

Yarra Emerging Leaders Fund

Gross returns as at 28 February 2022

	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	0.35	-3.81	12.20	11.71	11.41	12.02	11.48
Emerging Leaders Combined Benchmark†	-0.16	-6.43	9.08	10.27	10.65	8.84	7.44
Excess return (before fees)‡	0.51	2.62	3.12	1.44	0.76	3.18	4.04

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 2022

	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	0.25	-4.10	10.81	10.33	10.04	10.63	10.18
Emerging Leaders Combined Benchmark†	-0.16	-6.43	9.08	10.27	10.65	8.84	7.44
Excess return (after fees)‡	0.41	2.33	1.73	0.06	-0.61	1.79	2.74

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 defied a fall in global markets during February, maintaining value on a better-than-expected earnings season even as uncertainty spiked over Russia invading Ukraine and resulting sanctions.

The Emerging Leaders Benchmark declined a modest 0.2% during the month, taking its 12-month return to 9.1%. While global indices fell (S&P500 -3.0%), a solid set of 1H22 earnings held up the domestic market. Around 36% of companies received consensus upgrades for the full year (two times the long-run average)¹ as strong top line growth more than offset rising input costs.

At a sector level, Energy (+3.2%) and Materials (+3.7%) were among the top performers. In the former, coal producers Whitehaven Coal (WHC, +22.8%) and New Hope Corporation (NHC, +11.9%) continued to surge alongside higher thermal and coking coal prices. In the latter, chemicals producer Nufarm (NUF, +23.2%) announced a strong 1Q22 update as well as aspirational long-term growth targets, while the Gold sector (+15.1%) rose in value alongside the commodity (+6% to \$US1,910/oz).

Conversely, Information Technology (-9.7%) declined the most in value. Losses were widespread in the tech sector as the prospect of higher interest rates compressed valuations, with notable declines including Life360 (360, -37%), Novonix (NVX, -32.9%) and Tyro Payments (-31.5%). Health Care (-7.9%) also weighed on the index, weighed down by Telix Pharmaceuticals (TLC, -27.2%), Imugene (IMU, -24.2%) and Polynovo (PMV, -23.7%) and Nanosonics (NAN, -17.5%).

Portfolio review

Key Contributors

Evolution Mining (EVN, overweight) – the gold miner outperformed alongside the commodity (+6% to \$US1910/oz), which more than offset a softer 1H22 result and expectations for a heavy 2H22 skew (~53% of production) to meet full-year guidance. EVN is our preferred exposure within the S&P/ASX Midcap 50 Index, based on its diversified, high-quality assets and strong management team. While the growth outlook may not be as compelling as peer Northern Star (NST), we see upside based on the company's production at Cowal and Red Lake assets and improving cost profile.

¹ Source: Goldman Sachs Investment Research.

Northern Star (NST, overweight) – the gold miner outperformed as the commodity increased by 6% to \$US1,910 per ounce in response to growing uncertainty around the Ukraine-Russia conflict. The company also delivered its 1H22 result, with cash NPAT of \$430mn between guidance for \$425-440mn. For the full year, FY22 guidance was unchanged at 1.55-1.65mn ounces at an all-in sustaining cost of \$1,475-1575/oz. We remain overweight NST. We believe the company will benefit from higher-than-expected production and reserves/resources after taking full ownership of the KCGM SuperPit Mine last year. We see the company's valuation as attractive at 6.4 times forward EV/EBITDA, which is only marginally above the wider Gold sector despite a superior growth outlook. More broadly, we have a selective exposure to the commodity, balancing the prospect of higher inflation with an uncertain rate hike path in the US (which is generally a headwind to the gold price).

Mineral Resources (MIN, underweight) – the company underperformed after delivering a worse-than-expected 1H22 result, with EBITDA coming in at \$156mn – 58% below consensus forecasts – and the dividend suspended. The miss was driven by higher operating costs in its Fe division, which reminded the market that MIN is a high-cost, swing producer for the commodity. We remain underweight based on the view that 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.

