

Yarra Australian Equities Fund

Gross returns as at 31 May 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	-2.56	1.30	4.68	7.44	7.52	10.05	10.53
S&P/ASX 200 Accumulation Index†	-2.60	3.21	4.84	7.84	8.84	10.36	9.30
Excess return (before fees)‡	0.04	-1.91	-0.16	-0.40	-1.32	-0.31	1.24

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 May 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	-2.63	1.08	3.75	6.48	6.54	9.03	9.53
S&P/ASX 200 Accumulation Index†	-2.60	3.21	4.84	7.84	8.84	10.36	9.30
Excess return (after fees)‡	-0.03	-2.14	-1.09	-1.36	-2.30	-1.33	0.23

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 during May as Australia's first interest rate hike since 2010 pressured valuations, with all sectors falling in value.

The S&P/ASX 200 Accumulation Index returned -2.6% for the month, taking its 12-month return to +6.0%. In comparison, the broader ASX300 declined -2.8% for the month while global indices were flat (MSCI World Index -0.2%). The benchmark's forward P/E declined from 15.1 times to 14.3 times as the RBA lifted the official cash rate by 25 bps to 0.35%.

Within Materials (+0.9%), BHP Group (BHP, +4.3%) outperformed following the completion of the demerger of its oil assets to Woodside Energy Group (WDS, -4.5%) while South32 (S32, +4.8%) continued to rise alongside higher base metal prices.

Conversely, the worst performing sectors included Consumer Staples (-6.6%), Information Technology (-8.7%) and Media (-17.0%). In particular, Xero (XRO, -7.3%) delivered a disappointing FY22 result while supermarket company Woolworths (WOW, -10.3%) announced mixed 3Q22 sales and the acquisition of Mydeal.com.au, which was negatively perceived by the market.

Elsewhere, Real Estate (-8.9%) also experienced widespread declines given its negative correlation to higher rates, led by Charter Hall Group (CHC, -15.3%), Mirvac Group (MGR, -6.6%), Home Consortium (HMC, -17.2%) and Dexs Group (DXS, -6.2%).

Portfolio review

Key Contributors

Worley (WOR, overweight) – the engineering services firm outperformed due to expectations the global energy crisis will stimulate capex for both oil & gas and energy transition projects. We remain overweight the company. Following the Jacobs ECR acquisition, the business is diversified across different markets and is, in our view, well positioned to capture higher structural demand from energy transition work to low carbon solutions in addition to its traditional work for the oil & gas industry. We believe WOR's valuation provides significant support at current levels, with the stock trading on 18.9 times forward earnings, a sharp discount to the Industrials ex-Financials at 25.5 times.

Ancor (AMC, overweight) – the plastic packaging company outperformed after announcing a stronger-than-expected trading update. Earnings per share in the third quarter came in at US20.4 cents per share, 4% above consensus and 13%

above the prior year. Further, management upgraded full-year guidance for 9.5-11% EPS growth, above its prior guidance for 7-11%. The update supported our thesis for owning the stock. 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 likely provide an offset.

Goodman Group (GMG, underweight) – the industrial REIT underperformed amid higher interest rates and after key tenant Amazon called out excess capacity in its fulfillment and transportation network. We remain underweight on the grounds that, while GMG is a high-quality REIT, its positive outlook is fully reflected in its valuation, trading at 22.1 times forward earnings and an EV/EBITDA of 21.0 times, while risks are not captured.

Key Detractors

Link Administration (LNK, overweight) – the company underperformed over speculation the recent acquisition offer by Dye and Durham may not complete and after the ACCC temporarily suspended its approval timeline until it received further information. Notwithstanding the uncertainty, we remain overweight the stock. 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 17.4 times forward earnings, a discount to the ASX200 Industrials ex-Financials at 23.3 times.

Nine Entertainment (NEC, overweight) – the media company underperformed despite delivering a solid trading update during the period. Management expects FY22 EBITDA to be up 22% y/y, unchanged versus its previous guidance, supported by slightly stronger underlying metrics. Our positive view remains premised on a supportive valuation, its high-quality digital assets (Stan, 9Now and Domain), and a number of cost saving initiatives in the short term. We believe the ad market's recovery is only partially factored into NEC's valuation, with the stock trading at 10.8 times forward earnings. At these levels, we also do not believe sufficient value is attributed to its subsidiaries when considering their long-term growth profile, with double-digit earnings growth expected in the next 12 months.

