

Yarra Emerging Leaders Fund

Gross returns as at 28 February 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	0.77	2.93	10.44	9.46	9.53	10.62	11.45
Emerging Leaders Combined Benchmark†	0.08	2.45	19.06	7.91	12.70	6.95	7.37
Excess return (before fees)‡	0.69	0.47	-8.63	1.55	-3.17	3.67	4.08

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 28 February 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	0.67	2.61	9.07	8.11	8.18	9.25	10.15
Emerging Leaders Combined Benchmark†	0.08	2.45	19.06	7.91	12.70	6.95	7.37
Excess return (after fees)‡	0.59	0.16	-9.99	0.20	-4.52	2.30	2.78

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 were flat in February as rising bond yields globally offset a stronger-than-expected reporting season.

The Emerging Leaders benchmark increased 0.08% for the month, taking its 12-month return to 19.1%. In comparison, the broader ASX 300 returned 1.5% for the month and 7.1% for the year. Returns had been stronger as companies delivered one of the best reporting seasons on record, with 3.2 times more beats than misses¹. However, equities de-rated in the second half of the month as the Australian 10-year bond yield rose 73 bps to 1.88%.

As beneficiaries of the higher bond yield environment, regional banks (+15.6%) were among the strongest performers in the benchmark. Further, Bank of Queensland (BOQ, +13.6%) announced the acquisition of ME Bank – increasing its loan book by 57% – while Bendigo and Adelaide Bank (BEN, +9.1%) delivered a strong 1H21 result, supported by very low impairment charges and strong lending growth.

Other top performing industries included Energy (+4.3%), as Brent Crude lifted 19.2% to US\$66 per barrel, and Consumer

Services (+7.7%). Within the latter, gaming stocks Tabcorp (TAH, +13.4%) and Star Entertainment (SGR, 7.0%) impressed the market with their 1H21 results, with TAH also announcing it had received indicative and non-binding offers for its wagering and media businesses from multiple parties.

Conversely, the worst performing sectors included Health Care (-4.8%) and Information Technology (-4.6%). "COVID beneficiaries" weighed on the former, with Fisher & Paykel Healthcare (FPH, -16.1%) and ResMed (RMD, -9.6%) among the worst performers. Losses were widespread across the tech sector (given the impact of higher bond yields on their long-dated cash flows). The worst performers included Wisetech Global (WTC, -12.8%), Altium (ALU, -14.6%) and Appen (APX, -25.3%).

Portfolio review

Key Contributors

Vocus (VOC, overweight) – the telco outperformed during the period after receiving a takeover bid and delivering a better-than-expected 1H21 result. A consortium comprising Macquarie Infrastructure and Real Asset Holdings (MIRA)

¹ Source: Morgan Stanley, March 2021.

and Aware Super made a non-binding, indicative offer of \$5.50 per share. Subsequent to month-end the consortium finalised the bid after four weeks of due diligence.

Meanwhile, the result highlighted positive momentum in the Networks division, with VOC taking share from competitors following a large number of deals in 1H21 and management talking to a strong pipeline for the full year. The result and takeover bid supported our investment thesis on the stock; namely that the combination of good management, improving fundamentals and quality of the asset base will result in significant upside. We remain overweight on the grounds VOC trades at a discount to the takeover offer and, given the appeal of its assets, a competitor bid could emerge.

Nine Entertainment (NEC, overweight) – the media company outperformed during the period after its 1H21 result. EBITDA lifted 41.7% to \$355.4mn y/y – 5.9% ahead of consensus forecasts – driven by lower costs and a strong performance from its Stan and BVOD divisions. Further, management indicated the free-to-air ad market was recovering, guiding for revenue to increase in the low to mid-single digits in 3Q20, and signed a letter of intent with Google in which NEC receives payment for the tech giant to use its news content. Our thesis remains premised on a supportive valuation, its high-quality digital assets (Stan, 9Now and Domain), a number of savings initiatives in the short term and a continued recovery in ad markets. We do not yet believe this environment is factored into NEC's valuation, with the stock trading at 16.4 times 2-year forward earnings. We also don't think sufficient value is attributed to its subsidiaries (Stan and Domain) when considering their long-term growth profile.

