

# Yarra Emerging Leaders Fund

## Gross returns as at 30 April 2021

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Emerging Leaders Fund	3.17	6.80	37.52	10.39	9.45	11.28	11.64
Emerging Leaders Combined Benchmark†	5.13	7.05	42.70	10.30	12.40	7.93	7.62
Excess return (before fees)‡	-1.96	-0.25	-5.18	0.09	-2.96	3.36	4.02

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 management costs, meaning they do not reflect the deduction of any investment management fees and expenses 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 April 2021

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Emerging Leaders Fund	3.07	6.48	35.82	9.03	8.09	9.91	10.34
Emerging Leaders Combined Benchmark†	5.13	7.05	42.70	10.30	12.40	7.93	7.62
Excess return (after fees)‡	-2.07	-0.57	-6.87	-1.28	-4.31	1.98	2.72

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\* Inception date Yarra Emerging Leaders Fund: September 1997

† Comprising 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries Accumulation Index

‡ Excess return: The difference between the Fund's return and the benchmark return.

### Market review

Australian small and midcaps outperformed large cap peers in April as Tech, Industrials and miners supported returns.

The Emerging Leaders Benchmark returned +5.1% for the month, taking its 12-month return to +42.7%. The index outperformed the broader ASX300, which returned +3.7% during the period.

Gold (+13.3%) and Information Technology (+8.6%) were the top performing sectors as the 'reflation trade' partially reversed, with the Australian 10-year bond yield falling 10 bps to 1.69%. Within the former, De Grey Mining (DEG, +48.2%) and Chalice Mining (CHN, +32.9%) released promising drilling results. Within tech, top performers included NEXTDC (NXT, +11.2%), Altium (ALU, +12%), Megaport (MP1, +29.7%) and EML Payments (EML, +16.5%).

Elsewhere, lithium miners rallied heavily, led by Galaxy Resources (GXY, +55.3%) and Orocobre (ORE, +41.8%) as the two companies announced a \$4bn merger during the period. Within Industrials, waste management company Cleanaway Waste Management (CWY, +29.5%) outperformed after it announced the acquisition of Suez's recycling and recovery business in Australia for \$2.5bn.

Conversely, Energy (-6.2%) and Consumer Staples (-1.5%) weighed on the benchmark. In the former, coal miners Whitehaven Coal (WHC, -27.5%) and New Hope Corporation (NHC, -15.5%) declined over production issues and ongoing negative sentiment towards thermal coal. In the latter, China-exposed companies Blackmores (BKL, -10.2%) and Bubs Australia (BUB, -10.9%) were the worst performers.

### Portfolio review

#### Key Contributors

**IGO Limited (IGO, overweight)** – the diversified miner outperformed after announcing the sale of its 30% stake in the Tropicana gold mine to Regis Resources (RRL) for \$903mn and delivering a solid 3Q21 production result, with the Nova mine's production and costs broadly in line with consensus estimates. Investors remained focused on its Greenbushes lithium acquisition, which is expected to be finalized by May-end. Our overweight position is premised on the acquisition, which gives IGO exposure to a high-quality, long-dated asset (>20 years mine life) and completes its suite of battery commodities with the company already producing nickel, copper and cobalt. We also think the purchase price was reasonable, with Greenbushes likely to be NPV and EPS accretive by FY23. We also hold a positive view of IGO's Nova asset – a world-

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class reserve which supports an increasing production profile.

**Oil Search (OSH)** – the oil & gas company underperformed after a disappointing 1Q21 production result, with sales volumes and realised LNG pricing coming in below market expectations. We remain underweight OSH because we believe the sheer size of its growth projects (the Pikka project in Alaska alone is worth more than \$US1.5bn to OSH just for phase 1) and levered balance sheet (at 40% gearing) will be an ongoing constraint on its growth aspirations. If OSH fails to sell down its stake in the Alaska project, the development will be impacted or, worse, lead to further equity dilution or the sell-down of equity in its world-class PNG LNG asset.

**Challenger (CGF)** – the annuity company underperformed following a disappointing 3Q21 update. Management reduced FY21 NPAT guidance to the bottom end of its \$390-440mn range, with tightening credit spreads more than offsetting strong sales for 3Q21 in the Australian Retail & Institutional portfolios. We remain underweight the portfolio based on its current valuation (at 12.3 times forward earnings), which in our view appropriately balances the company's long-term growth thematic with an increasingly challenging macro environment.

