

Yarra Emerging Leaders Fund

Gross returns as at 28 February 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	0.35	3.37	2.32	8.23	8.53	10.54	11.11
Emerging Leaders Combined Benchmark†	-3.45	-1.69	-1.32	8.49	6.15	8.15	7.06
Excess return (before fees)‡	3.81	5.06	3.64	-0.26	2.38	2.40	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 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	0.26	3.05	1.06	6.89	7.19	9.18	9.80
Emerging Leaders Combined Benchmark†	-3.45	-1.69	-1.32	8.49	6.15	8.15	7.06
Excess return (after fees)‡	3.71	4.74	2.37	-1.60	1.04	1.03	2.74

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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 Emerging Leaders Benchmark returned -3.5% for the month, taking its 12-month return to -1.3%. The broader ASX300 returned -2.6% for the month, while global indices followed a similar path (MSCI World Index, -2.4%).

Information Technology (+1.0%) was the only sector to deliver a positive return for the month. Despite the extreme market volatility, there was evidence of improving performance, with notable stocks being Infomedia (IFM, +26.7%), Link Administration (LNK, +19.3%) and NextDC (NXT, +4.0%).

Insurance (+7.9%) was the top sub-sector performer during the month within the Financials (-1%) sector which outperformed due to strong 1H22 results. Notable stocks were AUB Group (AUB, +17.4%) and Steadfast (SDF, +12.4%).

Conversely, the poorest performing sector was Utilities (-8.8%), with AGL Energy (AGL, -8.8%) touching a three-month low of \$6.98 after posting an interim loss of more than \$1 billion and cutting its full year profit guidance.

Portfolio review

Key Contributors

AUB (AUB, overweight) – AUB outperformed in the month due to a strong 1H22 update which included a guidance upgrade. The result confirmed substantial premium growth trends in the industry, which assisted organic growth. AUB's recent significant acquisition, Tysers, delivered a solid 1H22 performance which beat previous guidance and confirmed the integration of Tysers into AUB continues to travel well. The core Australian broking business saw good operating leverage, with EBIT margins increasing to 35.2% from 31.1%, and medium-term margin targets increased for various AUB divisions. We continue to hold AUB as the market gains further confidence in the outlook for the Tysers acquisition and continued operating leverage is realised in AUB's operating divisions.

Flight Centre Travel (FLT, overweight) – the travel company outperformed during the period after announcing a stronger than expected 1H23 result above prior guidance, including positive outlook commentary which touched on the recently acquired premium leisure travel business, Scott Dunn. The Leisure division (40% of pre-COVID EBIT) is set to benefit from pent-up travel demand, with improved margins after a material reduction in the cost base. The Corporate division

(60% of pre-COVID EBIT) is rapidly expanding market share, which we expect will more than offset a smaller addressable market caused by the increased use of virtual meetings. Furthermore, as group earnings improve, we believe there is additional value to be realised from restructuring the balance sheet.

Link Administration (LNK, overweight) – the outsourced services provider appreciated during the month as the company made material progress in resolving the uncertainty overhanging its UK Fund Solutions business. LNK announced that it had an in-principal agreement with potential acquirer Waystone to purchase its Fund Solutions business, with the UK regulator (FCA) agreeing that the proceeds from the sale would be sufficient to cover its restitution claims for unitholders in the collapsed Woodford funds.

Key Detractors

Evolution Mining (EVN, overweight) – the gold producer was a negative contributor during the period. EVN recovered value in late 2022 following disappointing production levels, guidance downgrades and balance sheet concerns during the middle of the year. However, the stock followed the gold price lower in February, with gold declining 5% to US\$1,817/oz at month end. We continue to see support for gold prices across the medium term, and see EVN as well placed to benefit from an improving balance sheet, resource upside at Ernest Henry, and further turnaround Potentia at Red Lake.

Pinnacle Investment Management (PNI, overweight) – the investment manager underperformed during the period after reporting a 1H23 result below expectations, largely due to lower-than-expected revenues across both performance and management fees. Going forward, we believe revenue growth will increase, with material longer term growth potential as market conditions normalise from depressed levels, inflows increase across its diverse range of products, performance fees increase from recent near-zero levels, international distribution accelerates, and new products mature. Furthermore, margin expansion will be supported by the fixed cost nature of the funds management industry and new manager formation (organic and via acquisition), which has created material shareholder value over time.

Orica (ORI, underweight) – the global manufacturer and distributor of commercial blasting systems outperformed over the month as the price for Ammonia – a key input for the group – declined further, now down 65% from April 2022 peaks. However, ORI's contracts have 'rise-and-fall' provisions in place which pass on both ammonia inflation and deflation to customers, limiting the margin benefit. We don't see the reduction in ammonia as driving better economics for the group other than reducing ORI's working capital balance, which has been elevated in recent years due to heightened ammonia prices.

