Yarra Emerging Leaders Fund

Gross returns as at 30 April 2023

	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	4.97	4.95	1.90	15.92	8.79	11.00	11.22
Emerging Leaders Combined Benchmark†	3.14	-2.03	-3.55	13.24	6.43	8.74	7.08
Excess return (before fees)‡	1.83	6.98	5.45	2.68	2.36	2.26	4.15

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 2023

	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	4.86	4.63	0.64	14.49	7.45	9.63	9.92
Emerging Leaders Combined Benchmark†	3.14	-2.03	-3.55	13.24	6.43	8.74	7.08
Excess return (after fees)‡	1.73	6.66	4.19	1.25	1.01	0.89	2.84

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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

The Australian small cap sector delivered positive returns, with almost every sector in the green during the month. The 10-year bond rate held relatively steady at 3.3%.

The Emerging Leaders Benchmark returned +3.1% for the quarter, taking its 12-month return to -4.2%. In comparison, the broader S&P/ASX 300 Accumulation Index gained +1.8% for the month and, globally, the MSCI World Index also returned +1.8%.

Information Technology rallied strongly (+4.1%) with NextDC (NXT, 9.7%) rallying after announcing a 36 megawatt increase in contract utilisation, Wisetech (WTC, +5.2%) gaining post announcement of a $600mn acquisition of Blume Global, while Megaport's (MP1, +36.6%) share price rose following the company's positive third-quarter report.

Just behind was Real Estate (+5.5%) with Centuria Capital (CNI, +13.6%), Ingenia Communities (INA, +13.3%) and Vicinity Centre (VCX, +8.0%) the key contributors. The sector was supported during the month following the RBA's decision to keep interest rates on hold.

Conversely, the laggard sector was Consumer Staples (-0.6%). The packaged foods companies faced headwinds from their gains early this year, in particular United Malt (UMG, -7.4%) and Inghams (ING, -9.9%).

Portfolio review

Key Contributors

Reliance Worldwide (RWC, overweight) – the manufacturer and distributor of plumbing and heating parts outperformed following the release of its March-quarter trading update. The trading update was broadly positive, demonstrating the resilience of its repair-focussed end markets (total sales growth of +14.2% for the nine months ending March-23) and a robust margin outlook supported by cost-out plans and easing raw material cost pressure. We view RWC as a compelling opportunity, with the market pricing for a significant decline in earnings (P/E of only 14.9 times vs 17.0 times mid cycle) whereas we remain constructive on the demand environment given the defensive nature of RWC's revenue base, the majority of which relates to repair and remodelling sales.

Evolution Mining (EVN, overweight) – our position in the gold miner was a positive contributor during the period. Gold prices rose 8.8% across April to close at US$1,988/oz. We see further support for the gold price given macro uncertainty, and an expectation that the current interest rate rise cycle is nearing an end. Higher gold prices are accelerating balance sheet improvements for EVN, particularly given major capital projects at Cowal and Red Lake are nearing completion, leading to increased free cash generation. Resource upside at Ernest Henry and further turnaround potential at Red Lake lend additional support to our positive view on the stock.

Nanosonics (NAN, overweight) – the overweight position in the infection prevention medical device company was a positive contributor during the period. While there was no company-specific news, investors continue to build conviction in the growth opportunity from its new product, Coris, which is expected to be delivered into market in late 2023. In addition, the existing product, Trophon, continues to deliver strong growth into existing markets and via the upgrade cycle.

Key Detractors

Telix Pharmaceuticals (TLX, underweight) – radiopharmaceutical company TLX outperformed the market in April after announcing a strong Q123 revenue result. Sales of TLX's key Illuccix product were substantially stronger than market expectations. This strength was partially driven by higher than anticipated numbers of PSMA-PET scans per patient. Further, a strong result from key competitor Lantheus suggests the overall market volumes are expanding well. We are underweight TLX given our cautious view on the long-term pricing sustainability of radiopharmaceuticals.

EBOS (EBO, overweight) – the wholesaler and distributor of medical and pharmaceutical products, EBOS underperformed on no material company specific news during the period. We have positive view toward the company with defensive earnings growth across both health care and animal care divisions. Both divisions are in growth markets, are increasing market share and increasing margins leading to attractive earnings growth. Furthermore, both divisions have opportunities to supplement organic growth via acquisitions with the company having a strong track record of identifying suitable targets and integrating successfully.