### Key Detractors

**Beach Energy (BPT)** – the oil & gas company underperformed following its FY21 production downgrade (from 27.MMMboe at the midpoint to 25.5MMboe), its 35% reduction in its Western Flank Reserves and the abandonment of its five-year production outlook. We see limited upside to BPT at current levels and have largely exited the position. In our view the stock's risk profile has increased substantially. With the ongoing production decline (and asset impairment) likely at the Western Flank, a higher reliance on growth projects (Waitsia, Otway) to bridge the production gap and, lastly, damaged management credibility following the update, we see better opportunities elsewhere.

**TPG Telecom (TPG, overweight)** – the telco underperformed as the surprise resignation of the Chair, announced late in the previous month, continued to weigh on the stock. Despite the lack of clarity around the circumstances of his resignation, we remain overweight the stock. Our positive view remains premised on 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 via new products such as Fixed Wireless.

**Link Group (LNK)** – the company underperformed after the PEP/Carlyle consortium walked away from its takeover offer. The decision, in our view, highlights that the consortium was interested in the whole business, not only base share registry business, which was looking increasingly unavailable as LNK pursued the IPO or trade

sale process for PEXA. We remain overweight the company based on our positive view of the dual-track process, which we believe will unlock value for both businesses. Our positive view of PEXA is premised on infrastructure like characteristics of the property settlement exchange upon maturity supplemented by numerous growth opportunities in immediate adjacencies. Excluding PEXA, LNK trades at a forward P/E of 10-11 times, a substantial discount to peer Computershare (CPU) at 20.6 times.

### Key Purchases

**Megaport (MP1)** – we established a position in the telecommunications infrastructure business during the period. We see MP1 as a beneficiary of the shift to public cloud infrastructure and are attracted to its double-digit earnings growth outlook following COVID-related disruption, with the strong pipeline in its key US geography as businesses invest in IT projects following government stimulus. The company is also broadening its product suite, which we believe will further expand the market opportunity. We do not believe MP1's strong growth outlook is reflected in its share price.

**Pinnacle Investment Management (PNI)** – we increased our position in the investment manager during the period. We continue to see PNI as a high-quality company with further upside potential. The asset manager now trades at a 12-month forward P/E of 30.2 times, which partially factors in its superior growth versus the wider sector and the high level of growth investment captured in earnings. In the long term we continue to expect new strategies and managers, as well as underlying growth in existing managers, to drive double digit earnings growth.

**Nearmap (NEA)** – we increased our position in the aerial mapping solutions company during the period. We expect strong double-digit revenue growth in the coming years as NEA consolidates its expansion into North America, a market that is 10 times the size of Australia and which is forecast to grow at higher rates. The company's business model is highly attractive, with high recurring revenue, approximately 50% cash margins and low customer churn.

### Key Sales

**Beach Energy (BPT)** – we reduced our position in the oil & gas producer in response to its disappointing update during the period, retaining a small residual position. We see limited upside to the stock at current levels following its FY21 production downgrade (from 27.MMMboe at the midpoint to 25.5MMboe), its 35% reduction in its Western Flank Reserves and the abandonment of its five-year production outlook. Further, the stock's risk profile has increased substantially. With the ongoing production decline (and asset impairment) likely at the Western Flank, a higher reliance on growth projects (Waitsia, Otway) to bridge the production gap and, lastly, damaged management credibility following the update, we see better opportunities elsewhere.

**Vocus Group (VOC)** – we reduced our position as the telco traded within range of the \$5.50 per share takeover offer from the Aware Super / MIRA consortium. We remain overweight, as we view the offer as credible, and are more optimistic it will result in a binding offer following management's recent improvements. The management team has made significant progress in integrating and simplifying the various acquired businesses, unifying its product offering and increasing customer product penetration – driving significant longer-term revenue and margin opportunities.

**Healius (HLS)** – we reduced our position following recent outperformance but remain overweight the company. We hold a positive view of its pathology and diagnostic imaging divisions and continue to regard its valuation as supportive. The sale of the medical centre business last year enables management to focus on and invest in the pathology, day surgery and diagnostic imaging businesses, which are return on invested capital (ROIC) accretive and have significant margin opportunities. We do not believe this is captured by consensus, with HLS trading at 21.8 times forward earnings – well below the Industrials ex-Financials Index at 28.2 times.