Northern Star (NST, underweight) – the gold miner underperformed alongside the gold price during the period, with the commodity falling 7% to \$1,743 per ounce. We remain underweight NST based on its stretched valuation metrics, at 6.3 times forward EV/EBITDA, and negative long-term view of the gold price. While we are positive towards the company's operations and its proposed merger with Saracen Minerals (SAR), we see significant downside risk to the commodity – at elevated levels of US\$1,800oz – amid an outlook for higher real interest rates (which are generally a headwind to the gold price). We maintain a small exposure to gold through diversified miner IGO Limited (IGO).

Key Detractors

Atlas Arteria (ALX, overweight) – the toll road operator underperformed during the period amid rising bond yields globally and as its FY20 result showed COVID-19 related restrictions continued to impact traffic volumes for its key assets. ALX reported that traffic for APRR remained 25% lower y/y in the beginning of CY21, while Dulles Greenway was down 50% y/y. That being said, ALX's actual FY20 result was solid, with proportional EBITDA of \$881mn above consensus of \$837mn and dividend guidance for 2H21 was raised to 13 cents per share. We remain overweight based on its strong liquidity and balance sheet position, which leaves it well placed to weather any further COVID-19

related downturn, and a positive long-term view. ALX holds attractive, long-duration assets and trades at a discounted valuation (11 times normalised EV/EBITDA), which more than captures the disruption from COVID-19 but doesn't reflect the outlook for a recovery as vaccines roll out. We continue to believe the intrinsic value of ALX's assets will eventually be realised following the simplification of its ownership structure in the past two years, resulting in significant upside.

Nanosonics (NAN, overweight) – the disinfection medical device company underperformed after its 1H21 result missed expectations, mainly due to currency headwinds and as COVID-19 impacted device sales in the US. 1H21 revenue declined 11% y/y, while constant currency revenue fell 8% y/y. Our positive view towards the medical disinfection device company remains premised on 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.

ZIP Co. (Z1P, underweight) – the payment solutions company outperformed after its 1H21 result came in ahead of expectations as its Quadpay acquisition continued to gain traction in the US, with TTV growth of +217% y/y and the number of active customers increasing by 915,000 to 3.2mn. Further, net transaction margins for its Quadpay brand were 2.7% – the highest among the sector. We remain underweight based on several factors. We remain cautious towards Z1P due to an uncertain regulatory landscape and the increasingly difficult competitive environment for the BNPL challenger as market leaders (e.g. Afterpay) gain greater scale advantages and incumbents (e.g. PayPal) enter the market. In the short term, we believe its valuation (at 8.8 times forward sales) does not reflect the uncertainty associated with COVID-19. While loss rates are low so far, it remains extremely early in the bad debt cycle (where Z1P is exposed as an unsecured consumer lending business).

Key Purchases

Virtus Health (VRT) – we established a position in the IVF treatment company during the period based on several factors. Firstly, we expect the IVF treatment market to rebound following the COVID-related disruption, as we believe demand for its services has simply been deferred, not lost. Secondly, we expect VRT's competitive position in Australia to strengthen based on its superior offering versus low-cost competitor treatments, with the new chief executive focused on leveraging the company's genetics and embryo selection technologies. Thirdly, VRT has a market leading position in offshore markets Singapore, Denmark and Ireland, which currently comprise 20% of revenue and offer attractive growth potential (8-10% p.a.).

Lastly, VRT's balance sheet is improving (with net debt to EBITDA now below 2 times), the growth strategy is capital light and the company trades at a compelling valuation (at 15.6 times 12-month forward earnings) when considering its position as market leader.

