

Yarra Australian Equities Fund

Gross returns as at 31 March 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	2.31	6.80	4.95	21.20	8.37	8.27	10.56
S&P/ASX 200 Accumulation Index [†]	-0.16	3.46	0.10	16.52	8.69	8.17	9.14
Excess return (before fees) [‡]	2.47	3.33	4.85	4.68	-0.32	0.10	1.42

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 March 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	2.24	6.56	4.01	20.12	7.39	7.27	9.56
S&P/ASX 200 Accumulation Index [†]	-0.16	3.46	0.10	16.52	8.69	8.17	9.14
Excess return (after fees) [‡]	2.39	3.10	3.91	3.60	-1.30	-0.90	0.42

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

The S&P/ASX 200 Accumulation Index returned +3.5% for the quarter, taking its 12-month return to +0.1%. By comparison, the broader ASX300 gained +3.3% and, globally, the MSCI World Index climbed by 7.9%.

Consumer Discretionary (+11.4%) was the top performing sector, led by Aristocrat Leisure (ALL, +21.9%), Wesfarmers (WES, +8.8%) and The Lottery Corporation (TLC, +16.3%), with resilient consumer spending patterns on show in the early weeks of the year.

Communication Services (+9.4%) rallied strongly during the period. REA Group (REA, +25.4%) performed well over the quarter, alongside Domain Holdings (DHG, +30.4%), as investors anticipate that we are nearing the trough in the real estate listings cycle.

Within Information Technology (+8.3%), the Xero (XRO, +27.3%) share price rose after announcing plans to reduce the size of its workforce by 15% and NEXTDC (NXT, +14.9%) rallied post its 1H23 earnings update. Wisetech (WTC, +28.5%) rallied early in the quarter as the tech sector responded positively to the risk-on environment as the Fed and RBA moved closer towards terminal interest rates.

Conversely, the weakest performing sector was Financials (-2.7%), as the market began to price in the inevitable end to the net interest margin tailwinds the sector has been enjoying. Notable stocks were NAB (NAB, -7.8%), Commonwealth Bank of Australia (CBA, -2.1%) and Westpac (WBC, -7.4%).

Portfolio review

Key Contributors

United Malt (UMG, overweight) – the global commercial malt processor and distributor outperformed during the period after receiving a takeover bid from peer Malteries Soufflet priced at \$5.00/share (+45% premium to prior closing price). It emerged that Malteries Soufflet has submitted four bids for UMG since December 2022, indicating strong interest in UMG's assets. We believe that the likelihood of a deal proceeding is high.

Reliance Worldwide (RWC, overweight) – the manufacturer and distributor of plumbing and heating parts outperformed early in the quarter as the 30-year US mortgage rates compressed ~30bps and the market's belief that the Fed was getting closer to the top of this rate hiking cycle strengthened. RWC also outperformed after its March Investor Day at which it announced two new products which should drive EBIT upgrades in later years (FY25+). We view RWC as a compelling opportunity, with the market pricing for a significant decline in

earnings (P/E of only 14.5 times vs 17.0 times mid cycle) whereas we remain constructive on the demand environment given the defensive nature of RWC's revenue base, the majority of which relates to repair and remodelling sales.

National Australia Bank (NAB, underweight) – the Australian bank underperformed during the period driven by two factors. Firstly, the market began to price in the inevitable end to the net interest margin tailwinds the sector has been enjoying. Secondly, NAB was caught up in the global banking selloff following the failure of Silicon Valley Bank, Signature Bank and Credit Suisse. We view Australian banks as having very strong liquidity, high levels of capital and conservative balance sheet structures, so hold no concerns from a failure perspective. We do, however, believe the resultant increase in funding costs will pressure future earnings further.

Xero (XRO, overweight) – the leading provider of cloud-based accounting software outperformed during the period after announcing plans to reduce the size of its workforce by 15%. The cost-out will lead to a reduction in operating expenditure/sales from the recent levels of 83-85% over recent results down to a more sustained level of ~75% from FY24. We think XRO is a compelling opportunity at current levels and that future earnings should benefit from further cloud penetration in international markets, stronger take-up of platform revenues and an eventual rebound in net subscriber additions.

Aristocrat Leisure (ALL, overweight) – the gaming content developer outperformed during the period, with the stock re-rating back to November levels on positive datapoints from US Land-Based activity and some signs of a stabilisation in Digital trends. ALL's market leadership in Land-Based gaming continues to underpin trading momentum, and the stock is now trading back at 19 times P/E (in line with its long-term average). With strong cash generation and a robust balance sheet, ALL also announced a \$500mn extension of the buyback, although this was relatively minor relative to the company's \$24bn market cap.

