

Yarra Emerging Leaders Fund

Gross returns as at 31 August 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	5.23	10.47	31.13	11.49	9.70	13.56	11.92
Emerging Leaders Combined Benchmark†	4.44	8.70	30.23	11.26	12.09	9.83	7.91
Excess return (before fees)‡	0.78	1.77	0.89	0.23	-2.39	3.74	4.01

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 31 August 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	5.11	10.13	29.51	10.12	8.35	12.16	10.61
Emerging Leaders Combined Benchmark†	4.44	8.70	30.23	11.26	12.09	9.83	7.91
Excess return (after fees)‡	0.67	1.43	-0.72	-1.14	-3.75	2.33	2.70

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 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 equities delivered their best monthly return since April 2021 during reporting season, overcoming uncertainty relating to protracted lockdowns in NSW and VIC and negative earnings revisions across the market.

The S&P/ASX Emerging Leaders Benchmark lifted by 4.4% in August, taking its 12-month return to +30.2%. In comparison, the broader ASX300 Index returned 2.6% and the MSCI Global Index returned 2.7%. However, FY21 reporting season saw more misses than beats despite recording +28% growth y/y, and FY22 forecasts were revised down at -1.2% for the ASX200 and -1.5% for the Small Ords¹.

Nevertheless, equity valuations rose globally amid lower bond yields, with the US 10-year bond yield declining 21 bps to 1.23% in response to dovish commentary from the US Fed and the Australian 10-year bond yield flat at 1.16%.

At a sector level, Financials (+6.4%) contributed strongly to the benchmark's return. Insurance broker Steadfast (SDF, +14.0%) benefited from a higher pricing environment, while asset managers including Pinnacle Asset Management (PNI, +32.4%) and Australian Ethical Investment (AEF,

+30.4%) saw strong FUM growth amid record-high equity markets. Elsewhere, Real Estate (+8.4%) saw strong gains from REITs including fund manager Centuria Capital (CNI, +17.5%), shopping mall owner SCA Property (SCP, +8.9%) and Residential REIT Ingenia Communities (INA, +12.0%) amid stronger-than-expected results.

Elsewhere, Communication Services (+7.5%) was a top performer as Uniti Group (UWL, +24.4%) impressed the market with its FY21 result – delivering more connections than anticipated with its 'last mile' network infrastructure – while Chorus Group (CNU, +15.6%) outperformed as regulatory uncertainty was partially resolved.

Conversely, Materials (-0.6%) underperformed as Steel (-2.6%) declined in response to lower iron ore (-15%) and steel prices and Construction Materials (-5.1%) retreated following strong prior outperformance.

Portfolio review

Key Contributors

Nanosonics (NAN, overweight) – the disinfection medical device maker outperformed after beating expectations with its FY21 result. A strong recovery in 2H21 saw revenue up

¹ Source: GS Investment Research.

+3% for the full year – renewing confidence in the market that the company was recovering from its COVID-related disruption. Management expects double-digit growth in revenue for FY22, however also anticipates operating expenses to increase in tandem. Our positive view towards the company remains premised on its leverage to the re-opening US economy and, moreover, the growing acceptance of its proprietary product, translating into higher earnings growth. NAN's product, Trophon, is the global market leader with over 50% market share in North America. As regulatory change relating to disinfection protocols continues to drive adoption of NAN's products, the sale of consumables for its devices generates a high-quality, annuity-style revenue stream. NAN also has a strong balance sheet – it is in a net cash position – to fund future growth and support ongoing product innovation.