JB Hi-Fi (JBH, overweight) – the electronics retailer underperformed as concerns about the company reaching peak earnings growth overshadowed a stronger-than-expected sales growth for 3Q22 across its key divisions (JBH Australia +11.1%, JBH NZ +4.8% and The Good Guys +5.0%). We remain

overweight the company. We continue to believe the market underestimates JBH's ability to grow across different trading conditions, which is not reflected in its headline valuation at 12.0 times forward earnings. In regards to The Good Guys, execution has improved significantly, and management now appears focused on maintaining the strong increase in customers as homewares benefits from the COVID-19 pandemic, which could add significant upside.

Key Purchases

Xero (XRO) – we initiated a position in the accounting software company during the period, taking advantage of recent underperformance. While consensus continues to view XRO as a subscriber growth story, we see significant upside from higher average revenue per user (ARPU) and expansion into financial services. Regarding financial services (i.e. invoicing, payments), early-stage growth is positive and, we believe, could grow to around 50% of revenues in the next 5 years. For ARPU, we expect growth to materialise as a result of XRO's strategy to have an open platform, use M&A to purchase the most successful adjacent apps to bring into its platform, and justify price rises by including them into the core platform. Lastly, on valuation grounds subscriber total lifetime value (LTV) has fallen to below 1.2 times and will be less than 1 times by FY23, thus no longer requires an extended period of time to grow into the valuation.

Reliance (RWC) – we increased our position in the plumbing fittings group during the period. In our view RWC is a quality industrial company which has been over-sold based on short term earnings headwinds (the roll-off of the COVID benefit, higher raw material costs), which we expect to ease over our longer-term investment horizon. Further, we are more positive on the US Repair & Remodel (R&R) market than consensus, which comprises 38% of RWC's EBITDA and is more resilient to macro factors than new housing. In terms of quality attributes, we note RWC's brand power through products such as SharkBite, loyal customers in both Lowes, and Home Depot and end customers, excellent supply chain management in normal times (98% OTIF in the Americas retail channel), and strong pricing power (in-house R&D). As a result, we see its valuation (at a 12.9 times forward P/E) as attractive.

OZ Minerals (OZL) – we increased our position in the copper producer during the period. Our positive view remains premised on OZL's two high quality, long life, 100% owned copper mines in South Australia - Prominent Hill and Carrapateena. We expect the company's copper production to double to >200ktpa by 2030, as Carrapateena moves to a block caving operation, and as the company develops the greenfield West Musgrave copper/nickel deposit in Western Australia. OZL is well positioned to fund its growth ambitions through the net cash balance sheet, strong cash flow generation, and flexibility to divest assets such as the Centro Gold deposit in Brazil. We also support OZL's plan to achieve net zero scope 1 and 2 emissions by 2030, which we view as ambitious and considered.

Key Sales

QBE Insurance (QBE) – we reduced our position following recent outperformance but remain overweight. Our positive view towards the general insurer is premised on the company benefiting from an ongoing global hardening cycle in commercial insurance along with a return to unit growth after several years of volume declines as the company exited sub economic exposures. QBE's recent result, in our view, demonstrated that the company has sufficiently strengthened reserves against problematic North American long tail insurance lines, which was previously viewed as a key risk. We continue to see upside to its relative valuation, with the stock trading on 12.3 times forward earnings and offering a 4.0% dividend yield.

Metcash (MTS) – we reduced our position in the wholesale distributor during the period but remain overweight. MTS trades at 15.2 times, a discount to peers WOW and COL, with the market treating MTS as if it is a majority Food business in structural decline. This is no longer the case, with MTS' largest division now Hardware (41% of Group EBIT). Hardware is set to benefit from a strong store rollout and refurbishment strategy as well as more corporate stores (from current 30% to ~50%), which will support margins. In relation to Food (41% of Group EBIT), significant work has been done over recent time to gain supplier support to reduce prices, which has finally come to fruition as C-19 provided a surge in foot traffic. Continued strength despite relaxing C-19 restrictions highlights the improvement in the IGA offer and builds confidence for the outlook in the short to medium term. Finally, inflation is anticipated in the coming 12 months which will benefit MTS by assisting them to cycle strong comps whilst also being margin accretive.

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 20.3 times forward earnings, a discount to the Industrials ex-Financials at 24.7 times.

Worley (WOR) – we believe the company is in a strong position to benefit from the recovery in its traditional work and, increasingly, new sustainability projects. Following the Jacobs ECR acquisition, it is our view that 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 19.8 times forward earnings, a sharp 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 the disruption from its exposure to Ukraine as temporary. Around 1,000 (40%) of its employees within the Digital business work in Ukraine, most of whom have now moved to safer regions of the country or to Poland. We see ALL's valuation as undervalued at 18.7 times forward earnings when considering the Industrials Ex-Financials trades at 23.3 times and ALL's superior long-term growth potential.

