

Yarra Australian Equities Fund

Gross returns as at 31 January 2022

	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	-4.36	-2.95	14.00	9.70	7.88	9.58	10.54
S&P/ASX 200 Accumulation Index†	-6.35	-4.30	9.44	9.76	8.50	9.52	9.20
Excess return (before fees)‡	1.99	1.35	4.56	-0.06	-0.62	0.06	1.34

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 2022

	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	-4.44	-3.17	12.98	8.71	6.89	8.56	9.54
S&P/ASX 200 Accumulation Index†	-6.35	-4.30	9.44	9.76	8.50	9.52	9.20
Excess return (after fees)‡	1.92	1.13	3.54	-1.05	-1.61	-0.96	0.34

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 declined sharply in January as high inflation spurred Federal Banks to accelerate quantitative tapering and signal earlier rate rises.

The ASX 200 Accumulation Index declined 6.4% during the month, taking its 12-month return to +9.4%. Globally, the S&P500 and MSCI World Index returned -5.2% and -4.9% respectively as US real yields rose, with the US 10-year Treasury Inflation-Protected Securities (TIPS) climbing 38 bps to -0.69% as the US Fed said it would likely start to increase interest rates in March.

At a sector level, high-PE cohorts within Health Care (-12.1%) and Information Technology (-18.4%) recorded the most significant declines, led by companies with long-dated cash flows like Afterpay (APT, -19.9%), Xero (XRO, -20.2%), Wisetech Global (WTC, -22.7%), Altium (-21.0%) and Pro Medicus (PME, -27.8%). Gold (-12.8%) also declined significantly given its negative correlation with real interest rates.

Conversely, Energy (+7.9%) was the strongest performer as Brent Crude lifted by 20% to \$US92/bbl. Oil & Gas producers Woodside Petroleum (WPL, +14.3%), Santos (STO, +13.2%), Beach Energy (BPT, +17.5%) and engineering services company Worley (WOR, +8.7%) were among the top

performers. Utilities (+2.6%) also increased in value during the period amid the outlook for higher electricity prices, supported by AGL Energy (AGL, +15.6%) and Origin Energy (ORG, +7.3%).

Portfolio review

Key Contributors

BHP Group (BHP, overweight) – the miner outperformed amid higher iron ore prices (up 18% to US\$142/t), as it completed the unification of its dual-listed structure and, lastly, after announcing a solid 2QFY22 result with strong iron ore production offsetting lower-than-expected volumes from copper, met coal and oil. Following its unification and benchmark adjustment, we are modestly overweight the iron ore miner. We continue to hold BHP on the grounds of its attractive valuation (3.1 times forward EV/EBITDA), strong free cash flow (FCF yield >10%) and robust balance sheet, with management carrying out a well-defined capital allocation strategy. However, more broadly we are negative towards the outlook for iron ore on the grounds China's property sector faces significant challenges (and hence steel), with our underweight reflected in underweights Rio Tinto (RIO) and Fortescue Metals (FMG).

Worley (WOR, overweight) – the engineering services company outperformed as oil prices increased, with Brent Crude rising 18% to US\$92/bbl during the period. We remain overweight WOR, which we believe is in a strong position to withstand a lower-than-expected recovery in its traditional work. Following the Jacobs ECR acquisition, the business is diversified across different markets and is well positioned to capture higher structural demand from energy transition work to low carbon solutions. We believe WOR's valuation provides significant support at current levels, with the stock trading on 16.5 times forward earnings, a sharp discount to the Industrials ex-Financials at 24.7 times.

Origin Energy (ORG, overweight) – the energy company outperformed as oil prices increased – with Brent Crude rising 18% to US\$92/bbl during the period – and in response to a strong 2QFY22 result. LNG prices were ahead of expectations, averaging US\$11.80/mmbtu during the period, while production was solid due to planned maintenance completing ahead of schedule. We remain overweight the company. At current valuation levels (15.2 times forward earnings), the market factors in ORG's energy transition risks but largely ignores potential upside as the company improves its emissions profile. Following the closure of Eraring, ORG's emissions intensity will be half that of the national electricity market, with no coal exposure and a credible pathway to decarbonise further through increased renewables penetration.

Key Detractors

Rio Tinto (RIO, underweight) – the miner outperformed as the iron ore price increased by 18% to US\$142/t, which outweighed a worse-than-expected 4Q21 result with production coming in at the lower end of 2021 guidance for most commodities. Notwithstanding RIO's position as a high-quality operator, our preferred exposure remains BHP Group (BHP), which has a diversified portfolio (with latent value in its other commodity exposures) and a clear strategy of capital allocation. More broadly we are negative towards the outlook for iron ore on the grounds China's property sector faces significant challenges (and hence steel), with our underweight also reflected through Fortescue Metals Group (FMG).