Star Entertainment (SGR, overweight) – the casino operator outperformed following a better-than-expected FY20 result. Investors appeared to look through the impact of NSW's latest lockdown restrictions and FY21 earnings of \$430mn, which were flat (y/y) and met consensus forecasts, and instead rewarded the company for several value-accretive initiatives. SGR is investigating dividing its business into its operating and property divisions, additional slots in Sydney and selling an interest in the Brisbane Treasury buildings for \$220mn. While the latest outbreak delays SGR's recovery, we remain overweight the company. In our view SGR has available liquidity and debt headroom to withstand further disruption from the COVID-19 crisis, with net debt to EBITDA now standing at 2.7 times (from 3.2 times at FY20) and an extremely flexible cost base that is phased in line with revenue and demand. Moreover, SGR is a significant beneficiary of the post-COVID recovery once restrictions ease. In the long term, our overweight position is premised on the belief that the market underestimates SGR's ability to enhance asset performance through operational improvements and capex programs.

Mineral Resources (MIN, overweight) – the company underperformed in response to the lower iron ore price (-15%) and a worse-than-expected FY21 result. Underlying EBITDA grew 148% to \$1,901mn, 7% below consensus forecasts, largely due to higher costs in the iron ore division. We remain overweight based on the view the positive outlook is fully priced in at current levels. And while MIN's Wodgina lithium project is well positioned to benefit from higher lithium prices as the EV thematic accelerates, its iron ore business is exposed to downside risk based on unsustainably high iron ore prices (which have already fallen to <\$US190 per tonne from recent peaks) into the medium term.

Key Detractors

Wisetech Global (WTC, overweight) – the logistics software company outperformed after delivering a stronger-than-expected FY21 result. EBITDA grew 63% to \$207mn, 13% ahead of consensus expectations, as demand accelerated for WTC's software platform and margins expanded on cost initiatives. We remain overweight WTC

based on the company's unappealing valuation and high risk profile following a string of acquisitions. WTC now trades at a forecast EV/Sales of 23.7 times, which we believe continues to capitalise unrealistic growth expectations and ignores downside risks.

Domino's Pizza Enterprises (DMP, overweight) – the pizza franchisor outperformed during the period following its FY21 result. While adjusted NPAT of \$188.2mn (+29.2% y/y) was in line with consensus expectations, store additions of +10.7% and the final dividend of 173.5cps were ahead of forecasts. We remain overweight the company because we believe its valuation – at a 12-month forward P/E of 58.6 times forward earnings – does not reflect the potential for growth to slow post-COVID as economies re-open. And while management has increased investment to encourage franchisees to expand, we see limited opportunities in Australia where store density is already high.

Link Group (LNK, overweight) – the share registry company underperformed in response to a disappointing FY21 result. While operating NPATA of \$113.2mn was only 2% below consensus, management guided to broadly flat operating EBIT in FY22 – well below consensus for 15% growth. The market was anticipating an earnings recovery in FY22, but this appears to have been pushed out to FY23 due to further investment in operations and higher costs. 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 PEXA (with the company retaining its 45% stake in the IPO subsequent to month-end). 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 less than 10-11 times, a substantial discount to peer Computershare (CPU) at 22.3 times.

Key Purchases

OZ Minerals (OZL) – we established a position in the copper miner during the period. OZL operates two high quality, long life, 100% owned copper mines in South Australia - Prominent Hill and Carrapateena - and also holds a portfolio of Brazilian assets of modest quality. We expect OZL copper production to double to >200ktpa by 2030, as Carrapateena moves to a block caving operation, and the company develops the greenfields West Musgrave copper/nickel deposit in Western Australia. OZL is well positioned to fund its growth ambitions through the net cash balance sheet, strong cash flow generation, and flexibility to divest assets such as the Centro Gold deposit in Brazil.

Megaport (MP1) – we increased our position in the tech company during the period. The core business connecting data centres to the cloud should grow significantly, with a strong pipeline in its key US geography as businesses invest

in IT projects. With its expansion into telecommunication services – which leverages the same infrastructure – the total addressable market more than doubles. While the company is currently at an inflection point for earnings and cashflow we believe it will turn positive in the next 1-2 years. We do not believe MP1's strong and sustainable revenue growth outlook is reflected in its share price.