Key Detractors

Incitec Pivot (IPL, overweight) – the manufacturer and distributor of fertilisers and explosives products underperformed over the period, as the price for Tampa ammonia fell 55% over the last three months on weaker gas prices in Europe and weaker demand. After IPL announced the sale agreement for its WALA asset (20 March 2023), the group is now much less exposed to movements in ammonia pricing going forward. IPL achieved a better-than-expected sale price for WALA of US\$1.68bn and announced a value accretive offtake agreement with CF Industries. We expect that IPL will be able to commence its previously announced buyback of A\$400m after its 1H23 result and may upgrade the buyback program with the A\$1.25bn of net cash proceeds from the WALA sale.

Newcrest Mining (NCM, underweight) – the Gold miner was subject to a takeover bid from US listed peer Newmont (NEM) during the quarter. The all scrip offer of 0.380 NEM shares for each NCM share implied a 21% valuation premium. The NCM board initially rejected the offer, but with the company trading

above terms, the market is anticipating a further bump in the offer. Additionally, the gold price rallied 8.5% during the quarter, supporting NCM and the gold sector more generally. We remain underweight NCM given limited growth prospects and prefer Northern Star Resources (NST) for its stronger production growth profile.

Woolworths (WOW, underweight) – the Australian retail group outperformed during the period, reporting a strong 1H23 result underpinned by the Australian Food business (74% sales; 88% EBIT). In particular, WOW reported significant margin expansion as it cycled COVID costs (Australian Food EBIT margins +80bp to 5.9% in 1H23), reflecting the benefits of mix, rational pricing and cost control. The stock also saw a broader re-rate from January (from 23 times P/E to 26 times at the end of March), as investors favored a defensive earnings outlook and inflation-linked pricing.

Wesfarmers (WES, underweight) – the diversified conglomerate outperformed during the period, with the stock reporting a solid result led by the core Bunnings business (43% group sales, 61% EBIT). WES's other major divisions WesCEF (16% EBIT) and Kmart (23% EBIT) also reported strong earnings momentum, although Catch disappointed as online demand softened and losses widened. The stock also saw a broader re-rate from January (from 21 times P/E to 23 times P/E at the end of March), as investors moved to support its defensive earnings outlook underpinned by value-focused retail assets (i.e. Bunnings, Officeworks, Kmart).

Alumina (AWC, overweight) – the alumina refiner underperformed across the quarter, primarily as a result of the company's forward earnings guidance. While the FY22 result was largely in line with market expectations, the softer FY23 guidance provided saw the stock underperform. We see upside risk to demand for alumina from China to supply its under-utilized aluminium smelters that have been operating below full capacity due to the combined impacts of weak demand from COVID lockdowns, and drought conditions which have reduced hydroelectricity to power smelting operations. We expect increased industry activity and housing starts, coupled with normalising weather conditions, will support increased aluminium demand in China. AWC is the best way to gain exposure to alumina in our view. While Spanish energy costs and reliability concerns in WA have recently weighed on the company's share price, we see upside from both commodity prices and a turnaround in operating performance.

Key Purchases

Transurban (TCL) – the portfolio increased its position in the diversified toll road owner during the period. TCL owns a high-quality portfolio of long concession length toll roads which are geographically spread across Sydney, Melbourne, Brisbane and North America. TCL's funding position is very strong and distribution growth is set to accelerate as several expansion projects are commissioned. The stock trades on 23.5 times FY24 EV/EBITDA and a 4.3% dividend yield.

Iluka Resources (ILU) – we instigated a new position in the mineral sands producer during the period. We see solid structural support for key mineral sands commodities zircon and titanium dioxide as demand improves in China post COVID

impacts, and existing mine supplies decrease on falling grades and production challenges. ILU is the world's largest zircon producer and the fifth largest producer of titanium feedstocks, and is moving into rare earths production with the Eneabba refinery currently under development in Western Australia. Rare earths are a by-product of mineral sands mining, and a key component of permanent magnets that are critical to electric motors including those in electric vehicles and wind turbines. With 90% of the world's rare earths currently produced in China, we see additional strategic value in ILU's rare earths business.

BHP (BHP) – we increased our position in the diversified miner during the quarter. We expect China's recent reopening post-COVID will support commodity prices, accepting the benefits will likely be skewed to second half of 2023. With the company close to finalising its planned takeover of OZ Minerals (OZL), copper will contribute more than a quarter of BHP's revenue, a commodity we expect will outperform on supply challenges and increasing demand with China's reopening. However, we remain cautious on the outlook for iron ore prices that are at unsustainably high levels above US\$120/tonne. BHP's superior asset quality, strong cost discipline and robust balance sheet are attractive, supporting our preference for BHP over peers RIO, S32 and FMG.

