prices, with the ammonia February contract rising to \$US330/t – 40% above its average price in FY20. Our positive view remains premised on key commodities (urea and DAP) reverting to mid-cycle levels. Furthermore, other factors which had weighed on performance throughout FY19 and FY20 – weather-related issues, plant outages and COVID-related disruption – are now largely behind the company. Lead indicators suggest higher demand for the commodities and the explosives business is experiencing more stable pricing as mining demand normalises in North America. At 16.1 times two-year forward earnings, IPL trades well below the wider Industrials sector (at 25.0 times).

CSL (CSL, underweight) – the biotechnology company underperformed as it continued to face disruption to donor collection volumes in its plasma business as a result of COVID-19, with foot traffic currently at about 30% below pre-COVID levels. We remain underweight CSL based on its forward valuation (39.7 times P/E and 27.5 times EV/EBITDA on a 12-month forward basis), which we believe appropriately captures the earnings outlook at this time. The growth outlook for CSL's key plasma products remains robust, with the company continuing to strengthen its relative market position through long-term investment in capacity, product innovation and collection centres.

Key Detractors

Link Group (LNK, overweight) – the company underperformed after one of its suitors, SS&C, withdrew its offer. The PEP/Carlyle consortium's offer – which remains on the table – values LNK's base business on 14.6 times FY22 earnings which compares to 16.1 times for listed peer CPU. The implied valuation multiple of PEXA is 15.5 times EV/EBITDA compared to globally listed equity exchanges which trade on more than 20 times forward EV/EBITDA and growth oriented domestic marketplaces such as SEK, CAR and REA which trade on 268 times forward EV/EBITDA. Our positive view of PEXA is premised on infrastructure like characteristics of the property settlement exchange upon maturity supplemented by numerous growth opportunities in immediate adjacencies. We support LNK's move to prioritise the trade sale process of PEXA, which in our view will unlock material value.

Wesfarmers (WES, underweight) – the company outperformed without any material news, though its Bunnings division is seen as a key beneficiary of Australia's strengthening housing environment. Our underweight position remains premised on the view its divisions, outside Bunnings (62% of operating income), face significant earnings headwinds. Officeworks (7% of operating income) and the department store industry (including discount department stores Target and Kmart, 17% of EBIT) face increasing competition and excess physical store capacity. Furthermore, the company's Industrials segment (14% of EBIT) comprises cyclical, lower quality businesses. As such, we don't find the valuation attractive at 29.0 times forward earnings.

Afterpay (APT, underweight) – the payment solutions company continued to outperform following its entry into the ASX20 in December, with no company-specific news during the period. Our more cautious view of APT is premised on several factors. In the short term, we believe APT's valuation (at 33.0 times forward sales) does not reflect the uncertainty associated with COVID-19 despite the company's strong balance sheet position. While APT's loss rates are low so far, it remains extremely early in the bad debt cycle (where APT is exposed as an unsecured consumer lending business). In addition, APT's long-term risks remain, including heightened regulation (e.g. expense verification), increased competition (such as from PayPal) and the sustainability of the company's attractive margins.

Key Purchases

Tyro Payments (TYR) – we took recent underperformance as an opportunity to establish a small position in the payments company. TYR underperformed following a terminal outage that affected 30% of its merchants for several weeks. In our view the outage is a one-off issue that doesn't materially impact the long-term growth opportunity. While challenges such as higher churn and lower front book additions are inevitable in the short term given the extensive outage and lack of lock-in contracts, we do not believe they will persist in the longer term. As the lead provider of software that allows payment terminals to be integrated into point-of-sale (POS) systems, TYR remains in a defensible position versus peers such as the banks which rely on a clunky intermediary. Moreover, short-term headwinds are more than reflected in TYR's valuation, with the stock trading at 4.4 times forward sales – a significant discount to technology peers.

Aristocrat Leisure (ALL) – we increased our position in the poker machine company during the period. Our investment thesis is premised on ALL's strong growth profile following the resolution of the COVID-19 crisis. ALL has a dominant position in land based games (65% of EBIT) and is set to benefit from significant opportunities from Digital (35% of EBIT), which offers a wide range of outcomes. Lastly, the stock screens as undervalued at 25.4 times forward earnings when considering the Industrials Ex-Financials trades at 28.3 times and ALL's superior long-term growth potential.

Carsales.com (CAR) – we increased our position size in the automotive online classifieds company during the period. In the short term we expect demand for second-hand cars to remain elevated in both Australia and South Korea, driving upside to earnings versus consensus forecasts. In the long term our positive view is premised on the belief CAR should benefit from attractive earnings growth, conservative accounting (with low capitalisation of research and development investment) and undervalued international businesses.

Key Sales

QBE Insurance (QBE) – we reduced our position in the insurer following the negative trading update. Strong premium growth (~10%) was more than offset by deteriorating claims relating to COVID-19, losses in its US crop business from fires and hurricanes and materially negative reserve increases. Nevertheless, we remain overweight the company. Part of the update was one-off in nature, the reserve build on long tail lines and there is upward pressure on catastrophe allowances – which will dampen operating leverage from premium rate growth – we believe this is more than captured in QBE's valuation. We continue to see upside to its relative valuation, with the stock trading on 13.2 times forward earnings and offering a 4.5% dividend yield, with strong underlying fundamentals remaining intact (global commercial hardening cycle).