Healius (HLS, overweight) – Australia's second largest pathology and radiology provider underperformed over the period, which continued to be dominated by expectations around the details of the proposed Australian Clinical Lab (ACL) takeover offer. In line with expectations, the ACCC commenced a review during the month. However, in early May the HLS board released its unanimous view recommending shareholders reject the ACL offer. Separately, at an operational level, we continue to see upside in the HLS business from depressed levels. These views were supported over the period with an in-line trading update, announcing the successful completion of asset sales and the receipt of a debt covenant waiver for the June-23 and Dec-23 testing dates. While the aforementioned prospect of M&A activity with industry peer ACL remains unclear, we expect this backdrop to only sharpen the company's operating focus on delivering improved returns into a recovering demand environment.

Key Purchases

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 decline. ILU is the world's largest zircon producer and the fifth largest producer of titanium feedstocks. Additionally, the company is moving into rare earths production with the Eneabba refinery 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 ILU's rare earths business.

NextDC (NXT) – following the announcement of its largest ever individual contract leading to a 36 megawatt increase in contracted capacity, we took the opportunity to increase the portfolio's position in Australia's leading data centre owner. We believe the contract demonstrates that NXT has a long pipeline of value accretive growth, which is not reflected in its 23.0 times FY25 EV/EBITDA multiple.

Key Sales

Carsales.com (CAR) – we reduced our position in Carsales during the month, bringing it back to a target level following participation in the rights issue that supported the purchase of a 40% stake in leading Brazilian online auto classifieds business Webmotors, taking CAR's ownership to 70%.

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 having been lowered after recent market updates. We view RWC as a compelling opportunity, with the market pricing for a significant decline in earnings (P/E of only 14.9 times vs 17.0 times mid cycle) whereas we remain constructive on the demand environment given the defensive nature of RWC's revenue base, the majority of which relates to repair and remodelling sales.

OZ Minerals (OZL) – we retained our overweight position in the copper producer heading into the finalisation of the $28.25/share all-cash takeover from diversified miner BHP. The offer was supported by the OZL board and deemed "fair and reasonable" by the Independent Expert and was completed shortly after month end.

Worley (WOR) – we remain overweight the leading global provider of 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 +16%, Rolling 12 Month

Bookings +23%, Backlog +7%) 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.

Key Active Underweights

WiseTech (WTC) – we remain underweight WTC, with a preference for other names in the technology sector given WTC's demanding valuation of 92.0 times 1-year forward P/E. We believe WTC is continuing to build an exceptional product in CargoWise which should continue to attract and retain large and key freight forwarders. Despite WTC's high-quality earnings growth, we struggle to justify paying 92.0 times earnings given the more attractive opportunities available in the sector (e.g., XRO).

Vicinity Centres (VCX) – we are underweight the retail REIT which offers exposure to a broad array of shopping mall assets including the globally-recognised Chadstone mall, smaller DFO outlets, mid-sized sub-regional assets and CBD locations. Our underweight is predicated on a view that operating conditions (rental growth, occupancy rates) have peaked following the COVID recovery, with the company facing a more challenging retail environment domestically as the impact of higher interest rates impacts consumers and retailers. Valuation support is limited in our view, with the current discount to NTA likely to erode as asset valuations fall through CY23 and a dividend yield of 5.7% with limited medium-term growth.

Atlas Arteria (ALX) – we are underweight the developer and operator of toll roads, with the stock trading close to an enterprise value equivalent to where it was trading before undertaking its value destructive acquisition of the Chicago Skyway toll road. In recent months, the outlook for all three of ALX's major assets has deteriorated, leading to a permanent downgrade in our view of portfolio quality. We now believe that ALX's major asset, the APRR concession, will ultimately go through a re-tender process and that the restructure of Dulles Greenway will require considerable additional equity (instead of releasing equity).

Market outlook

The June quarter 2023 will mark the top of the interest cycle for most of the developed world. With ongoing evidence of inflation moderating, tightening in lending availability and downgrades accumulating for economic growth, including the Federal Reserve staff formally forecasting a modest recession in the US, the appetite for policy makers to persist with the tightening cycle is rapidly evaporating. Although the Fed did choose to hike in May, the decline in headline inflation has returned real interest rates to zero and our nowcasting for US economic growth continues to suggest the US has been contracting modestly since late 2022. 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 from September 2023.

We continue to argue that Australia presents as a safe haven from both the perspective of more robust growth relative to the G7 peer group and as having good leverage to signs of a trough in the economic cycle in China. Although both the RBA and we expect economic activity to slow significantly in 2023 to average just 1.5%, we believe Australia should be able to avoid a technical recession due to four key reasons:

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 1H22, and even though commodity prices are now off their peaks they remain very elevated from a historical perspective. The consequence has been strong national income growth, profits growth and an improving underlying fiscal position. Indeed, the Commonwealth Budget will likely be close to surplus for the 2023 financial year.