Key Detractors

Nanosonics (NAN, overweight) – the disinfection medical device maker underperformed as the market focused on risks associated with its post-COVID recovery, specifically as the company shifts the sale of its consumables from its partner, GE, to its own direct channel. 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.

IGO Limited (IGO, overweight) – the battery commodity producer partially retraced prior outperformance without any materially negative news. Its 1H22 result was mixed, with inaugural lithium guidance modestly below consensus on volumes but offset by higher pricing and a better-than-expected performance from its Nova nickel asset. Our positive thesis is premised on the miner's recent \$US1.4bn Greenbushes acquisition, its \$A1.1bn takeover of nickel miner Western Areas (WSA) and its existing portfolio of high-quality assets. We support the Greenbushes 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 support the WSA acquisition on the grounds it diversifies production (rebalancing commodity exposure to 70% Li, 30% Ni) and extends the mine life for nickel production (which is currently through its world-class Nova asset).

Lynas Rare Earths (LYC, underweight) – the rare earths miner outperformed after delivering a strong 1H22 result, with profit +286% y/y to \$156.9mn supported by soaring NdPr prices. Management also announced progress with its Kalgoorlie cracking and leaching facility receiving EPA approval in the month. Nevertheless, we remain underweight. Notwithstanding the positive outlook for the commodity basket, particularly given its leverage to the EV thematic, we see risks due to regulatory uncertainty of its operating licence in Malaysia and its valuation, at a 12-month forward EV/EBITDA of 11.9 times. Our preferred EV exposure is IGO Limited (IGO), which trades at a more attractive 8.5 times despite superior diversification and lower geopolitical risk.

Key Purchases

Metcash (MTS) – we established a position in the wholesale distributor during the period. MTS trades at 14.8 times, a discount to peers WOW and COL, with the market treating MTS as if it is a majority Food business in structural decline. This however is no longer the case, with MTS' largest division now Hardware (41% of Group EBIT). Hardware is set to benefit from a strong store rollout and refurbishment strategy as well as more corporate stores (from current 30% to ~50%), which will support margins. In regard to Food (41% of Group EBIT), significant work has been done over recent time to gain supplier support to reduce prices, which has finally come to fruition over the last 6-12 months as C-19 provided a surge in foot traffic. Continued strength in states where minimal C-19 restrictions have been in place for an extended period highlights the improvement in the IGA offer and builds confidence for the NSW/VIC outlook in the short to medium term. Finally, inflation is anticipated in the coming 12 months which will benefit MTS by assisting them cycle strong comps whilst also being margin accretive as existing stock in their shed (which they generally try buy as much as possible before the price rise) can be on sold at higher prices.

Netwealth (NWL) – we increased our position during the period. In our view NWL is a high-quality business; the company is Australia's largest independent investment platform provider with leading technology and a focus on customer service. As a result, the company is taking share from incumbents (the banks), with momentum increasing in the wake of the Financial Services Royal Commission. While weaker equity markets represent a risk to earnings, NWL can cushion the impact via sliding administration fee scales

and fee caps and, moreover, through its leverage to higher interest rates and strong net inflows.

Worley (WOR) – we increased our position in the engineering services company during the period. We believe the company is in a strong position to benefit from a recovery in its traditional oil & gas work and new sustainability projects. Following the Jacobs ECR acquisition, the business is diversified across different markets and is well positioned to capture higher structural demand from energy transition work to low carbon solutions. We believe WOR's valuation provides significant support at current levels, with the stock trading on 17.8 times forward earnings, a sharp discount to the Industrials ex-Financials at 24.5 times.

Key Sales

CSR (CSR) – we exited our position in the company following a period of strong outperformance and, moreover, as Australian housing looks set to decline from stimulus-induced levels. As a result, we see downside risk to earnings from CSR's Building Materials division (75% of EBIT) from FY23. In this context we do not find the valuation as attractive at its headline multiple of 13.3 times forward earnings.

