

Yarra Australian Equities Fund

Gross returns as at 30 September 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	-6.78	0.68	-7.84	1.89	5.77	8.31	10.05
S&P/ASX 200 Accumulation Index†	-6.17	0.39	-7.69	2.67	6.76	8.41	8.81
Excess return (before fees)‡	-0.60	0.29	-0.16	-0.77	-0.99	-0.10	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 30 September 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	-6.85	0.45	-8.66	0.98	4.80	7.30	9.05
S&P/ASX 200 Accumulation Index†	-6.17	0.39	-7.69	2.67	6.76	8.41	8.81
Excess return (after fees)‡	-0.67	0.06	-0.98	-1.69	-1.96	-1.10	0.25

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 was flat in the September quarter with the Energy, Healthcare and Information Technology sectors recording a positive return.

The S&P/ASX 200 Accumulation Index returned 0.39% for the quarter, taking its 12-month return to -7.69%. Globally, the MSCI World Index fell -15.7%.

Within Energy (+5.9%), coal producers continued to rise in value amid the global energy crisis, with thermal coal reaching an all-time high of US\$457/t during the quarter. Whitehaven Coal (WHC) climbed +95.6%, New Hope Corporation (NHC) lifted +81.8% and Paladin Energy (PDN) gained 30.1%.

Within Information Technology (+2.9%), Life360 (360, +87.3%) outperformed during the quarter following a rebound in the tech sector. Megaport (MP1, +42.9%) outperformed during the period after reporting a stronger than expected June quarter result across revenue growth (+10%) (q/q) and its first EBITDA positive quarter.

Conversely, the worst performing sectors included Utilities (-12.5%) and Real Estate (-6.2%). In particular, AGL Energy (AGL -16.0%) and APA Group (APA, -14.9%) and Real Estate companies Dexus (DXS, -13.1%) and Centuria Capital Group

CNI, (-15.2%) declined in response to ongoing interest rate rises.

Portfolio review

Key Contributors

OZ Minerals (OZL, overweight) – the copper miner was a positive contributor to the portfolio during the month following BHP's \$25/share takeover offer for the company. The offer represented a 32% premium to prior close. With the OZL board rejecting the initial offer, we recognize the potential for BHP to return with a higher bid. The potential for a counterbidder to emerge is limited, in our view, given BHP's significant regional synergies with Oz Minerals. We retain our fundamental positive view on OZL due to its 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 the company develops the greenfield West Musgrave copper/nickel deposit in Western Australia.

Tyro (TYR, overweight) – the payments technology company outperformed during the quarter after receiving a bid from a private equity firm Potentia at \$1.24, a 31% premium to the prevailing share price pre bid. We view the timing of the bid as

highly opportunistic and the price as dramatically undervaluing the business. TYR's result and guidance during the quarter demonstrated that cost discipline is being instilled in the organisation and that the revenue line continues to grow strongly.

IGO (IGO, overweight) – the battery commodity producer was a key contributor during the period on continued lithium price strength ahead of consensus forecasts. Our positive thesis is premised on the miner's US\$1.4bn Greenbushes and \$A1.25bn Western Areas (WSA) acquisitions, and its existing portfolio of high-quality assets. We support the acquisitions for several reasons. Greenbushes gives IGO exposure to a high-quality, long-dated asset (>20 years mine life) and completes IGO's suite of battery commodities with the company already producing nickel, copper and cobalt. We support the WSA acquisition on the grounds it diversifies production (rebalancing commodity exposure to 70% Li, 30% Ni) and extends the mine life for nickel production (which is currently through its world-class Nova asset).

Transurban (TCL, underweight) – the toll road company underperformed during the period, following a soft results announcement in which FY23 dividend guidance disappointed relative to expectations and forward dividend expectations were rebased lower. Rising real rates and the likelihood that TCL will see its average interest rate increase over time further pressured the stock.

Northern Star (NST, overweight) – the company's ability to maintain cost control remains in contrast with peers Newcrest (NCM) and Evolution Mining (EVN), with FY23 cost guidance implied inflation pressures are expected to remain lower than peers (+6% at the mid-point). We believe the company's ownership of power assets in Kalgoorlie, coupled with its lack of exposure to Australia's east coast power market – in contrast to NCM and EVN – are key differentiators for NST.

Key Detractors

Link Group (LNK, overweight) – the superannuation admin and property technology company fell materially in the quarter following its takeover by Dye & Durham being scuppered at the eleventh hour by the UK's Financial Conduct Authority (FCA). The FCA has imposed an £50m fine on LNK's UK Fund Solutions business and a potential restitution payment of up to £306m for the Woodford issue which has been under investigation since 2019. Despite the uncertainty this creates, we still see considerable value in LNK and a pathway to crystallising this value with the announced demerger of its stake in PEXA an appropriate first step.