Tabcorp (TAH) – we increased our holdings in the wagering & lotteries company during the period, after establishing the position in the prior month. Our positive investment thesis is premised on its Lotteries business (55% of 1H21 EBITDA), which we see as having a defensive revenue stream, significant pricing power and growth opportunities driven by online penetration (which currently sits at 32%, below the global average of 50%). We expect the planned spin-off, announced in July, will crystallise value for the division. While we are more negative towards TAH's wagering & media business (41% of 1H21 EBITDA), recent takeover bids have placed a floor under the division's valuation. Assuming the division is valued at \$3.5bn – the highest bid that TAH rebuffed – the lotteries business trades at 15 times EBITDA, well below peers including reseller Jumbo Interactive (JIN) at 29 times.

Key Sales

Genworth Mortgage Insurance (GMA) – we exited our position in the mortgage insurance company during the period. Protracted lockdowns across NSW and Victoria, combined with lower government support, has increased the risk associated with defaults. Further, excess housing supply is looming following historic fiscal support and lower demand. Lastly, we expect uncertainty relating to its contract with CBA – which comprises 57% of its in force book – to continue to be a headwind in the short term.

Bluescope Steel (BSL) – we reduced our position in the steel producer during the period following recent outperformance. In our view the current favourable conditions are unsustainable in the medium term, with steel prices likely to revert and housing volumes likely to normalise. As a result, its headline forward P/E of 5.6 times is misleading. That being said, we continue to view BSL as a high-quality cyclical company with attractive assets (both domestically and internationally) and a strong balance sheet.

Nearmap (NEA) – we reduced our holdings in the aerial mapping solutions company during the period, before exiting the position subsequent to month-end. We still believe the operating outlook remains compelling, supported by management providing medium-to-long term ACV growth guidance of 20-40% as the US expansion ramps up. However, we expect the litigation facing the company to weigh on the share price for the foreseeable future. US rival Eagleview has accused NEA of infringing its patent covering roof estimation software, with the timing and cost of its resolution unclear.

Key Active Overweights

IGO Limited (IGO) – our thesis 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 earlier than FY23. We also hold a positive view of IGO's Nova asset – a world-class reserve which supports an increasing production profile.

Atlas Arteria (ALX) – we maintain a high-conviction overweight position based on ALX's strong liquidity and balance sheet position, discounted valuation and exposure to traffic recovery in Europe and the US. ALX on less than 11.0 times normalised EV/EBITDA, which more than captures the disruption from COVID-19 as travel restrictions and lockdowns reduce traffic volumes in the short term. Beyond traffic normalisation, we see a path towards value creation for ALX through concession extensions at APRR achieved as a means of funding expansion projects and settling the Dulles Greenway tolling regime.

Select Harvests (SHV) – our positive view of the almond producer is based on several factors. Firstly, we see considerable upside to sales from both pricing (pre-COVID-19 was at A\$8.50/kg) and volume (which should grow by +5% per annum over the next three years as orchards mature). Secondly, we expect costs to decline from abnormally high levels, with water prices likely to fall as drought conditions recede. Thirdly, limited value is currently implied in SHV's food processing business, which can realise value either through capital releases, its sale or a recovery in food services. Lastly, SHV has a strong balance sheet (FY21 net debt to EBITDA of 0.2 times) and supportive valuation (its P/E multiple falls sharply to 15 times in FY23), with hard assets comprising more than 70% of the company's enterprise value.

Key Active Underweights

Domino's Pizza Enterprises (DMP) – we remain underweight the company because we believe its valuation – at a 12-month forward P/E of 58.6 times forward earnings – does not reflect the potential for growth to slow post-COVID as economies re-open. And while management has increased investment to encourage franchisees to expand, we see limited opportunities in Australia where store density is already high.