Aventus (AVN) – we exited our position in the large format retail REIT following recent outperformance and, secondly, as the proposed merger raises governance concerns with the stock. While we continue to view the merged entity favourably compared to shopping mall peers, with 'essential services' making up significantly more NOI, we are concerned about the external management structure. We believe this leads to inherent conflict and an ESG discount relative to internally managed peers.

Centuria Capital Group (CNI) – we reduced our overweight position as concerns around higher real yields resulted in lower capacity to maintain FUM growth at elevated levels. That being said, we remain overweight the company as we continue to see its growth platform as attractive. The company manages a diversified portfolio by property asset type and capital source, underpinned by listed investment vehicles (CIP and COF). We hold a positive view of its recent merger with Primewest Group (PWG) which is accretive and diversifies the business across new markets (Retail, Agriculture). The company's P/E trades at of 18.42 times which, while above peer Charter Hall Group (CHC, at 16.2 times), is justified given CNI's superior medium-term growth potential.

Key Active Overweights

Link Group (LNK) – we are positive on the company because we see compelling value in its base share registry business and electronic conveyancing business PEXA, which has been supported by recent corporate interest. We hold a positive view of PEXA premised on its infrastructure-like characteristics of the property settlement exchange upon maturity, supplemented by numerous growth opportunities in immediate adjacencies. Further, LNK is

positively leveraged to higher US interest rates, which we see as a meaningful tailwind over the medium term. Lastly, LNK trades at 21.6 times forward earnings, a discount to the Industrials ex-Financials at 24.5 times.

IGO Limited (IGO) – our positive thesis is premised on the miner's recent \$US1.4bn Greenbushes acquisition, its \$A1.1bn takeover of nickel miner Western Areas (WSA) and its existing portfolio of high-quality assets. We support the Greenbushes 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 support the WSA acquisition on the grounds it diversifies production (rebalancing commodity exposure to 70% Li, 30% Ni) and extends the mine life for nickel production (which is currently through its world-class Nova asset).

Worley (WOR) – we believe the company is in a strong position to benefit from a recovery in its traditional oil & gas work and new sustainability projects. Following the Jacobs ECR acquisition, the business is diversified across different markets and is well positioned to capture higher structural demand from energy transition work to low carbon solutions. We believe WOR's valuation provides significant support at current levels, with the stock trading on 17.8 times forward earnings, a sharp discount to the Industrials ex-Financials at 24.5 times.

Key Active Underweights

Bluescope Steel (BSL) – our underweight position is premised on 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 5.5 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.

Lynas Rare Earths (LYC) – we remain underweight. Notwithstanding the positive outlook for the commodity basket, particularly given its leverage to the EV thematic, we see risks due to regulatory uncertainty of its operating licence in Malaysia and its valuation, at a 12-month forward EV/EBITDA of 11.9 times. Our preferred EV exposure is IGO Limited (IGO), which trades at a more attractive 8.5 times despite superior diversification and lower geopolitical risk.

Charter Hall Group (CHC) – we remain underweight the stock based on our view that AUM growth and transaction volumes – which are running at elevated levels – will normalise in the medium term as the cap rate compression cycle slows. As the growth rate of the business slows from impressive double-digit levels, we expect the multiple to contract, putting pressure on the share price outlook. Within the real estate fund manager space, our preferences are in Goodman Group (GMG) and Centuria Capital (CNI).

Market outlook

Geopolitical events and surging commodity prices have taken centre stage this month, shaking risk sentiment and challenging consensus' optimistic forecast for global growth in 2022. From our perspective, although for the past six months our forecasts for global growth in 2022 have been below consensus, we believe a series of downgrades will soon be evident for global growth and earnings growth in most major markets. Surging commodity prices and ongoing supply shortages have resulted in further upside to the inflation outlook and risks forcing the hand of central banks in coming months in an attempt to contain rising inflation expectations. The reality for 2022 is that a world of higher inflation, slower growth and higher financing costs awaits.