Woodside Petroleum (WPL, underweight) – the oil & gas producer outperformed as oil prices increased, with Brent Crude rising 20% to US\$92/bbl, and after a strong 4Q21 result. High LNG realised prices during the quarter drove a record revenue print of US\$2.9bn, above consensus expectations, more than offsetting production which was modestly below forecasts. Notwithstanding WPL's high-quality existing assets and strong financial position, we remain underweight due to concerns around stranded asset risk for future projects as the world decarbonises. That being said, we are positive towards WPL's new strategy to invest US\$5bn in new energy opportunities by 2030, as well as its ambitious decarbonisation targets.

Santos (STO, underweight) – the oil & gas producer outperformed as oil prices increased – with Brent Crude rising 18% to US\$92/bbl during the period – and in response to a strong 4QFY22 result. While production of 22.9mmbbl and

sales volumes of 26mmbbl were in line with expectations, the company delivered record revenue as realised LNG prices increased by 32% to US\$13.64/mmbtu. We remain positive towards the company on a fundamental basis, premised on its resilient low-cost base business, a diversified asset base across multiple basins, customers and products (with 60% oil exposure) and latent value in its midstream infrastructure. However, we note its emissions reduction strategy relies heavily on scaling carbon capture and storage (CCS) and hydrogen – two unproven technologies at scale – without committing significant capital to shifting the business to a low carbon world. We view the recently completed merger with Oil Search (OSH) as logical from a financial perspective, however at this stage it is unclear how the merger affects the group's climate change strategy.

Key Purchases

Amcor (AMC) – we increased our position in the packaging company during the period. We view AMC as a defensive stock with a strong dividend yield (+4.0%) that should generate strong EPS growth in FY22 (+13%), before returning to more normal levels from FY23 onwards (mid-single digit). While AMC's Flexibles division faces volume headwinds as customers turn away from non-recyclable plastics, we believe the company is moving in the right direction from the point of view of producing more recycled product and using more post-consume resin. Further, shifts to higher margin customers (pharmaceutical and medical) and cost-out initiatives will provide an offset. Lastly, we view AMC's valuation as attractive at 14.9 times forward P/E, below its 15.4 times long-term average.

Worley (WOR) – we increased our position in the engineering services company during the period. We believe the company is in a strong position to withstand a lower-than-expected recovery in its traditional work. Following the Jacobs ECR acquisition, the business is diversified across different markets and is well positioned to capture higher structural demand from energy transition work to low carbon solutions. We believe WOR's valuation provides significant support at current levels, with the stock trading on 16.5 times forward earnings, a sharp discount to the Industrials ex-Financials.

Sandfire Resources (SFR) – we increased our position in the copper producer during the period. We view the announced MATSA acquisition as a high-quality, low-cost operation, comprising three underground mines in Spain that produce mostly copper and zinc and a processing plant with capacity of 4.7mtpa. Importantly, the purchase extends SFR's mine life across its operations and resolves the looming earnings hole in FY23 as SFR's main existing asset, Degruusa, ceases operating. Lastly, we view SFR's valuation as attractive at a 12-month forward EV/EBITDA of 4.0 times, well below peer OZ Minerals (OZL) at 7.0 times.

Key Sales

Mirvac Group (MGR) – we exited our position due to increased uncertainty on the sustainability of development profits. We are cautious towards the housing outlook as approvals retreat from elevated levels, which will impact MGR's residential division. Further, we see risk to development profits on the

non-commercial side with the prospect cap rates rise. Lastly, we see ongoing long-term headwinds from MGR's Retail and Office assets following COVID-19, which has accelerated the shift to online shopping and embeds more flexible working practices.

James Hardie (JHX) – we reduced our holdings to reflect the increased uncertainty associated with the chief executive's dismissal from the company and to capture earlier outperformance. However, we maintain a smaller overweight position. We continue to believe JHX has the ability to sustain growth ahead of the market and sell higher value products, which will more than compensate for risks around growth rates normalising and higher borrowing costs. We are confident in the company's market share outlook due to its high-quality and reliable products, improved sales strategies (positioning the product as superior versus alternatives) and the resolution of US supply and manufacturing issues.