Atlas Arteria (ALX, overweight) – the toll road operator underperformed following the announcement of the acquisition of the Chicago Skyway toll road and a \$3b associated capital raising at \$6.30, a 19% discount to the pre-deal share price. This was unquestionably a negative development given ALX was being actively pursued by suitor IFM who had built a stake at \$8.10. ALX have paid a very full price for the asset and the transaction has lowered our valuation for the stock, although the transaction itself does not rule out IFM returning with another bid.

TPG Telecom (TPG, overweight) – the Australian telco underperformed during the period following a slightly disappointing (4% miss at the EBITDA level) FY22 result. We retain a positive view on the company given the mobile market is becoming more rational supporting repricing. As the value brand, TPG can gain market share and as technology shifts towards fixed wireless and fibre to the basement this will favour TPG. We expect the momentum in the business to continue improving through FY23 and the valuation remains attractive at 7.5 times EV/EBITDA.

NEXTDC (NXT, overweight) – the data centre operator underperformed the market during the quarter, despite reporting a solid result and upbeat outlook at the end of the period. We believe the high recurring nature of NXT's revenues, its infrastructure like characteristics and tangible asset base are attractive. NXT has been excessively discounted and we see no diminution to its growth trajectory. NXT trades on 20.8 times Financial Year 2024 EV/EBITDA, which compares favourably to more mature global peers.

Reliance Worldwide (RWC, overweight) – the plumbing supplies company underperformed during the period following weaker than expected US volume trends in 4Q22 and in the month of July 2022 while inventory levels rose +62% to \$120m. The market is showing concern for a falling demand environment and FY23 estimates were lowered after the August result. We think RWC is a compelling opportunity with the market pricing for a significant decline in earnings (P/E of only 13 times vs 17 times mid cycle) while we remain constructive on the demand environment given the defensive nature of the majority of the company's repair and remodelling sales.

Key Purchases

United Malt (UMG) – we initiated a position in the fourth largest commercial maltster and international distributor to brewers and distillers following its downgrade and Investor Day in early August. The company detailed its plans for a strong recovery in earnings (+44% in FY23, +29% in FY24) off a cyclical low in FY22. The company also detailed its pathway to reduce financial leverage, largely through earnings recovery, which has been weighing on UMG's share price. We estimate the company was trading close to the replacement cost for the processing assets and trade working capital. Following a rebound in earnings, UMG should attract a much higher multiple reflecting the value of the operating business.

Nine Entertainment (NEC) – we added to our position in the media company reflecting our constructive outlook for advertising spend, and NEC's ability to grow higher-margin digital revenues in a potentially softer environment. The company's sell off CYTD in part reflects the sell-off in Domain (DHG), which is 59% owned by NEC. The sell-off in both companies placed NEC, excluding DHG, on a 3.9 times FY23 EV/EBITDA multiple which we regard as attractive for a leading media company which is diversifying its revenue streams to be less cyclical, driven by higher margin digital revenues.

Reliance Worldwide (RWC) – we added to our position in the plumbing supplies company over the period. RWC has sold off significantly on fears of a weaker demand environment ahead.

We think RWC is a compelling opportunity with the market pricing for a significant decline in earnings (PE of only 13 times vs 17 times mid cycle) while we remain constructive on the demand environment given the defensive nature of the majority of RWC's repair and re-modelling sales.

Key Sales

Amcor (AMC) – we exited our position during the period. The company was added to the portfolio in December 2021 to provide a defensive position leading into what we thought would be a risk-off environment. Following the sell-off and our view eventuating, we exited our position to fund more attractive opportunities for the period ahead.

Latitude Financial (LFS) – the portfolio's position in the payments solutions company was exited during the period. LFS has consistently missed operating and earnings targets since the IPO and faces an urgent need to innovate around its core consumer facing businesses. The exit of the CEO further lowered confidence in the outlook for the company.

BHP Group (BHP) - we reduced our position in the miner during the period. We continue to view BHP more favourably than peers Rio Tinto (RIO) and Fortescue Metals (FMG), but valuation support has narrowed. A robust balance sheet, coupled with a well-defined capital allocation strategy is attractive. However, we are increasingly negative towards the outlook for iron ore on the grounds China's property sector faces significant challenges, impacting demand for steel and hence iron ore. The recent fall in iron ore prices will likely continue into FY23, with prices still well above cost curve support in our view. BHP's high correlation to iron ore prices will be a headwind in the near term as a result. Cost inflation for key inputs including power, diesel and labour will likely further weigh on near-term margins.

Key Active Overweights

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 regard ALL's valuation as undervalued at 19.2 times forward earnings (below the Industrials Ex-Financials multiple) and ALL's superior long-term growth potential.