Key Sales

Atlas Arteria (ALX) – we exited the toll road owner during the period. The stock is trading close to an enterprise value equivalent to where it was trading before undertaking its value destructive acquisition of the Chicago Skyway toll road. In recent months, the outlook for all three of ALX's major assets has deteriorated leading to a permanent downgrade in our view of portfolio quality. We now believe that ALX's major asset – the APRR concession – will ultimately go through a re-tender process and that the restructure of Dulles Greenway will require considerable additional equity (instead of releasing equity).

OZ Minerals (OZL) – we exited our position in the copper producer during the period. The company is under a \$28.25/share takeover bid from diversified miner BHP that is supported by the OZL board and deemed "fair and reasonable" by the Independent Expert. As a result, we view risks to deal completion as low and see limited potential for future outperformance given that OZL is trading close to deal terms.

Aristocrat Leisure (ALL) – we reduced our position in the gaming content developer after the stock re-rated back to November levels, with growing evidence of a normalisation in Digital momentum after a period of elevated trading through COVID. We retain a positive view on the company given ALL's dominant position in Land-Based gaming and expect that Digital revenues will likely continue to stabilise in coming months but remain wary that expectations for the business remain elevated (consensus EPS growth +18%/+10% in FY23/24) and may prove challenging to achieve. With strong cash generation and a robust balance sheet, we retain a position in ALL but await more certainty on the outlook.

Key Active Overweights

Reliance Worldwide (RWC) – the market is showing concern for a weaker demand environment for the manufacturer and distributor of plumbing and heating parts and RWC's FY23 earnings estimates have now been lowered after recent market updates. We view RWC as a compelling opportunity, with the market pricing for a significant decline in earnings (P/E of only 14.5 times vs 17.0 times mid cycle) whereas we remain constructive on the demand environment given the defensive nature of RWC's revenue base, the majority of which relates to repair and remodelling sales.

QBE Insurance (QBE) – the general insurer remains our preferred insurance exposure, which we expect will deliver strong earnings growth into 2023 and beyond driven by the delivery of strong volume growth, sustained premium 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 it's 9.9 times FY23 earnings multiple excessively discounts the risks inherent in its business model.

United Malt (UMG) – we remain overweight the global commercial malt processor and distributor following Malteries Soufflet's takeover bid priced at \$5.00/share (+45% premium to prior closing price). It emerged that Malteries Soufflet has submitted four bids for UMG since December 2022, indicating strong interest in UMG's assets. We believe that the likelihood of a deal proceeding is high.

Worley (WOR) – we remain overweight the global and leading provider of engineering services. WOR's earnings recovery is in its early stages following COVID impacts across FY20-22. Revenue is expected to grow 13-15% in FY23 with leading indicators (Factored Sales Pipeline +16%, Rolling 12 Month Bookings +23%, Backlog +7%) and structural drivers (capital investment required to decarbonise) pointing to strong top-line growth ahead. Margins are also set to accelerate over the coming years as WOR benefits from a more consolidated industry structure, operating leverage, and active mix management.

Origin Energy (ORG) – the portfolio is overweight the energy company, which is currently subject to a binding takeover offer from Brookfield and EIG. ORG trades at a 9% discount to terms and whilst the transaction still requires ACCC and FIRB approval, we believe this will be received in due course.

Key Active Underweights

CSL (CSL) – we retain an underweight to the globally focussed biotechnology company CSL. Underpinning this position is our view that earnings growth from the core blood plasma division (approximately 65% of group earnings) will be more difficult moving forward due to elevated and sticky cost pressures, increased competition, relative product growth rates and product substitution risk in the longer run. While the more recently acquired business, Vifor (now approximately 15% of group earnings) does provide differentiation, we do view the business at this stage as lower quality than the core plasma franchise. Considering this operating outlook, we do not believe the current valuation looks overly attractive (30.8 times

forward P/E, 21.3 times EV/EBITDA) and maintain a preference for the global sleep-apnea device supplier ResMed in the large-cap Healthcare space.

National Australia Bank (NAB) – we remain underweight the Australian bank reflecting 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, meaning sector EPS is likely to be approaching peak 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 view as unsustainable into the medium term. We see significant downside risk to consensus forecasts beyond FY23, which currently reflects 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 businesses 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.