Key Active Underweights

National Australia Bank (NAB) – we remain underweight the bank, due to our negative sector view, following recent outperformance. Favourable dynamics of excess provisions and capital are now well understood, while low bad debts and significant buybacks have seen the sector re-rate to trade at peak multiples versus pre-provision earnings. We believe consensus estimates for pre-provision forecasts are too high in the absence of revenue growth – with earnings quality deteriorating in recent years as abnormal items take up a larger proportion – and an inability for the industry to meaningfully take costs out. We hold small overweight positions in Westpac Bank (WBC) and ANZ Bank (ANZ), where the valuations are more supportive at current levels.

CSL (CSL) – we remain underweight CSL based on its forward valuation (33.5 times P/E and 22.8 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.

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 beyond 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 17.3 times consensus forward earnings as unattractive.

Market outlook

Geopolitical events and surging commodity prices have taken centre stage in 2022, shaking risk sentiment and challenging consensus' optimistic forecast for global growth. From our perspective, although for the past six months our forecasts for global growth in 2022 have been below consensus, we believe a series of downgrades will soon be evident for global earnings growth in most major markets. Surging commodity prices and ongoing supply shortages have resulted in further upside to the inflation outlook and risks forcing the hand of central banks in coming months to try to contain rising inflation

expectations. The reality for 2022 is likely a world of higher inflation, slower growth and higher financing costs awaits.

Australia does have some key natural advantages in such a climate. One of the most notable is that Australia's export dominance of iron ore, coal, LNG, gold, wheat and base metals contribute close to 80% of Australia's exports and each of these commodities have seen strong price rises in 1H 2022 which will likely translate into a large positive national income boost even if spot prices retreat in coming weeks. Indeed, Australia presents as a safe haven market which is far from the conflict in Europe, an exporter of in demand raw materials and given its own undershooting of its inflation target since 2015 it has ample room to adjust policy settings at a gradual pace.

Australia also has the benefit of recovering underlying household income growth, \$230bn in 'excess saving', strong corporate profit growth, robust capex expectations in concert and improving government finances which suggests Australian economic growth in 2022 will remain more robust than its developed economy peer group. In CY2022 we expect the Australian economy to expand at an above 'potential' rate of 3%. While this is slower than the 4% pace recorded in 2021 it is still sufficient to see further employment growth gains and we expect the unemployment rate will soon fall below 4% and below the RBA's estimate of non-accelerating inflation rate of unemployment (NAIRU) and further wage pressure will become evident into mid-2022.

While the RBA has been later than most other developed nations in tightening policy, tighter financial conditions in 2022 are likely to come via both significantly higher cash rates and a stronger currency. The A\$/US\$ has in recent months been buffeted by concerns of a peak in global industrial growth indicators and slowing China economic momentum. Nevertheless, Australia's external accounts are in their best position since the early 1970s and surging commodity prices in early 2022 is providing an incentive for the A\$/US\$ to commence an appreciation cycle, together with the attractive carry on offer. We expect the A\$ will finish 2022 at around 76 cents, albeit the risk to this forecast is on the upside.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	11.60	3.81	7.79
Consumer Discretionary	9.22	6.52	2.69
Consumer Staples	1.06	4.77	-3.71
Energy	7.08	4.01	3.07
Financials	23.00	28.92	-5.92
Health Care	5.60	9.54	-3.95
Industrials	6.19	5.75	0.43
Information Technology	7.16	3.06	4.11
Materials	25.37	25.63	-0.26
Real Estate	0.00	6.51	-6.51
Utilities	2.41	1.47	0.94

Top 5 holdings

	Portfolio %	Benchmark %	Active %
BHP	10.24	10.60	-0.36
Commonwealth Bank of Australia	7.06	8.36	-1.30
Westpac Banking	5.80	3.92	1.88
Telstra	3.95	2.14	1.81
Woodside Energy	3.84	1.35	2.48

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Link Administration	3.19	0.11	3.08
Worley	3.24	0.26	2.99
Aristocrat Leisure	3.73	1.06	2.67
Underweights			
National Australia Bank	0.00	4.76	-4.76
CSL	1.68	6.11	-4.43
Macquarie Group	0.00	3.15	-3.15

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	-14.06	-9.34	-4.94	-0.09
Distribution return	17.81	15.82	11.47	9.13

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\$105.1 mn as at 31 May 2022	
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 May 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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