Australia does have some key natural advantages in such a climate. The most notable is that Australia's export dominance of iron ore, coal, LNG, gold, wheat, and base metals contribute close to 80% of Australia's exports, and each of these commodities have seen strong price rises in early 2022 which will translate into a large positive national income boost, even if spot prices retreat in coming weeks. Indeed, Australia presents as a safe haven market which is far from the conflict in Europe, an exporter of in demand raw materials and given its own undershooting of its inflation target since 2015, it has ample room to adjust policy setting at a more gradual pace.

Australia also has the benefit of recovering underlying household income growth, \$230bn in 'excess saving', strong corporate profit growth, robust capex expectations in concert with improving government finances which suggests Australian economic growth in 2022 will remain more robust than its developed economy peer group. In both CY2022 and CY2023 we expect the Australian economy to expand at an above 'potential' rate of 3%. While this is slower than the 4% pace recorded in 2021, it is still sufficient to see further employment growth gains and we expect the unemployment rate will soon fall below 4% and below the RBA's estimate of non-accelerating inflation rate of unemployment (NAIRU), with further wage pressure to become evident into mid-2022. We expect the RBA will still take its time to assess the outlook for inflation and most likely will commence increasing interest rates in 4Q2022 with a 35bp hike. We expect a further four 25bp rate hikes in 2023, with the consumer well placed to absorb initial interest rate rises.

While the RBA may well prove to be later than most other developed nations in tightening policy, tighter financial conditions in 2022 are likely to come via a stronger currency. The A\$/US\$ has in recent months been buffeted by concerns of a peak in global industrial growth indicators and slowing China economic momentum. Nevertheless, Australia's external accounts are in their best position since the early 1970s and surging commodity prices in early 2022 is providing an incentive for the A\$/US\$ to commence an appreciation cycle well before the RBA joins other central

banks in tightening interest rates later this year. We expect the A\$ will finish 2022 at around 76 cents, albeit the risk to this forecast is on the upside.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.15	5.87	6.28
Consumer Discretionary	10.16	12.52	-2.36
Consumer Staples	5.49	4.04	1.45
Energy	3.99	6.06	-2.08
Financials	7.75	10.81	-3.06
Health Care	9.81	4.16	5.65
Industrials	8.46	10.80	-2.34
Information Technology	9.93	7.52	2.42
Materials	23.54	26.64	-3.10
Real Estate	3.60	10.65	-7.05
Utilities	0.00	0.93	-0.93

Top 5 holdings

	Portfolio %	Benchmark %	Active %
IGO	5.19	1.38	3.81
Link Administration	4.51	0.55	3.96
Evolution Mining	4.14	1.47	2.67
Atlas Arteria	4.05	1.17	2.88
OZ Minerals	4.04	1.59	2.45

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Link Administration	4.51	0.55	3.96
IGO	5.19	1.38	3.81
Worley	3.99	0.83	3.16
Underweights			
Bluescope Steel	0.00	1.89	-1.89
Lynas Rare Earths	0.00	1.73	-1.73
Charter Hall Group	0.00	1.46	-1.46

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	9.48	8.80	8.27	8.44
Distribution return	1.34	1.53	1.77	2.20

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\$54.9 mn as at 28 February 2022	
APIR codes	JBW0010AU	
Estimated management cost	1.25% p.a.	
Buy/sell spread	+/- 0.20%	
Platform availability	Asgard BT Panorama Hub24 Macquarie Wrap	Mason Stevens MLC Navigator MLC Wrap Praemium

Investment performance comparison of \$50,000

After fees, since inception of the Yarra Emerging Leaders Fund, September 1997 to February 2022.



For illustrative purposes only. Past performance does not guarantee future results, which may vary. The total net fund returns shown are prepared on an exit to exit basis (i.e. they include all ongoing fees and expenses and assume reinvestment of all distributions). They do not take personal taxation into account. The comparison with the 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.

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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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