Northern Star (NST) – we have a small underweight position in the gold miner as part of its merger with Saracen Minerals (SAR), which we were overweight in the prior period. We remain underweight NST based on its stretched valuation metrics, at 6.3 times forward EV/EBITDA, and negative long-term view of the gold price. While we are positive towards the company's operations and its proposed merger with Saracen Minerals (SAR), we see significant downside risk to the commodity – at elevated levels of US\$1,800oz – amid an outlook for higher real interest rates (which are generally a headwind to the gold price). We maintain a small exposure to gold through diversified miner IGO Limited (IGO).

Beach Energy (BPT) – we increased our position in the oil & gas producer during the period. We see BPT's valuation as appealing at a 12-month forward P/E of 9.2 times and an EV/EBITDA of 3.6 times, underpinned by low-risk gas contracts (which are likely to re-price higher) and its tangible organic growth platform (funded by a robust balance sheet). While FY21 and FY22 remain investment years for BPT to shore up future production volumes (Otway, Cooper, Western Flank), we see the medium-term investment proposition as attractive. We also support BPT's mandate to grow through further accretive M&A, the execution of which will likely require further equity.

Key Sales

Saracen Minerals (SAR) – we exited our position in the gold miner during the period ahead of its merger with Northern Star (NST). We are underweight NST based on its stretched valuation metrics, at 6.3 times forward EV/EBITDA, and negative long-term view of the gold price. While we are positive towards the company's operations and its proposed merger with Saracen Minerals (SAR), we see significant downside risk to the commodity – at elevated levels of US\$1,800oz – amid an outlook for higher real interest rates (which are generally a headwind to the gold price).

Cooper Energy (COE) – we exited our position in the gas producer during the period in preference for Beach Energy (BPT), which we see as a more compelling opportunity. BPT offers a more diversified portfolio in terms of both product and geography, and trades at a more attractive market valuation (at a 12-month forward EV/EBITDA of 3.5 times versus COE at 6.0 times). That being said, we retain a positive view of COE. Notwithstanding disappointing delays around the Orbest processing plant (operated by APA Group), COE's Sole project is bringing the only material conventional volume to market in the near term. More broadly, we are positive towards high-quality natural gas as countries seek reliable and affordable power sources with lower associated CO2 emissions.

Imdex (IMD) – we trimmed our position in the drilling services company during the period but remain overweight. As the leading provider of drilling equipment to the gold industry, IMD is well positioned versus its peers and is set to benefit from the increased investment in the sector. The company's relatively flat cost of doing business and its ability to increase prices by adding new products to its existing suite should support high operating leverage. IMD also has a strong balance sheet (net cash) and trades at a supportive valuation.

Key Active Overweights

Vocus (VOC) – we remain overweight the telco on the grounds it trades at a discount to the takeover offer from the MIRA and Aware Super consortium of \$5.50 per share, which was finalised subsequent to month-end. Further, given the appeal of its assets, we believe a competitor bid could emerge. The takeover supported our thesis that the combination of good management, improving fundamentals and quality of the asset base will result in significant upside. The management team 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.

Link Administration (LNK) – we remain overweight the company because we continue see compelling value in its base share registry business and electronic conveyancing business PEXA. The Carlyle/PEP consortium's offer values LNK's base business on 14.6x FY22 earnings which compares to 16.1x for listed peer CPU. The implied valuation multiple of PEXA is 15.5x EV/EBITDA compared to globally listed equity exchanges which trade on more than 20.85x forward EV/EBITDA and growth oriented domestic marketplaces such as SEK, CAR and REA which trade on significantly higher 268x forward EV/EBITDA multiples. 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. We support LNK's move to prioritise the trade sale process of PEXA, which in our view will unlock material value.

IGO (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.

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 24.3 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.

Oil Search (OSH) – we are underweight the oil & gas producer because we believe the sheer size of its growth projects (the Pikka project in Alaska alone is worth more than US\$1.5bn 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. Our preferred exposure in the sector is Beach Energy (BPT), which has a strong balance sheet (gearing 1.5%) and trades at a more compelling valuation (3.6 times EV/EBITDA versus OSH at 9.6 times).