Incitec Pivot (IPL) – we reduced our position in the explosives and fertiliser maker following recent outperformance, but remain overweight. Our positive view remains premised on key commodities (urea and DAP) reverting to mid-cycle levels. Furthermore, other factors which had weighed on performance throughout FY19 and FY20 – weather-related issues, plant outages and COVID-related disruption – are now largely behind the company. Lead indicators suggest higher demand for the commodities and the explosives business is experiencing more stable pricing as mining demand normalises in North America. At 16.1 times two-year forward earnings, IPL trades well below the wider Industrials sector (at 25.0 times).

ResMed (RMD) – we modestly trimmed our position following recent outperformance. We continue to believe RMD's core sleep apnea division will rebound strongly on the grounds that demand for its products has been deferred, not lost. Our long-term investment thesis remains intact, with benefits accruing from a positive product cycle in the flow generator and mask segments. New software and integration with the customer is supporting device sales versus competitors.

Key Active Overweights

ANZ Bank (ANZ) – we are overweight ANZ on the grounds that the bank is positioned strongly for an earnings and dividend recovery post-COVID, with capital management initiatives likely as debts turn out to be more benign than feared. While there are challenges to its outlook – including persistent top-line pressures from lower interest rates – the bank is able to offset these pressures by cutting costs at a superior rate to peers, and management remains committed to its \$8bn expense target (requiring a \$600mn cost reduction ex-investment). We see ANZ's valuation as attractive at 13.5 times forward earnings, particularly relative to NAB and CBA (at 14.8 and 18.9 times respectively).

BHP Group (BHP) – we believe the company's valuation is attractive in the context of firm iron ore prices and China returning to production following COVID-19. BHP still trades on a 12-month forward P/E of 12.5 times, an EV/EBITDA of 5.5 times, and generates a FCF yield of >10%. Its balance sheet is

robust (gearing ~15%), with management carrying out a well-defined capital allocation strategy. More broadly, we view BHP as a relatively defensive Metals & Mining exposure, with a diversified portfolio and clear strategy of capital allocation.

Aristocrat Leisure (ALL) – our investment thesis is premised on ALL's strong growth profile following the resolution of the COVID-19 crisis. ALL has a dominant position in land based games (65% of EBIT) and is set to benefit from significant opportunities from Digital (35% of EBIT), which offers a wide range of outcomes. Lastly, the stock screens as undervalued at 25.4 times forward earnings when considering the Industrials Ex-Financials trades at 28.3 times and ALL's superior long-term growth potential.

Key Active Underweights

CSL (CSL) – we remain underweight CSL based on its forward valuation (39.7 times P/E and 27.5 times EV/EBITDA on a 12-month forward basis), which we believe appropriately captures the earnings outlook at this time. The growth outlook for CSL's key plasma products remains robust, with the company continuing to strengthen its relative market position through long-term investment in capacity, product innovation and collection centres.

National Australia Bank (NAB) – we remain underweight the bank. While NAB has strengthened its capital position through a highly dilutive, discounted \$3.5bn capital raising and has increased collective provisioning, the bank is yet to take an AUSTRAC provision unlike its peers. As a result, we see less scope for surplus capital compared to Westpac Bank (WBC) and ANZ Bank (ANZ), both of which trade at more appealing valuations (at a 5 and 10% discount to NAB based on forward earnings) and are our preferred banking exposures at this time.

Wesfarmers (WES) – our underweight position remains premised on the view its divisions, outside Bunnings (62% of operating income), face significant earnings headwinds. Officeworks (7% of operating income) and the department store industry (including discount department stores Target and Kmart, 17% of EBIT) face increasing competition and excess physical store capacity. Furthermore, the company's Industrials segment (14% of EBIT) comprises cyclical, lower quality businesses. As such, we don't find the valuation attractive at 29.0 times forward earnings, above the wider Industrials ex-Financials' 28.3 times.

Market outlook

The recovery phase for the Australian economy is now well underway. Despite the concerning trends for new COVID-19 cases in the US and Western Europe as a new more contagious variant spreads, global economic data has continued to show solid improvement through Q3 and into Q4 2020. While it is reasonable to expect this positive data momentum will moderate as renewed lockdowns commence through Europe, Australia remains in a much stronger position. Economic recovery is occurring even faster than our relatively optimistic forecasts and economic growth now looks set to contract by less than 3% in 2020 before expanding by a forecast 5.5% in 2021.

The driving force of the recovery into 2021 will be consumption growth. The combination of the highest household saving ratio since the mid-1970s in concert with resilient asset prices, declining unemployment, rising hours worked and improving consumer confidence is expected to underpin a 7.0% rise in consumption growth in 2021. Although concerns have persisted over fiscal fade via lapsing fiscal stimulus measures, our analysis has long suggested that the extension of some fiscal programs, the pull forward of income tax cuts and the recovery in labour income as furloughed workers return to work is sufficient to avoid a bout of fiscal fade weighing in household income growth.

