

Yarra Australian Equities Fund

Gross returns as at 31 May 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Australian Equities Fund	-1.49	3.33	10.44	15.46	7.57	8.39	10.53
S&P/ASX 200 Accumulation Index [†]	-2.53	-0.89	2.90	11.43	7.47	8.11	9.05
Excess return (before fees) [‡]	1.04	4.22	7.53	4.03	0.10	0.28	1.48

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 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Australian Equities Fund	-1.57	3.10	9.45	14.43	6.60	7.39	9.53
S&P/ASX 200 Accumulation Index [†]	-2.53	-0.89	2.90	11.43	7.47	8.11	9.05
Excess return (after fees) [‡]	0.97	3.98	6.55	3.01	-0.87	-0.72	0.48

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 Australian equities market performance fell in May on the back of the RBA's hawkish move and global growth factors including the U.S. debt ceiling debate and reports of weak growth out of China. The 10-year bond rate rose to 3.6% following the resumption of cash rate hikes.

The S&P/ASX 100 Index returned -2.4% for the month, taking its 12-month return to +3.4%. The broader S&P/ASX 300 Accumulation Index delivered a similar return of -2.5% for the month. Performance globally was also weak, with the MSCI World Index generating a -0.9% return.

Information Technology thrived (+11.4%) during May. One of the primary drivers was Xero (XRO, +17.8%) following its announcement of a strong result, with subscribers and revenue in line with expectations and EBITDA ahead of estimates. Wisetech (WTC, +9.2%) was another positive contributor for the period.

Utilities (+1.1%) also delivered positive returns during the period, led by AGL (AGL, +13.1%) as the market became increasingly comfortable with the electricity generator and energy retailer's near-term earnings outlook, supported by higher wholesale electricity costs.

By contrast, Consumer Discretionary (-6.4%) was among the worst performers during the month. Wesfarmers (WES, -8.3%) was a large detractor following concerns over tougher months ahead as household costs continue to rise. IDP Education (IEL, -22.5%) tumbled after the Canadian government's decision to widen access to its Student Direct Scheme, further pressuring the sector's performance during the month.

Consumer Staples (-4.9%) also underperformed in May, driven by Woolworths (WOW, -3.3%) and Treasury Wine Estates (TWE, -16.6%) which announced a 2-3% drop in sales (y/y). Materials (-4.2%) also underperformed as commodity prices declined across the board, with BHP (BHP, -5.4%) the worst performer and Fortescue Metals (FMG, -8.2%) and Newcrest Mining (NCM, -11.2%) also underperforming.

Portfolio review

Key Contributors

Xero (XRO, overweight) – the online accounting software provider outperformed during the month after announcing a solid result, with subscribers and revenue in line with expectations and EBITDA ahead of estimates. The result saw XRO's new CEO provide more detail about the company's shift towards more disciplined growth with an increased focus on yield as a growth lever along with subscriber growth.

Worley (WOR, overweight) – our overweight position in the leading provider of global engineering services was a source of outperformance in May. The company provided a strong operating update at its annual investor day, with leading indicators (Factored Sales Pipeline +36%, Rolling 12 Month Bookings +28%, Backlog +8%) all improving. Additionally, WOR reported 39% of revenue for the half was higher margin sustainability-related work. We expect revenue to grow 13-15% in FY23, with leading indicators (Factored Sales Pipeline +36%, Rolling 12 Month Bookings +28%, Backlog +8%) and structural drivers (capital investment required to decarbonise) pointing to strong top-line growth. 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.

NEXTDC (NXT, overweight) – following the announcement of its largest ever individual contract the previous month, the data centre provider continued to outperform as the market's conviction in Artificial Intelligence (AI) applications as a driver of demand growth grew. Most notably, global leading specialist chip maker Nvidia's commentary around AI driven demand growth supported previous comments made by NXT management.

