YARRA CAPITAL MANAGEMENT

Yarra Australian Equities Fund

Gross returns as at 30 November 2021

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Australian Equities Fund	-1.18	-2.07	16.80	10.66	8.96	10.14	10.69
S&P/ASX 200 Accumulation Index†	-0.54	-2.48	15.48	12.54	10.10	10.34	9.43
Excess return (before fees)‡	-0.64	0.41	1.33	-1.89	-1.15	-0.20	1.26

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 30 November 2021

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Australian Equities Fund	-1.25	-2.29	15.76	9.65	7.95	9.11	9.69
S&P/ASX 200 Accumulation Index†	-0.54	-2.48	15.48	12.54	10.10	10.34	9.43
Excess return (after fees)‡	-0.71	0.19	0.29	-2.89	-2.15	-1.23	0.26

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 proved more resilient than the global market in November as a new, potentially more transmissible COVID variant emerged.

The ASX 200 Accumulation Index declined 0.5% during the month, taking its 12-month return to +15.5%. Globally, equities declined late in the period (MSCI World Index -1.4% for November) as the latest COVID variant, labelled Omicron, drove uncertainty around the growth outlook. Further, persistent inflation in the US continued to stoke concerns about faster tapering and US interest rate rises.

At a sector level, Metals & Mining (+6.8%) provided the most support to the benchmark, led by a rally in iron ore miners Fortescue Metals Group (FMG, +22.1%), Rio Tinto (RIO, +3.6%) and BHP Group (BHP, +7.6%). Elsewhere, battery material producers Mineral Resources (MIN, +17.3%) and Lynas Rare Earths (LYC, +21.0%) also delivered strong returns.

Other positive sectors were Communication Services (+5.2%), Real Estate (+4.3%) and Consumer Staples (+4.5%). Defensive names such as Telstra (TLS, +6.5%), Goodman Group (GMG, +12.7%) and Woolworths (WOW, +7.2%) were the top performing stocks in their sectors.

Conversely, Energy (-8.3%) and Financials (-6.9%) were the worst performers. The former was weighed down by the oil price, with Brent Crude declining 15% to US$71/bbl. In the latter, Westpac Bank (WBC, -17.9%) was largely responsible after delivering a disappointing FY21 result.

Portfolio review

Key Contributors

Link Administration (LNK, overweight) – the share registry company outperformed after receiving several takeover offers during the period and giving a positive trading update. US-based Carlyle group returned with a $5.38 per share offer, which included a cash component for the base business and a pro-rata distribution of LNK's PEXA stake. Meanwhile, LNK received two bids for its Banking and Credit Management (BCM) business. The second offer – at €65m – came from Ireland-based LC Financial Holdings. LNK also gave a trading update during the period, reaffirming full-year guidance and commenting that year-to-date trading has been ahead of expectations. We remain overweight as the corporate activity supported our view of the latent value in the business. We hold a positive view of PEXA premised on the 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.

James Hardie (JHX, overweight) – the building materials company outperformed following a better-than-expected 2Q22 result. While earnings for the period were in line with forecasts, management raised FY22 NPAT guidance by 3.5% at the midpoint, driven by better pricing and strong cost management in the face of higher inputs such as pulp. We remain overweight the high-quality building materials company. The result highlighted JHX's 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. Lastly, we view JHX's valuation as attractive at 25.3 times forward earnings, below the Industrial ex-Financials at 28.6 times despite the stock's superior growth outlook.

Afterpay (APT, underweight) – the payment solutions provider underperformed during the period without any material news. We remain underweight following US-based Square's proposed takeover of the company, as we see better opportunities elsewhere. Our original underweight thesis was based on the prospect of heightened regulation (e.g. expense verification), increased competition and the sustainability of the company's attractive margins.

Key Detractors

Westpac Bank (WBC, overweight) – the bank underperformed following a disappointing FY21 result. Pre-provision profit for the second half came in 17% below consensus forecasts, driven by lower margins and higher costs. Revenue pressures in the half were extreme and we expect to moderate going forward with asset growth restarted and NIM now rebased. Further, whilst we do not expect WBC to meet its $8bn FY24 cost target, progress on cost out should go a long way towards stabilising pre provision earnings and restoring confidence in what is otherwise a strong, consumer-oriented franchise. In this context we view WBC's forward earnings multiple of 12.5 times (a 14% discount to the sector) and 4.9% dividend yield as attractive.

Tyro Payments (TYR, overweight) – the company underperformed after providing a confusing trading update at its AGM during the period. While gross profit was below expectations (YTD +14%), the company did not properly explain that this stemmed from one-off issues (i.e. lockdowns) and, moreover, the way it was reporting the contribution from the Bendigo Bank Alliance (that came into effect in June 2021). While the result was still disappointing, we believe the stock was oversold and remain overweight. As the lead provider of software that allows payment terminals to be integrated into point-of-sale (POS) systems, TYR remains in a defendable position versus peers such as the banks which rely on a clunky intermediary. Moreover, short-term headwinds are more than reflected in TYR's valuation, with the stock trading at 2.8 times forward sales – a significant discount to technology peers.