### Key Active Overweights

**IGO Limited (IGO)** – our high-conviction overweight position is premised on the miner's recent US\$1.4bn Greenbushes acquisition and its existing portfolio of high-quality assets. We support the acquisition for several reasons. Not only does it give IGO exposure to a high-quality, long-dated asset (>20 years mine life), but it also completes IGO's suite of battery commodities with the company already producing nickel, copper and cobalt. We also think the purchase price was reasonable, with Greenbushes likely to be NPV and EPS accretive by FY23. We also hold a positive view of IGO's Nova asset – a world-class reserve which supports an increasing production profile – and expect its Tropicana gold asset to be divested in the short term, supporting the balance sheet.

**Link Group (LNK)** – we remain overweight the company because we continue to see compelling value in its base share registry business and electronic conveyancing business PEXA. Notwithstanding the PEP/Carlyle consortium walking away from its takeover proposal, we continue to see value in LNK's dual-track process for a trade sale of PEXA or an IPO. Our positive view of PEXA is premised on infrastructure like characteristics of the property settlement exchange upon maturity supplemented by numerous growth opportunities in immediate adjacencies. Excluding PEXA, LNK trades at a forward P/E of 10-11 times, a substantial discount to peer Computershare (CPU) at 20.6 times.

**CSR (CSR)** – we believe the company is in a strong position to benefit from Australian residential construction returning to mid-cycle levels. We expect its Building Materials division (75% of group EBIT) to drive better-than-expected earnings in FY21 as a result of the improving Australian housing

market, in particular from higher additions and alterations (A&A) activity, continued share gains and cost control initiatives. We expect this to support CSR's already strong balance sheet (with net cash of >\$150mn), supporting the outlook for further capital management initiatives following the special dividend in 1H21. Lastly, we find the valuation as attractive at 19.0 times forward earnings, a significant discount to the wider Industrials ex-Financials (at 28.2 times).

### Key Active Underweights

**Tabcorp (TAH)** – we are underweight the gambling services provider because we believe earnings expectations are too optimistic and regard the market's valuation, at 25.3 times 12-month forward P/E, as stretched. Our key concern is the outlook for the conventional wagering business, which operates in a low growth industry and with high levels of competition, placing intense pressure on its traditional retail distribution strategy.

**REA Group (REA)** – we are underweight the real estate online classifieds company on the grounds that its positive outlook is fully factored into its valuation (at 52.0 times forward earnings), and more compelling opportunities in the space exist elsewhere. We currently own Carsales.com (CAR) and SEEK (SEK), which in our view trade at more compelling valuations, are market leaders in their industries and have strong growth prospects outside of Australia.

**OZ Minerals (OZL)** – we are underweight the copper-gold miner based on its stretched valuation metrics (at 8.9 times 12-months forward EV/EBITDA) and downside risk to the copper price, which currently trades at decade-high levels. Notwithstanding the supportive economic environment for the commodity, we remain cautious due to the potential for Chinese trade restrictions with OZL particularly vulnerable given its concentrates increasingly contain uranium and thorium. Our preferred base metals exposure remains Alumina (AWC).

### Market outlook

The recovery in the Australian economy continues to exceed consensus expectations. The Australian economy contracted 2.5% in calendar 2020, however strong sequential growth in 2H2020 and positive momentum in early 2021 will see economic activity in 1Q2021 exceed pre-COVID levels.

The strength of the economic recovery is particularly evident via record levels for business conditions, business confidence and the strength in employment growth. The level of employment already exceeds pre-COVID levels, and after peaking at 7.5% in July 2020 the unemployment rate has declined sharply to 5.6% in March 2021.

Although wage rates remain subdued, the recovery in labour market income has been sufficient to offset the gradual withdrawal of temporary fiscal support. Moreover, the accumulation of \$125bn 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 18 months following a surge in demand for new housing construction, partly in response to the Government's Homebuilder subsidy. We expect the global economy to expand 6.5% and the Australian economy to expand 6% in 2021.