Key Detractors

CSL (CSL, underweight) – our underweight to the globally focused biotechnology company detracted from performance in May, which coincided with the release of results from blood plasma peers Grifols and Takeda. These updates provided some supportive data points for the outlook for its blood plasma business, Behring (approximately 65% of CSL group earnings), in particular the return of donors to collection centres and moderating donor fees from peak levels. Nevertheless, there remain a number of more challenged aspects to the outlook for blood plasma economics, including elevated non-donor fee cost inflation, increased competition, adverse relative product growth rates and longer-term product substitution risk. Trading on 30.2-times forward P/E, we retain an underweight position.

Tyro (TYR, overweight) – the domestic payments provider underperformed in May after prolonged takeover negotiations came to an end. During the nine-month period that TYR has been under takeover, the stock has delivered four upgrades to its FY23 earnings guidance, demonstrating strong operating leverage and allaying prior concerns on the ability of the business to grow profitably. The stock now trades on 13.4 times FY24 EV/EBITDA which we regard as relatively undemanding given the company's growth profile

Sandfire Resources (SFR, overweight) – our overweight position in SFR was a portfolio detractor in May as copper prices declined 5% to close out the month at US\$3.68/lb. We like copper as a commodity given its leverage to electrification as a key material in batteries, electric motors and electricity grid infrastructure. During the month, SFR achieved first concentrate production at the Motheo project in Namibia which we regard as an important milestone. We expect that further de-risking during the ramp-up at Motheo, drilling

progress at MATSA, and our positive long-term outlook for copper markets will support future outperformance.

Key Purchases

Region (RGN) – we initiated a position in the suburban shopping mall owning REIT in the period. We believe RGN's retail asset base, which comprises 96 predominantly neighbourhood shopping centres, will prove to be resilient during the consumer downturn. This is supported by its high skew to supermarket/anchor tenant income (46% total Net Operating Income), affordable specialty rents (8.7% average occupancy cost) and high overall portfolio occupancy (98%). The stock valuation is attractive, at 0.95 times net asset backing and offering a 5.8% dividend yield.

Iluka Resources (ILU) – we increased our position in the mineral-sands producer during the period, reflecting solid structural support for key mineral sands commodities zircon and titanium dioxide as demand improves and existing mine supplies decrease. Currently the world's largest zircon producer and the fifth largest producer of titanium feedstocks, ILU is moving into Rare Earths production through the Eneabba refinery which is 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 significant strategic value in this part of ILU's business.

Chorus (CNU) – we established a position in the high-quality regulated telecommunications utility during the month, which trades on a 5.8% FY24 dividend. As the build out of CNU's fibre network comes to an end, CNU will move to strong free cash flow generation, with a balance sheet that is under levered vs target gearing, and strong line of sight on regulatory revenues. Based on current market metrics, CNU would earn a nearly 300bp higher regulatory return in the next regulatory period from July 2024, providing further upside to the medium-term dividend yield.

Key Sales

Evolution Mining (EVN) – we trimmed our position in the gold miner during the period. With gold prices trading above US\$2,000/oz during May, we now see less commodity price upside at these levels. As a result, we chose to reduce the size of the overweight position to the gold sector. We continue to favour EVN for its rapidly improving balance sheet and increasing free cash generation, while resource upside at Ernest Henry and further turnaround potential at Red Lake lend additional support to our positive view.

Northern Star Resources (NST) – we trimmed our position in the gold miner during the period as part of our decision to reduce our overweight to the gold sector. With gold prices trading above US\$2,000/oz during May, we see less commodity price upside at these levels. NST remains our preferred gold exposure given its asset quality and strong cost control. Aspirations to grow the business from current production of ~1.5Moz pa to >2Moz pa by 2026 are achievable

within the current portfolio led by the Thunderbox mill expansion project and improving grades at Pogo (Alaska).

Alumina (AWC) – we trimmed our position in the alumina refiner during the period as a funding source to increase our position in Iluka Resources (ILU). We continue to see upside risk to demand for alumina from China to supply its under-utilized aluminum smelters that have been operating below full capacity due to the combined impacts of weak demand from COVID lockdowns, and drought conditions. We expect increased industry activity and housing completions, coupled with normalising weather conditions, will support increased aluminum 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 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, with RWC's FY23 earnings estimates now lowered after recent market updates. We view RWC as a compelling opportunity; while the market is pricing for a significant decline in earnings (P/E of only 15.3 times vs 17.0 times mid-cycle), we remain constructive on the demand environment given the defensive nature of RWC's revenue base of which the majority relates to non-discretionary repair activity.