Fortescue Metals Group (FMG, underweight) – the iron ore miner rallied during the period, partially retracing prior underperformance despite the iron ore price continuing to decline from elevated levels (-7% to US$100/t). We remain underweight FMG based on its stretched valuation metrics and our view that current iron ore prices are unsustainable. We prefer exposure to iron ore through BHP Group (BHP), which has a diversified portfolio (with latent value in its other commodity exposures) and a clear strategy of capital allocation.

Key Purchases

Insurance Australia Group (IAG) – we established a position in the insurer during the period for several reasons. We took advantage of recent underperformance, which reflected IAG enduring an unusually high level of mid-sized events FYTD (at ~8 times normal losses). As a result, the stock was trading at a 20% discount to the ASX 200 on FY23 earnings, well below its long-run average of -2%. While we acknowledge the structural pressure on catastrophe allowances and that IAG will need to increase its loss estimates going forward, we believe this is mostly captured by consensus. Further, IAG has $1.15bn of business interruption reserves, most of which we believe will not be required – putting the company in a strong capital position. With $12.5bn in policyholder and shareholder funds, IAG also has significant positive interest rate leverage: every 10 bp increase in base rates translates to a 1% increase in NPAT.

Qantas (QAN) – we increased our position in the airline during the period. Our positive view is predicated on QAN emerging from COVID with a significantly improved industry structure and more competitive cost base in both its domestic and international businesses. We are particularly optimistic on the domestic side of the business, where we expect the improved industry structure, operating leverage and cost out initiatives to drive significant earnings upside versus consensus forecasts. We expect relative multiples to retrace to historic averages as confidence in the recovery builds (trading at or above pre-COVID multiples on normalised earnings).

Alumina (AWC) – we increased our position in the alumina producer during the period. We expect global aluminium demand to continue to improve as the Transportation sector recovers and, more broadly, the drive to decarbonise increases demand for the lightweight metal. More broadly we continue to hold a positive view of AWC's high-quality assets and strong earnings, cash flow and capital management potential. As a result, we see its valuation (at a forward P/E of 10.6 times with a 9.3% forecast dividend yield) as attractive.

Key Sales

Iluka Resources (ILU) – we exited our position during the period. We are cautious about the company's operating outlook as developments in China's real estate industry slows from elevated levels, which we believe is not fully reflected despite its headline valuation multiple (forward EV/EBITDA of 4.7 times. We regard the industry structure as attractive (consolidated supply), with less pricing volatility compared to previous cycles. Our preferred mining exposures at this time

include BHP Group (BHP), IGO Limited (IGO) and Alumina (AWC).

Lendlease (LLC) – we exited our position in the property group during the period in response to greater uncertainty over the outlook and to fund more compelling, near-term opportunities elsewhere. LLC's strategy targets have been pushed out to FY24 (from FY23/24 previously) as COVID continues to impact LLC's real estate markets, particularly its UK developments, and the new chief executive reset earnings expectations with a more conservative approach to profit recognition.

ANZ Bank (ANZ) – we reduced our position following its FY21 result late in the prior month, using the proceeds to establish a position in insurer Insurance Australia Group (IAG). While we remain overweight ANZ based on its attractive valuation versus National Australia Bank (NAB) and Commonwealth Bank (CBA), we are now underweight the sector with a clear preference for insurers. With negative bad debts, banks are at peak earnings while insurers have experienced two years of trough earnings. Moreover, domestic personal lines insurers operate in a more favourable industry structure, while the Banking sector faces a deterioration in consumer-orientated lines, with declining front book share and pricing power. While both sectors are leveraged to higher interest rates, we view the leverage as much higher and clearer for insurers.

Key Active Overweights

Aristocrat Leisure (ALL) – our investment thesis is based on our positive view of, amongst other factors, its recent acquisition, London-based Playtech. By acquiring Playtech, ALL gains access to Real Money Gaming (RMG) – a market which has a strong growth outlook, particularly in the US as the country legalizes the practice state by state. Moreover, RMG is an obvious extension for ALL: it provides an additional channel to sell its best-in-market slot content in the US and leverages its strong relationships with casinos. Outside of the acquisition, 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. Lastly, the stock screens as undervalued at 26.2 times forward earnings when considering the Industrials Ex-Financials trades at 28.6 times and ALL's superior long-term growth potential.

Link Group (LNK) – we are overweight the company because we continue to 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 20.0 times forward earnings, an attractive discount to peer Computershare (CPU) at 23.0 times.

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 (39.2 times P/E and 26.4 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 14.1 times forward earnings, above peer ANZ (at 12.3 times forward earnings) and Westpac Bank (WBC) at 12.5 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 are 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 19.9 times consensus forward earnings as unattractive.