Mineral Resources (MIN) – we remain underweight based on the view the positive outlook is fully priced in at current levels. And while MIN's Wodgina lithium project is well positioned to benefit from higher lithium prices as the EV thematic accelerates, its iron ore business is exposed to downside risk based on unsustainably high iron ore prices

(which have already fallen to <US\$190 per tonne from recent peaks) into the medium term.

Bluescope Steel (BSL) – the steel producer became a key underweight during the period after we reduced our position. In our view the current favourable conditions are unsustainable in the medium term, with steel prices likely to revert and housing volumes likely to normalise. As a result, its headline forward P/E of 5.6 times is misleading. That being said, we continue to view BSL as a high-quality cyclical company with attractive assets (both domestically and internationally) and a strong balance sheet.

Market outlook

The Australia economy completed 1H2021 with strong momentum, prompting the RBA and consensus to upgrade expectations for both 2021 and 2022 calendar year growth. Both the size of the economy and the number of people employed comfortably exceed pre-pandemic levels. Clear highlights were the unemployment rate declining from a peak of 7.5% in July 2020 to just 4.6% in July 2021 and June quarter GDP rising 0.7%, well ahead of expectations. Nevertheless, renewed COVID-related lockdowns in Melbourne and Sydney will sharply impact the data in 3Q21 and materially alter our growth forecasts for the remainder of 2021 and 2022.

We believe the interruption to economic growth from renewed lockdowns will be an aberration within an improving trend, rather than a view altering event. 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 \$171bn in excess household saving, in concert with strong asset price gains, leaves the consumer uniquely positioned to underpin economic growth in 2021-22. Dwelling investment is set to provide solid support for economic growth over the next 12 months following a surge in demand for new housing construction, 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 6.5% and the Australian economy to expand 4.75% in 2021, a downward revision from our pre-lockdown forecast of 6%. We expect another strong year of economic growth in 2022 of 4.0%.

While we continue to expect US inflation to surprise on the upside over the remainder of 2021, the biggest inflation surprises are now behind us and our expectation that global business surveys would likely peak around mid-2021 appears to have been realised. The peak in global business surveys, in concert with slower bond issuance relative to central bank buying, helped push real bond yields to record lows over recent weeks. As the Federal Reserve signals increased willingness to taper its purchases and global economic and inflation indicators remain elevated, we expect bond yields will again start to move higher through

the remainder of 2021. We expect US 10 year yields to approach 1.80% by the end of 2021.

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. Reflecting the factors above, we have lowered our expectations for the A\$/US\$ somewhat over the remainder of 2021, and now expect the A\$/US\$ to finish the year in the 76-78c range, down from a forecast 81-83c range previously.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	13.17	7.94	5.23
Consumer Discretionary	11.84	15.04	-3.20
Consumer Staples	6.42	3.32	3.11
Energy	2.98	4.10	-1.12
Financials	6.58	11.76	-5.18
Health Care	13.02	7.26	5.77
Industrials	5.96	9.64	-3.68
Information Technology	9.53	7.44	2.10
Materials	22.26	22.57	-0.30
Real Estate	3.96	9.48	-5.52
Utilities	0.00	1.47	-1.47

Top 5 holdings

	Portfolio %	Benchmark %	Active %
IGO	5.36	1.11	4.25
Atlas Arteria	4.27	1.13	3.14
Carsales.com	3.87	1.17	2.71
Link Administration	3.27	0.77	2.50
Nine Entertainment	3.23	0.69	2.54

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
IGO	5.36	1.11	4.25
Atlas Arteria	4.27	1.13	3.14
Select Harvests	2.99	0.19	2.80
Underweights			
Domino's Pizza Enterprises	0.00	1.70	-1.70
Mineral Resources	0.00	1.56	-1.56
Bluescope Steel	0.67	2.18	-1.50

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	27.86	8.53	6.58	9.84
Distribution return	1.65	1.59	1.77	2.32