Telstra (TLS) – we reduced our position following recent outperformance but remain overweight. Our investment thesis is premised on several factors. Firstly, we believe continued Mobile growth over the medium term is possible as average revenue per user (ARPU) rises due to a rational market which has seen all players raise prices, in addition to tailwinds from international borders reopening through international roaming charges and migration. Secondly, the company's cost reduction initiatives are proving to be real and flowing through to earnings, with management announcing a further \$500mn reduction between FY23-25 following on from the \$2.3bn productivity program ending in FY22. Thirdly, with revenues now growing, the NBN headwind largely behind the business and costs coming down, the outlook for the dividend has significantly improved – turning from concerns around a cut to likely increases over the medium term. Lastly, the sale of 49% of its stake in mobile tower business, TowerCo, for \$2.8bn, highlights the value of TLS' infrastructure which will continue to rise as the business further highlights its earnings potential.

Key Active Overweights

Link Group (LNK) – we are positive on the company because we see compelling value in its base share registry business and electronic conveyancing business PEXA, which has been supported by recent corporate interest. We hold a positive view of PEXA premised on its infrastructure-like characteristics of the property settlement exchange upon maturity, supplemented by numerous growth opportunities in immediate adjacencies. Further, LNK is positively leveraged to higher US interest rates, which we see as a meaningful tailwind over the medium term. Lastly, LNK trades at 23.2 times forward earnings, a discount to the Industrials ex-Financials at 24.7 times.

Aristocrat Leisure (ALL) – our positive investment view remains premised on ALL's dominant position in Land-Based Games and significant opportunities from Digital, which offers a wide range of outcomes. We see ALL's valuation as undervalued at 23.8 times forward earnings when considering the Industrials Ex-Financials trades at 24.6 times and ALL's superior long-term growth potential. While ALL's setback in acquiring Playtech is disappointing, ALL still has significant

opportunities to enter Real Money Gaming – a market which has compelling growth prospects – through other potential acquisitions.

TPG Telecom (TPG) – our positive view is premised on the improving outlook for the mobiles market, recovery in volumes post COVID and the recently completed Vodafone merger, which in our view will unlock significant synergies. The combined entity is well placed to harness its infrastructure, scale and balance sheet to disrupt incumbents Telstra (TLS) and Optus through its lower-cost structure, as well as new products such as Fixed Wireless.

Key Active Underweights

CSL (CSL) – we remain underweight CSL based on its forward valuation (33.3 times P/E and 23.1 times EV/EBITDA on a 12-month forward basis), which we believe appropriately captures the earnings outlook at this time. While CSL is a key beneficiary of the post-COVID re-opening theme, we believe this is already reflected in consensus forecasts. However, in our view the prospect of higher costs going forward is underappreciated by the market, with donor fees likely to be higher for longer. We continue to prefer ResMed (RMD) within the Health Care sector, where we see better growth prospects and a strong competitive position versus peers.

National Australia Bank (NAB) – we remain underweight the bank for several reasons. We see less scope for surplus capital compared to Westpac Bank (WBC) and ANZ Bank (ANZ). Further, NAB trades at 13.4 times forward earnings, above peer ANZ (at 11.9 times forward earnings) and Westpac Bank (WBC) at 12.3 times. More broadly, we are underweight the Banking sector, having switched our preference to Insurance where we see more attractive valuations, a more favourable outlook and a better industry structure.

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 significant downside risk to consensus forecasts from FY22, which currently reflects a strong contribution from lumpy items including gains on sale, performance fees and low loan-loss provisions. Meanwhile, 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 18.4 times consensus forward earnings as unattractive.

Market outlook

The pattern of quarterly economic growth in Australia remains volatile, having declined 1.7% (q/q) in 3Q under the impact of the Delta strain of COVID. Nevertheless, record fiscal stimulus and easy financial conditions have helped underpin solid real economic growth of 3.9% (y/y) and a 4Q recovery from the Delta variant disruption is expected to see real economic growth in calendar 2021 to average 4.0%.

Recovering underlying household income growth, \$200bn in 'excess saving', strong corporate profit growth, low inventory levels and robust capex expectations – in concert with a still solid global growth backdrop – suggests Australian economic

growth into 2022 will be above 'potential'. In both CY2022 and CY2023 we expect the Australian economy to expand at an above 'potential' rate of 3%.