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 the infrastructure-like characteristics of its property settlement exchange upon maturity, supplemented by numerous growth opportunities in immediate adjacencies.

Reliance Worldwide (RWC) – we regard the plumbing supplies company as a compelling opportunity, with the market pricing for a significant decline in earnings (P/E of only 11.4 times) while we remain constructive on the demand environment (both in the trough and longer term) given the defensive nature

of the majority of the company's repair and remodelling sales; these sales represent 80% of group revenues and are not tightly correlated with the housing sector.

Key Active Underweights

CSL (CSL) – we remain underweight CSL based on the challenge the business faces returning to pre-COVID profitability, coupled with its forward valuation (32.3 times P/E and 19.2 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 from a plasma collection perspective, 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 and other collection centre costs 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, due to our negative sector view. Favourable dynamics of excess provisions and capital are now well understood, while low bad debts and significant buybacks have seen the sector trade around peak multiples versus pre-provision earnings. We believe consensus estimates for pre-provision forecasts are too high and see material earnings pressure emerging as bad debt expenses normalise. We hold small overweight positions in Westpac Bank (WBC) and ANZ Bank (ANZ), where the valuations are more supportive at current 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 see 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 business to be able to offset this. As a result, we regard MQG's headline forecast P/E multiple of 14.9 times consensus forward earnings as unattractive.

Market outlook

Financial markets have now embraced the risk of recession in the US and Europe over the past quarter, and the gap between our more pessimistic forecasts for the global economy and the consensus has narrowed. Indeed, with the Fed signalling that financial conditions are close to neutral, we are edging closer to the point where the pace of monetary tightening will slow, providing some scope for risk markets to recover some lost ground.

The period of excess inflation is starting to recede, with prior surges in commodity prices retreating, an easing in supply constraints, and signs of slowing demand likely to compress elevated sales margins. As central banks continue to await firmer signs that inflation expectations have stabilised and for labour demand to ease, financial markets are faced with the

positive news of less restrictive monetary policy and the negative news of likely weaker company earnings.

In a world of heightened concerns of recession in major developed economies, subdued economic activity in China and ongoing conflict between Russia and the Ukraine which has contributed to commodity shortages, high inflation and rising interest rates, the Australian economy presents as a relative safe haven.

Australia's economic data has remained robust in 1H2022, although we do expect economic activity to slow significantly in 2023 to average just 1.5%. While a local recession is possible in 2023, we believe Australia should be able to avoid a technical recession due to three 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 1H2022. The consequence has been strong national income growth, profits growth and an improving underlying fiscal position.
2. The household sector continues to hold a significant buffer of over \$160bn 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.
3. Low levels of spare productive capacity, strong profit and low corporate debt have contributed to robust capital investment intentions.

Over the medium term we believe a recovery in net immigration levels into Australia and Australia's exposure to key commodities crucial to the global energy transition will provide a solid underpin for future economic growth.

While the 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. We expect that the RBA cash rate will finish the year at 3.10%, which we expect will mark the peak for the RBA, well below market expectations of a 4.0% peak in 2H23. The A\$/US\$ has been particularly weak in recent weeks, albeit on a TWI basis the A\$ has been broadly stable. With Australia's external accounts are in their best position since the early 1970s and the prospect the US\$ uptrend will peak as the Fed pivots from its aggressive hiking strategy we expect the A\$/US\$ will appreciate to the mid-70s by end-2023.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.15	3.96	8.19
Consumer Discretionary	9.49	6.36	3.13
Consumer Staples	1.54	5.07	-3.53
Energy	6.38	6.31	0.07
Financials	21.00	28.48	-7.49
Health Care	4.82	10.51	-5.69
Industrials	7.79	5.78	2.01
Information Technology	8.36	2.82	5.54
Materials	22.15	23.43	-1.28
Real Estate	0.00	6.02	-6.02
Utilities	1.94	1.27	0.67

Top 5 holdings

	Portfolio %	Benchmark %	Active %
BHP	9.04	10.17	-1.13
Commonwealth Bank of Australia	6.46	8.07	-1.61
Westpac Banking	5.45	3.77	1.69
Telstra	4.26	2.32	1.94
Aristocrat Leisure	3.95	1.14	2.81

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Aristocrat Leisure	3.95	1.14	2.81
Link Administration	2.68	0.08	2.60
Reliance Worldwide	2.72	0.14	2.58
Underweights			
CSL	1.93	7.16	-5.23
National Australia Bank	0.00	4.77	-4.77
Macquarie Group	0.00	2.89	-2.89

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	-17.89	-12.03	-7.78	-2.39
Distribution return	9.23	13.01	12.58	9.69

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\$93.4 mn as at 31 August 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 September 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.

Website www.yarracm.com

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