The household sector continues to hold a significant buffer of over $270bn 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. Albeit we remain particularly cautious on discretionary retail spending, given most of the excess savings can be traced to older and wealthier households.

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. Iron ore obviously remains Australia's biggest export and China the dominant customer. However, we expect the global energy transition will be steel intensive, opening up new customers.

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 appears likely in coming months, ensuring that Australia's population growth will exceed 2% in 2023.

While the Reserve Bank of Australia (RBA) has been later than most other developed nations in tightening policy, tighter financial conditions in 2022 have come via significantly higher cash rates, higher government bond yields and wider corporate bond spreads. Following the February, March and May rate hikes of 25 bps, we believe financial conditions are now in the restrictive zone and the RBA has now likely finished this tightening cycle. 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 modest rises in 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 last hike has likely been delivered this cycle. 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$/US$ has been under downward pressure as markets grappled with a seemingly more hawkish Fed and a relatively more dovish RBA. Nevertheless, both central banks are in the concluding phases of the tightening cycle. 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 aggressive hiking strategy to an easing cycle in 2023, we expect the A$/US$ will appreciate to the mid-70s through 2H 2023.

We are most overweight stocks within the Communication Services, Health Care and Industrials sectors, and are underweight Energy, Real Estate and Consumer Staples.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.67	6.27	6.40
Consumer Discretionary	9.36	11.41	-2.05
Consumer Staples	1.26	3.68	-2.42
Energy	0.00	6.94	-6.94
Financials	10.89	10.73	0.16
Health Care	9.07	5.13	3.94
Industrials	15.04	12.92	2.12
Information Technology	9.83	8.07	1.76
Materials	25.29	23.68	1.61
Real Estate	3.59	10.21	-6.63
Utilities	0.00	0.96	-0.96

Top 5 holdings

	Portfolio %	Benchmark %	Active %
Reliance Worldwide	5.18	0.62	4.56
Carsales.com	4.81	1.72	3.09
Worley	4.56	1.08	3.49
NextDC	4.46	1.01	3.45
Evolution Mining	4.35	1.26	3.10

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Reliance Worldwide	5.18	0.62	4.56
OZ Minerals	3.51	0.00	3.51
Worley	4.56	1.08	3.49
Underweights			
Wisetech Global	0.00	2.30	-2.30
Vicinity Centres	0.00	1.56	-1.56
Atlas Arteria	0.00	1.53	-1.53

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	-12.65	8.37	3.21	6.26
Distribution return	13.29	6.12	4.24	3.37

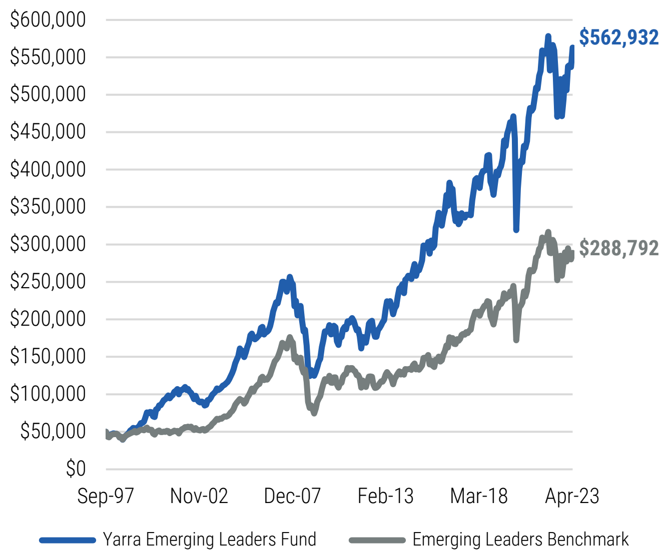
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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	A$90.2 mn as at 30 April 2023	
APIR codes	JBW0010AU	
Estimated management cost	1.25% p.a.	
Buy/sell spread	+/- 0.20%	
Platform availability	Asgard Ausmaq BT Panorama BT SuperWrap Financial Index	Hub24 Macquarie Wrap Mason Stevens MLC Wrap OneVue

Investment performance comparison of $50,000

After fees, since inception of the Yarra Emerging Leaders Fund, September 1997 to April 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 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.

Applications and contacts

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

Website www.yarracm.com

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