The strength of the economic recovery has been particularly evident via the strength in employment. After peaking at 7.5% in July 2020, the unemployment rate has declined sharply to 4.2% in December 2021. In essence the unemployment rate is now in line with the RBA estimate of non-accelerating inflation rate of unemployment (NAIRU) and the combination of excess demand relative to available supply has seen 2H21 produce sufficient broad based inflation pressures to prompt an abrupt reassessment of the RBA's monetary stance. We expect the RBA will commence increasing interest rates in 4Q2022 with a 35 bps hike, with a further four 25 bps rate hikes in 2023.

Although we remain constructive on global economic growth, we believe the industrial cycle peaked in mid-2022 and that a relatively controlled slowing in economic activity is currently taking place. Nevertheless, there are some areas that are cause for concern. For over 18 months we have warned about rising US inflation pressures and rising inflation expectations, and while these threats have been realised, supply chain constraints and energy shortages in the Northern Hemisphere risk inflation pressures becoming more widespread and more entrenched. With the peak in global business surveys having passed, cost inflation continuing to escalate and the Federal Reserve announcing its decision to taper bond purchases, we expect bond yields will move higher, providing some ongoing challenges for risk assets.

The A\$/US\$ has recently been buffeted by concerns of a peak in global industrial growth indicators, slowing China economic momentum and volatility in commodity prices. Nevertheless, Australia's external accounts are in their best position since the early 1970s and despite some moderation in commodity prices the A\$/US\$ should remain supported by the RBA joining other central banks in tightening interest rates this year. We expect the A\$ will finish CY 2022 at around 76 cents.

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, Information Technology and Materials sectors, and underweight Real Estate, Health Care and Consumer Staples.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.31	4.19	8.12
Consumer Discretionary	8.25	7.44	0.81
Consumer Staples	1.54	4.63	-3.09
Energy	2.37	3.47	-1.10
Financials	24.59	27.77	-3.17
Health Care	6.00	9.43	-3.44
Industrials	7.12	6.68	0.44
Information Technology	7.65	3.62	4.03
Materials	26.47	24.45	2.03
Real Estate	0.00	6.86	-6.86
Utilities	2.55	1.48	1.07

Top 5 holdings

	Portfolio %	Benchmark %	Active %
BHP	11.18	11.26	-0.09
Commonwealth Bank of Australia	6.66	7.68	-1.01
Westpac Banking	5.36	3.57	1.79
Aristocrat Leisure	4.68	1.30	3.39
ANZ Banking	4.56	3.59	0.97

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Link Administration	3.81	0.13	3.67
Aristocrat Leisure	4.68	1.30	3.39
TPG Telecom	2.53	0.11	2.43
Underweights			
CSL	1.69	5.98	-4.29
National Australia Bank	0.00	4.27	-4.27
Macquarie Group	0.00	3.12	-3.12

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	-6.41	-7.44	-4.62	-0.52
Distribution return	19.39	16.15	11.51	9.09

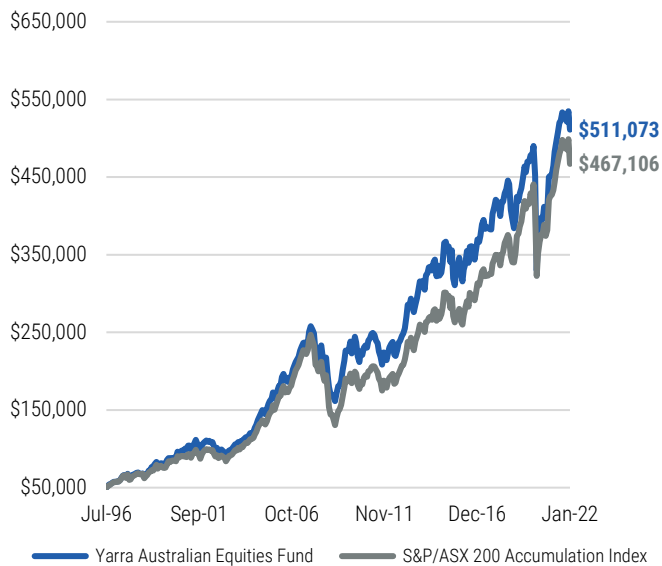
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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\$97.8 mn as at 31 January 2022	
APIR codes	JBW0009AU	
Estimated management cost	0.90% p.a.	
Buy/sell spread	+/- 0.15%	
Platform availability	AMG Freedom of Choice AMP North Asgard BT Panorama Colonial FirstWrap Grow Wrap	Hub24 IOOF Pursuit Macquarie Wrap Netwealth Oasis Praemium

Investment performance comparison of \$50,000

After fees, since inception of the Yarra Australian Equities Fund, July 1996 to January 2022.



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.

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