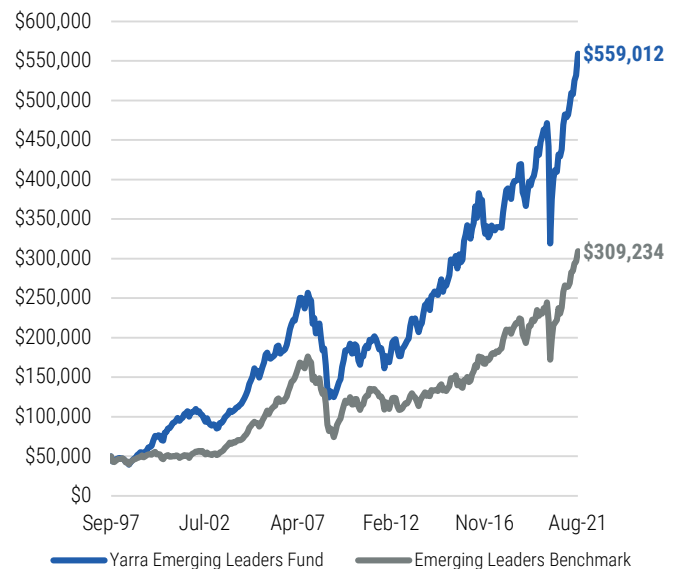
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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\$59.7 mn as at 31 August 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 August 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.

Applications and contacts

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

Website www.yarracm.com

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com

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.

Yarra Funds Management Limited (ABN 63 005 885 567, AFSL 230 251) ('YFM') is the issuer and responsible entity of a range of registered managed investment schemes, which includes those named in this document ('Funds'). YFM is not licensed to provide personal financial product advice to retail clients. The information provided contains general financial product advice only. The advice has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before acting on any advice, you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. Prior to investing in any of the Funds, you should obtain and consider the product disclosure statement ('PDS') for the relevant Fund by contacting our Investor Services team on 1800 034 494 or from our website at www.yarracm.com/pdsupdates/. The information set out has been prepared in good faith and while Yarra Funds Management Limited and its related bodies corporate (together, the "Yarra Capital Management Group") reasonably believe the information and opinions to be current, accurate, or reasonably held at the time of publication, to the maximum extent permitted by law, the Yarra Capital Management Group: (a) makes no warranty as to the content's accuracy or reliability; and (b) accepts no liability for any direct or indirect loss or damage arising from any errors, omissions, or information that is not up to date. No part of this material may, without the Yarra Capital Management Group's prior written consent be copied, photocopied, duplicated, adapted, linked to or used to create derivative works in any form by any means.

YFM manages each of the Funds and will receive fees as set out in each PDS. To the extent that any content set out in this document discusses market activity, macroeconomic views, industry or sector trends, such statements should be construed as general advice only. Any references to specific securities are not intended to be a recommendation to buy, sell, or hold such securities. Past performance is not an indication of, and does not guarantee, future performance. Information about the Funds, including the relevant PDSs, should not be construed as an offer to any jurisdiction other than in Australia. With the exception of some Funds that may be offered in New Zealand from time to time (as disclosed in the relevant PDS), we will not accept applications from any person who is not resident in Australia or New Zealand. The Funds are not intended to be sold to any US Persons as defined in Regulation S of the US federal securities laws and have not been registered under the U.S. Securities Act of 1933, as amended.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. Holdings may change by the time you receive this report. Future portfolio holdings may not be profitable. The information should not be deemed representative of future characteristics for the strategy. There can be no assurance that any targets stated in this document can be achieved. Please be advised that any targets shown are subject to change at any time and are current as of the date of this document only. Targets are objectives and should not be construed as providing any assurance or guarantee as to the results that may be realized in the future from investments in any asset or asset class described herein. If any of the assumptions used do not prove to be true, results may vary substantially. These targets are being shown for informational purposes only.

© Yarra Capital Management, 2021.