Worley (WOR) – we remain overweight the leading provider of global 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 +36%, Rolling 12 Month Bookings +28%, Backlog +8%) 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.

QBE Insurance Group (QBE) – the general insurer remains our preferred insurance exposure, which we expect will deliver strong earnings growth in 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.

Key Active Underweights

CSL (CSL) – we retain an underweight to the globally focused biotechnology company. 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 longer-term product substitution risk. While the more recently acquired business, Vifor (now approximately 15% of group

earnings) does provide differentiation, we view the business as lower quality than the core plasma franchise. Considering this operating outlook, we do not believe the current valuation (30.2 times forward P/E, 21.0 times EV/EBITDA) is overly attractive and maintain a preference for the global sleep-apnoea 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 normalisation in bad debt expenses, meaning sector EPS is likely to be at peak levels.

Macquarie Group (MQG) – we remain underweight the stock based on our view that 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 reflect a strong contribution from lumpy items including trading revenue in its commodities business, 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.

Market outlook

We have been of the view that the June quarter 2023 will mark the top of the interest cycle for most of the developed world, however, global central banks are seemingly prepared to continue hiking interest rates despite evidence inflation is moderating, lending availability tightened and economic growth is faltering. With respect to the latter, we have received confirmation that the Euro Area entered recession and the Federal Reserve staff have retained their forecast that a modest recession in the US is likely. Nevertheless, it seems the appetite for policy makers to persist with the tightening cycle into Q3 has remained, with central bankers seemingly perplexed at why services inflation has yet to ease and why the labour market has yet to ease appreciably. It is possible that a pause in the hiking cycle in June by the Fed will set the scene for a pause across most of the developed world, however, the risk of overtightening and even weaker economic activity is now a real prospect. We believe the US labour market is set to post more modest employment gains from mid-23 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 by the end of 2023. However, we have to acknowledge that the message from most central banks is that further hikes may be required and an interest rate easing cycle is not in prospect.

This weak economic growth narrative in concert with enthusiasm over the potential impacts from AI has seen large cap 'growth' stocks drive a narrow but strong equity market rally. This has largely hidden from view an ongoing negative earnings revision cycle which in concert with rising bond yields

is leaving aggregate markets valuations looking more challenging.

Economic growth has also slowed in Australia, recording just 0.3%qoq growth in the March quarter and much of this growth can merely be traced to strong population growth and ongoing engineering construction projects. It is clear the prior tightening of monetary policy is having a material impact on the interest rate sensitive parts of the economy. Nominal retail sales have slowed to 0% six-month annualised, following on from declining volumes in recent quarters. Building approvals continue to decline and are likely to decline further in coming months as declining housing affordability outweighs the impact of an under supplied housing market. Moreover, it is also clear that despite the Federal Budget forecast to return to surplus, that government demand growth is waning even faster than private demand growth.

Nevertheless, after describing the May decision to increase interest rates as finally balanced, the Reserve Bank of Australia (RBA) followed up with a further hike in June and has flagged that further tightening may be required. The RBA has clearly shifted its focus to worrying about weak productivity growth and high unit labour costs as the main reason for fearing inflation may be higher than it forecasts. We think this ignores the fact that average compensation per hour has not risen sharply, and the main reason for high unit labour costs is a surge in hours worked and employment as the influx in immigration is absorbed into a slowing economy. This shift in the RBA's focus risks a further hike in July or August, however, in our view the RBA would have been better served to pause after the May rate hike, rather than risking a harder economic landing.

Australia should still be able to avoid a technical recession due to four key reasons:

1. Australia has been a net beneficiary of global commodity shortages and the prior surge in commodity prices. Commodity prices are now off their peaks, and although they remain very elevated from a historical perspective, the impact of moving through the peak will be for nominal GDP growth will slow quickly over the next 6 months, removing some of the cushion that has protected corporate profits, tax receipts and wage growth.
2. The household sector continues to hold a significant buffer of excess savings which can be used to smooth consumption growth amid acute cost of living pressures. Nevertheless, our analysis suggests that the residual of the savings buffer skews to older households, leaving younger and more indebted households exposed. As such we remain particularly cautious on discretionary retail spending.
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. The limiting factor nearer term is that escalating costs and project delays risk pushing out the economic benefits.