A secondary force assisting the recovery is the upswing in new housing approvals, new housing orders, and housing finance approvals. Despite a sharp drop in net migration and earlier concerns over house price declines, sentiment regarding housing has been buoyed by record low interest rates, a shift in responsible lending onus back to the borrower and large government incentives for construction.

Our expectation is that looking beyond the US election, additional expected fiscal stimulus in the US, additional expected QE in major offshore markets and a new QE program in Australia will leave a pro-growth fiscal and financial conditions environment for Australian economic growth and earnings growth.

The RBA's explicit aim of QE is to lower Australian longer term bond rates and lower the A\$. We expect the RBA to be partially successful in moderating the appreciation of the A\$, however, upward pressure on the A\$ will likely remain as the global economic recovery continues. We expect the A\$ to finish 2021 at 80c.

We see significant value in certain sectors but believe others to be overvalued based on our earnings and cash flow expectations. We are most overweight stocks within the Communication Services, Energy and Utilities sectors, and underweight Financials, Real Estate and Consumer Staples.

Sector allocation

| | Portfolio % | Benchmark % | Active % |
|------------------------|-------------|-------------|----------|
| Communication Services | 10.32 | 4.08 | 6.24 |
| Consumer Discretionary | 9.50 | 7.78 | 1.72 |
| Consumer Staples | 2.19 | 6.04 | -3.85 |
| Energy | 6.34 | 3.78 | 2.56 |
| Financials | 23.09 | 28.29 | -5.20 |
| Health Care | 7.52 | 10.44 | -2.92 |
| Industrials | 8.26 | 7.04 | 1.21 |
| Information Technology | 4.63 | 4.46 | 0.16 |
| Materials | 21.42 | 20.03 | 1.39 |
| Real Estate | 2.80 | 6.67 | -3.86 |
| Utilities | 3.09 | 1.39 | 1.69 |

Top 5 holdings

| | Portfolio % | Benchmark % | Active % |
|--------------------------------|-------------|-------------|----------|
| BHP | 10.25 | 6.96 | 3.28 |
| ANZ Banking | 7.17 | 3.65 | 3.52 |
| Westpac Banking | 6.99 | 4.14 | 2.85 |
| Commonwealth Bank of Australia | 6.72 | 8.04 | -1.32 |
| Aristocrat Leisure | 4.24 | 1.08 | 3.17 |

Key active positions

| Overweights | Portfolio % | Benchmark % | Active % |
|-------------------------|-------------|-------------|----------|
| ANZ Banking | 7.17 | 3.65 | 3.52 |
| BHP | 10.25 | 6.96 | 3.28 |
| Aristocrat Leisure | 4.24 | 1.08 | 3.17 |
| Underweights | | | |
| CSL | 2.03 | 6.71 | -4.68 |
| National Australia Bank | 0.00 | 4.20 | -4.20 |
| Wesfarmers | 0.00 | 3.36 | -3.36 |

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 | -18.06 | -8.45 | -1.78 | -1.88 |
| Distribution return | 10.36 | 11.08 | 8.48 | 8.31 |

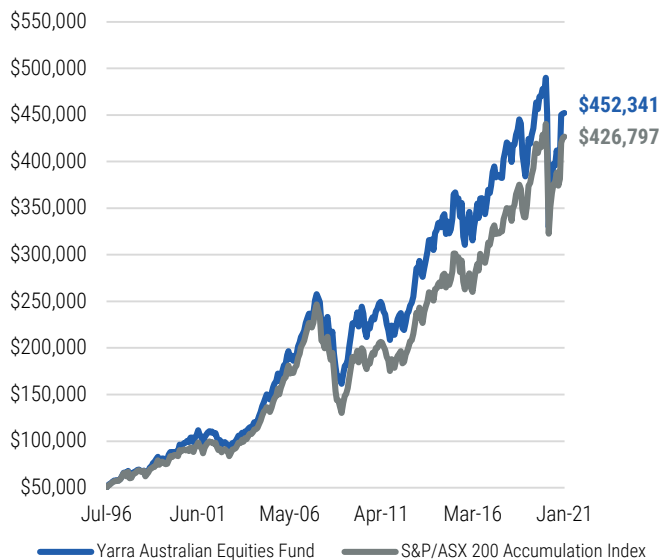
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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\$115.5 mn as at 31 January 2021 | |
| APIR codes | JBW0009AU | |
| Estimated management cost | 0.90% p.a. | |
| Buy/sell spread | +/- 0.15% | |
| Platform availability | AMP Flexible Lifetime AMP PortfolioCare AMP Wealthview ANZ Grow Wrap Asgard BT Panorama BT Wrap Colonial FirstWrap Freedom of Choice Hub24 IOOF Pursuit Select | Macquarie Wrap Accumulator Macquarie Wrap Consolidator Netwealth North Oasis OnePath PortfolioOne PowerWrap SmartWrap Wealthtrac |

Investment performance comparison of \$50,000

After fees, since inception of the Yarra Australian Equities Fund, July 1996 to January 2021.



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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