Northern Star (NST) – we remain underweight NST based on its stretched valuation metrics, at 6.3 times forward EV/EBITDA, and negative long-term view of the gold price. While we are positive towards the company's operations and its proposed merger with Saracen Minerals (SAR), we see significant downside risk to the commodity – at elevated levels of US\$1,800oz – amid an outlook for higher real interest rates (which are generally a headwind to the gold price). We maintain a small exposure to gold through diversified miner IGO Limited (IGO).

Market outlook

The Australian economy finished 2020 with strong momentum and incoming data suggests this momentum has spilled over into 2021. A trend decline in new COVID-19 infections in developed countries and the successful commencement of vaccine programs in concert with exceptionally loose financial and fiscal setting has helped underpin confidence in the global economic recovery. We expect global economic growth will accelerate to average 5.5% in CY21, compared to the average global growth rate from 1980 to 2019 of 3.5%. Although this is strong global growth by historical comparison, we believe the Australian economy will more than keep pace. Indeed, our estimates of real time economic activity suggest Australia is currently expanding faster than any G7 country and we expect Australian economic growth will average 6% in 2021.

The driving force of the recovery into 2021 will be consumption growth. The combination of the highest household saving ratio since the mid-1970s in concert with rising asset prices, declining unemployment, rising hours worked and improving consumer confidence is expected to underpin a 7.0% rise in consumption growth in 2021. Although concerns have persisted over fiscal fade via lapsing fiscal stimulus measures, our analysis has long

suggested that the extension of some fiscal programs, the pull forward of income tax cuts and the recovery in labour income as furloughed workers return to work is sufficient to avoid a bout of fiscal fade weighing on household income growth. From our perspective, the fundamentals for household consumption growth in 2021 are as strong as any period in the past 30 years.

A secondary force assisting the recovery is the upswing in new housing approvals, housing finance approvals and house prices. Despite a sharp drop in net migration and earlier concerns over house price declines, sentiment regarding housing has been buoyed by record low interest rates, a shift in responsible lending onus back to the borrower, large government incentives for construction and the strong guidance by the RBA that interest rates will remain at current levels for the next 3 years has seen detached housing approvals surge to a record high which will support construction activity throughout 2021.

Our expectation is that additional fiscal stimulus in the US and additional QE in major offshore markets in concert with the extension of the QE program in Australia, will leave a pro-growth fiscal and monetary environment for both economic growth and earnings growth in Australia.

The RBA's explicit aim of QE is to lower Australian longer term bond rates and lower the A\$. We expect the RBA to be partially successful in moderating the appreciation of the A\$, however, upward pressure on the A\$ will likely remain as the global economic recovery continues. We continue to expect the A\$ to finish 2021 at 80c.

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 Industrials sectors, but are underweight Financials, Real Estate and Consumer Discretionary.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	15.95	8.37	7.58
Consumer Discretionary	9.13	14.73	-5.61
Consumer Staples	5.90	4.90	1.01
Energy	5.55	4.65	0.91
Financials	4.27	12.03	-7.76
Health Care	15.21	6.54	8.67
Industrials	11.73	9.59	2.13
Information Technology	6.86	6.63	0.23
Materials	21.63	22.83	-1.20
Real Estate	2.58	8.44	-5.85
Utilities	0.00	1.29	-1.29

Top 5 holdings

	Portfolio %	Benchmark %	Active %
Vocus	4.11	0.66	3.46
IGO	4.10	0.93	3.18
Atlas Arteria	3.93	1.04	2.89
Link Administration	3.81	0.49	3.31
Healius	3.53	0.44	3.09

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Vocus	4.11	0.66	3.46
Link Administration	3.81	0.49	3.31
IGO	4.10	0.93	3.18
Underweights			
Tabcorp	0.00	1.93	-1.93
Oil Search	0.00	1.53	-1.53
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	7.86	6.41	6.36	6.81
Distribution return	1.21	1.70	1.82	2.44

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\$154.25 mn as at 28 February 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 February 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.

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