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 has occurred in recent months, ensuring that Australia's population growth will exceed 2% in 2023. This will be the primary mechanism keeping Australia out of recession, yet it comes with the complication of exacerbating the rental shortage evident across all capital cities.

While the RBA has been later than most other developed nations we believe financial conditions are now firmly in the restrictive zone. 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. Surprisingly, the RBA cited the A\$ and house prices as a catalyst for the May rate hike, neither of which had risen materially. While interest rate hikes in Australia will remain a month-to-month proposition for the next six months, our bias is that the RBA should have concluded its hiking cycle yet an ever-shifting RBA framework suggest they may hike again in July or August. It is unlikely that policy easing will be delivered in 2023, however, we do expect that the RBA will commence a modest easing cycle in 1H24.

The A\$/US\$ had been under downward pressure as markets grappled with a seemingly more hawkish Fed and a relatively more dovish RBA. However, the RBA has recently sounded more hawkish than the Fed the A\$ has started to appreciate. 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 hiking strategy to an easing cycle in 2023, we expect the A\$/US\$ will appreciate to the mid-70s towards the end of 2023.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	11.90	4.18	7.72
Consumer Discretionary	7.70	6.44	1.26
Consumer Staples	2.46	4.89	-2.43
Energy	5.21	5.69	-0.48
Financials	20.31	27.12	-6.81
Health Care	4.43	10.57	-6.15
Industrials	9.61	7.13	2.48
Information Technology	9.09	2.47	6.62
Materials	24.21	23.81	0.40
Real Estate	0.88	6.18	-5.31
Utilities	3.06	1.52	1.54

Top 5 holdings

	Portfolio %	Benchmark %	Active %
BHP	10.10	10.16	-0.06
Commonwealth Bank of Australia	5.73	7.80	-2.07
Woodside Energy	5.21	3.11	2.10
Westpac Banking	4.49	3.46	1.03
Telstra	4.33	2.40	1.93

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Reliance Worldwide	3.38	0.16	3.22
Worley	3.04	0.29	2.75
QBE Insurance	3.69	1.04	2.65
Underweights			
CSL	1.70	7.05	-5.35
National Australia Bank	0.00	3.89	-3.89
Macquarie Group	0.00	2.96	-2.96

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	-1.86	-0.40	-6.21	-2.40
Distribution return	11.31	14.83	12.81	9.78

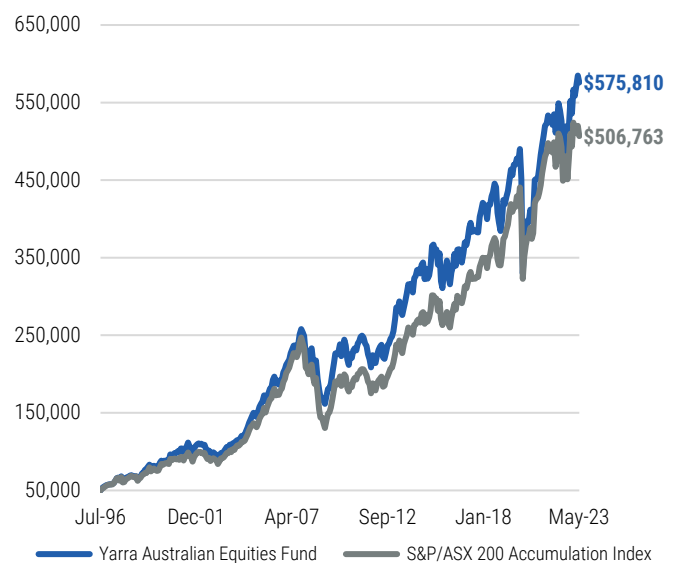
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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\$101.2 mn as at 31 May 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 May 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.

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