Market outlook

We expect the Australian economy to continue to rebound in the short-term, following a better-than-expected contraction in 1Q21 amid COVID-related lockdowns in Melbourne and Sydney.

Notwithstanding the ongoing risk from new variants such as Omicron, we believe interruption to economic growth from renewed lockdowns will be an aberration within an improving trend. Indeed, the fundamentals that will drive the economic recovery remain in place. The recovery in labour market income has been sufficient to offset the gradual withdrawal of temporary fiscal support. Moreover, the accumulation of an estimated $185bn in excess household saving, in concert with strong asset price gains, leaves the consumer uniquely positioned to underpin economic growth in 2021- 2022. Dwelling investment is set to provide solid support for economic growth over the next six months as previously approved housing moves through the construction phase, and a broader-based lift in business investment expectations is an

important step in ensuring a sustained economic recovery. We expect the global economy to expand 6% and the Australian economy to expand 4.5% in 2021. We expect another strong year of economic growth in 2022 of 4.0%.

Nevertheless, there are some areas that are cause for concern. For over 12 months we have warned about rising US inflation pressures and rising inflation expectations. However, 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 its bond purchases, we expect bond yields will move higher through the remainder of 2021. We expect US 10-year yields to approach 1.80% by the end of 2021, providing some ongoing challenges for risk assets in Q4.

The A$/US$ has recently been buffeted by concerns of a peak in global industrial growth indicators, slowing China economic momentum and recent declines in iron ore 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 global reflationary forces through 2021-22. We expect the A$/US$ to finish the year in the 76-78c range and remain around that level through 1H22.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	13.99	4.52	9.47
Consumer Discretionary	8.92	8.27	0.65
Consumer Staples	1.29	5.36	-4.06
Energy	1.80	2.92	-1.12
Financials	24.86	29.07	-4.21
Health Care	6.64	10.73	-4.08
Industrials	7.82	7.19	0.63
Information Technology	7.73	4.58	3.16
Materials	21.45	18.58	2.87
Real Estate	1.57	7.42	-5.86
Utilities	2.18	1.37	0.81

Top 5 holdings

	Portfolio %	Benchmark %	Active %
BHP	7.44	5.67	1.76
Commonwealth Bank of Australia	6.64	7.78	-1.14
Westpac Banking	5.68	3.68	2.00
ANZ Banking	5.35	3.72	1.63
Aristocrat Leisure	5.13	1.45	3.69

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Aristocrat Leisure	5.13	1.45	3.69
Link Administration	3.51	0.13	3.38
TPG Telecom	2.91	0.12	2.78
Underweights			
CSL	1.89	6.83	-4.94
National Australia Bank	0.00	4.41	-4.41
Macquarie Group	0.00	3.41	-3.41

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	-3.61	-6.75	-3.74	0.03
Distribution return	19.38	16.40	11.69	9.09

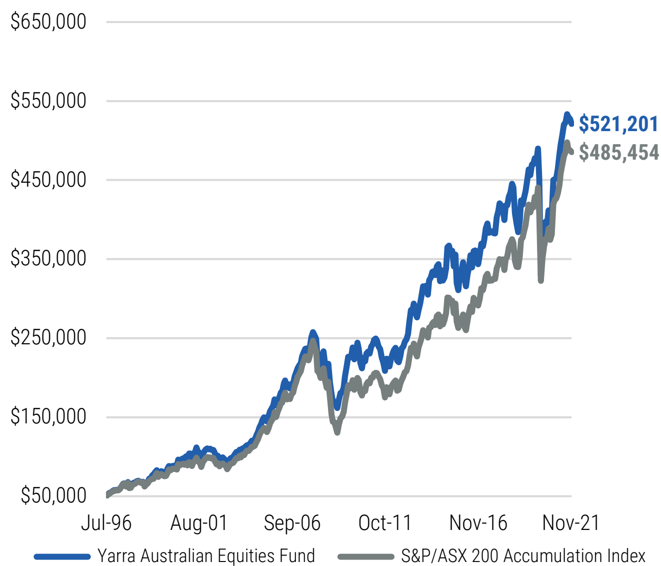
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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$101.7 mn as at 30 November 2021	
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 November 2021.



For illustrative purposes only. Past performance does not guarantee future results, which may vary. The total net fund returns shown are prepared on an exit to exit basis (i.e. they include all ongoing fees and expenses and assume reinvestment of all distributions). They do not take personal taxation into account. The comparison with the S&P/ASX 200 Accumulation Index is for comparative purposes only. Index returns do not allow for transactional, management, operational or tax costs. An index is not managed and investors cannot invest directly in an index. Note that the minimum initial investment amount for the Yarra Australian Equities Fund is $10,000.

Applications and contacts

Investment into the Yarra Australian Equities Fund can be made by Australian and New Zealand resident investors only.

Website www.yarracm.com

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