We continue to expect US inflation to surprise on the upside over the remainder of 2021 and for policy makers to resist pressure to normalise interest rates. This may see bond yields continue to rise at a moderate rate in coming months, however, we are cognisant that global business surveys will likely peak around mid-2021 which may limit the adjustment in bond yields, at least until the Federal Reserve signals it is preparing to taper its asset purchases. We do not expect this to happen until late 2021 at the earliest.

The A\$/US\$ should continue to be well supported by global reflationary forces, including robust commodity price trends. We continue to expect the A\$/US\$ to appreciate to the 81-83c range by the end of calendar 2021.

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 Health Care, Communication Services and Consumer Staples sectors, but are underweight Consumer Discretionary, Real Estate and Financials.

## Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	13.07	8.35	4.72
Consumer Discretionary	8.59	14.94	-6.34
Consumer Staples	6.21	3.40	2.81
Energy	3.69	4.03	-0.35
Financials	6.94	11.43	-4.49
Health Care	12.45	6.67	5.78
Industrials	10.03	9.88	0.15
Information Technology	8.03	7.26	0.77
Materials	23.54	24.11	-0.57
Real Estate	2.59	8.59	-6.01
Utilities	0.00	1.34	-1.34

## Top 5 holdings

	Portfolio %	Benchmark %	Active %
IGO	4.45	0.92	3.53
Atlas Arteria	4.02	1.06	2.96
Link Administration	3.78	0.49	3.30
Bluescope Steel	3.53	1.99	1.55
CSR	3.53	0.56	2.97

## Key active positions

Overweights	Portfolio %	Benchmark %	Active %
IGO	4.45	0.92	3.53
Link Administration	3.78	0.49	3.30
CSR	3.53	0.56	2.97
Underweights			
Tabcorp	0.00	2.01	-2.01
REA	0.00	1.45	-1.45
OZ Minerals	0.00	1.45	-1.45

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	34.31	7.31	6.27	7.45
Distribution return	1.51	1.71	1.82	2.46

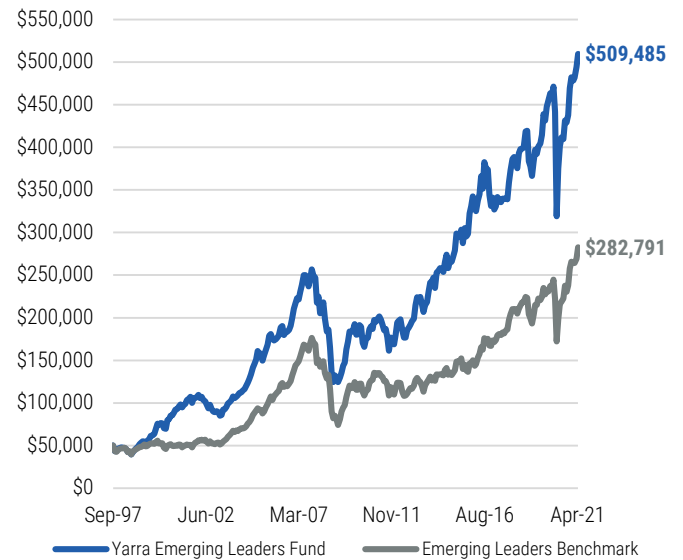
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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 small and medium sized Australian companies that are considered to possess strong capital growth potential. In doing so, the aim is to outperform the benchmark over rolling 3-year periods.	
Recommended investment time frame	5 - 7 + years	
Fund inception	September 1997	
Fund size	Pooled Fund A\$161.1 mn as at 30 April 2021	
APIR codes	JBW0010AU	
Estimated management cost	1.25% p.a.	
Buy/sell spread	+/- 0.20%	
Platform availability	Asgard BT Wrap Hub24	Macquarie Wrap Consolidator

## Investment performance comparison of \$50,000

After fees, since inception of the Yarra Emerging Leaders Fund, September 1997 to April 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 benchmark (comprising 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries 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.

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## Applications and contacts

Investment into the Yarra Emerging Leaders Fund can be made by Australian resident investors only.

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### Disclaimers

The Yarra Emerging Leaders Fund is substantially invested in the Yarra Emerging Leaders Pooled Fund ('Pooled Fund'). References in this document to the underlying assets or investments of the Fund generally relate to the assets held in the Pooled Fund. The Fund's benchmark comprises 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries Accumulation Index.

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