Wesfarmers (WES) – we retain an underweight position in the diversified conglomerate, driven by an expected recalibration of earnings for the core Bunnings business (43% group sales, 61% EBIT) as it moves into a period of softer housing demand. Indeed, we believe the 1H23 result provided a preview of more challenging operating conditions to come, with EBIT margin compression of -60bps (y/y) indicative of discounting activity in a weakening consumer environment. With the company still trading on a forward earnings multiple of 23 times P/E (vs long term average 23 times), we believe better opportunities can be found elsewhere.

Woolworths (WOW) – we retain an underweight position in the supermarket, led by concerns that softer than expected volumes and cost pressures may temper margin benefits from food inflation. While the 1H23 result demonstrated robust margin expansion as WOW cycled COVID costs (Australian Food EBIT margins +80bp to 5.9% in 1H23), consensus earnings expectations remain elevated, with margins expected to grow to 6.2% over the next three years (vs 5.3% in FY22). With the stock trading at 26 times P/E (vs long-term average 17 times P/E), we believe WOW's premium multiple is unwarranted relative to our growth expectations for the business.

Market outlook

The June quarter 2023 will mark the top of the interest cycle for most of the developed world. With ongoing evidence of inflation moderating, tightening in lending availability and downgrades accumulating for economic growth, including the Federal Reserve staff formally forecasting a modest recession in the US, the appetite for policy makers to persist with the tightening cycle is rapidly evaporating. Although the Fed may choose to hike in May, the decline in headline inflation has returned real interest rates to zero and our nowcasting for US

economic growth continues to suggest the US has been contracting modestly since late 2022. We believe the US labour market is set to post more modest employment gains in 2Q23 which in concert with improving labour supply will continue to moderate wage growth and help underwrite the commencement of a gradual easing cycle in the US from September 2023.

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 Reserve Bank of Australia (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. It is unlikely that policy easing will be delivered in 2023, however, we do expect that the RBA will commence an easing modest easing cycle in 1H24.

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 to an easing cycle in 2023, we expect the A\$/US\$ will appreciate to the mid-70s through 2H CY23.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	11.11	4.02	7.09
Consumer Discretionary	6.67	6.58	0.09
Consumer Staples	2.63	4.96	-2.33
Energy	5.08	5.51	-0.42
Financials	20.26	27.15	-6.89
Health Care	4.34	10.04	-5.70
Industrials	10.29	6.77	3.52
Information Technology	8.69	2.08	6.62
Materials	26.21	25.56	0.66
Real Estate	0.00	5.88	-5.88
Utilities	3.06	1.46	1.60

Top 5 holdings

	Portfolio %	Benchmark %	Active %
BHP	11.40	11.25	0.15
Commonwealth Bank of Australia	5.84	7.80	-1.96
Woodside Energy	5.08	2.98	2.11
Westpac Banking	4.73	3.57	1.15
Telstra	4.21	2.29	1.92

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Reliance Worldwide	2.99	0.14	2.86
QBE Insurance	3.69	1.02	2.68
United Malt	2.63	0.06	2.57
Underweights			
CSL	1.60	6.54	-4.93
National Australia Bank	0.00	4.09	-4.09
Macquarie Group	0.00	3.00	-3.00

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	-6.74	4.55	-5.52	-2.50
Distribution return	10.75	15.57	12.90	9.77

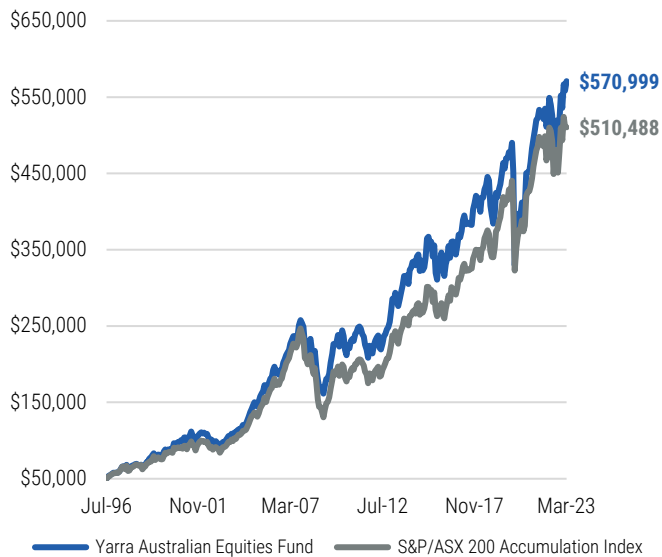
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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\$103.1 mn as at 31 March 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 March 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

Disclaimers

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