Key Purchases

Alumina (AWC) – we increased our position in AWC during the period. Following China's recent decision to move away from COVID-zero policies, we see upside risk to demand for alumina. China is a major customer of alumina to supply its under-utilized aluminium smelters that have been operating below full capacity due to the combined impacts of weak demand from COVID lockdowns, and drought conditions which have reduced hydroelectricity generation to power smelting operations. We expect increased industry activity and housing starts, coupled with improving weather conditions, will support increased aluminium demand in China and therefore increase demand for alumina feedstock. While energy costs in Spain and reliability concerns in WA have recently weighed on the company's share price, we see upside from both commodity prices and a turnaround in operating performance.

Flight Centre Travel (FLT) – we increased our position in the travel company during the period through the equity raising undertaken to acquire the premium leisure travel business, Scott Dunn, and following a stronger than expected 1H23 result. The Leisure division (40% of pre-COVID EBIT) is set to benefit from pent-up travel demand, with improved margins after a material reduction in the cost base. The Corporate division (60% of pre-COVID EBIT) is rapidly expanding market share, which we expect will more than offset a smaller addressable market caused by the increased use of virtual meetings. Furthermore, as group earnings improve, we believe there is additional value to be realised from restructuring the balance sheet.

Key Sales

JB Hi-Fi (JBH) – we reduced our position in the retailer during the period ahead of an anticipated deterioration in consumer spending, with growing evidence that high value/housing-related goods appear to be softening in response to rising interest rates. While we continue to regard JBH as a high-quality retailer that is well positioned to navigate the volatility ahead, we remain wary that earnings headwinds may persist for some time and weigh on the business. With strong cash generation and a robust balance sheet, we retain a position in JBH but await more certainty on the outlook.

Atlas Arteria (ALX) – the portfolio's position was reduced during the month as the toll road owner is now trading closer to an enterprise value equivalent to where it was trading prior to undertaking what we regard as a value destructive acquisition of the Chicago Skyway toll road.

Key Active Overweights

Reliance Worldwide (RWC) – the market is showing concern for a falling demand environment and the plumbing supplies company's FY23 estimates have been lowered after recent updates. We believe RWC is a compelling opportunity, with the market pricing for a significant decline in earnings (P/E of only 14 times vs 17 times mid cycle) whereas we remain constructive on the demand

environment given the defensive nature of the majority of RWC's repair and remodelling sales.

Worley (WOR) – we remain overweight the professional project and asset services company. WOR's earnings recovery is in its early stages following COVID impacts across FY20-22: revenue is expected to increase 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 the company benefits from a more consolidated industry structure, operating leverage, and active mix management.

Carsales.com (CAR) – we remain overweight the online car classifieds company based on improving yields from products such as Instant Offer as well as a continuation of the post COVID recovery in inventories in Australia (~50% of CAR valuation). We are also constructive on the outlook for Trader Interactive (TI), CAR's US business (~30% CAR valuation), which is seeing stronger dealer penetration in Powersports after CAR acquired the remaining 51% stake in TI. With new incentives in place, we believe penetration should increase across other categories. Stronger yields are coming through from both pricing, depth (Top Spot), as well as other initiatives. We are attracted to the opportunity to improve the profitability of Encar, CAR's South Korean business.

Key Active Underweights

WiseTech (WTC) – we remain underweight the Australian based provider of software services to the logistics industry, with a preference for other names in the technology sector given WTC's demanding valuation of 85 times 1-year forward P/E. While we believe WTC has and continues to build an exceptional product in Cargowise, which should continue to attract and retain large and key freight forwarders, we struggle to justify paying such a demanding multiple given more attractive available opportunities in the tech space on a risk adjusted basis.

Vicinity Centres (VCX) – having outperformed its retail focussed REIT peers over CY22, delivering a strong Dec-22 result (FY23 FFO upgraded in excess of 5%) and having confirmed a well credentialed new CEO, we believe the positive tailwinds have likely ended as the company faces into a more challenging retail environment domestically as higher interest rates pressure consumers. Valuation support is now limited in our view, with the stock implying only a modest 40bps expansion in current cap rates (from 5.3% as at 31 Dec 2022), providing limited support as the valuation and earnings cycle slows for retail rates into CY23/24.

Ampol (ALD) – we retain an underweight position in the refiner, driven by expectations of a medium-term reversion in refining margins. While ALD's result demonstrated ongoing margin resilience (US\$18.4/bbl in Jan 2023), we expect that FY22 will mark peak earnings and will soften in subsequent years as new capacity is added into the market. With the company trading on a FY24 earnings multiple of 12

times (vs a long-term average of 13 times) and a 6% dividend yield, we believe better opportunities can be found elsewhere at this time.

Market outlook

As we near the end of the March quarter, some of the initial enthusiasm for risk has started to fade on the combination of stronger than consensus expectations data in the US and the US Fed raising the prospect of returning to 50bp hikes, after stepping down to a 25bp increment in January. This combination of events has seen bond yields rise in an environment where earnings revisions remain in downward revision mode, resulting in a relatively sharp decline in equity risk premia and leaving the equity market somewhat more vulnerable from a valuation perspective.

On balance, the better data in the US in early 2023 can be mostly attributed to unusually warm weather and we still believe the US and Europe remain near recession-like economic growth conditions in 1H23 and inflation dynamics will change sufficiently for policy makers to conclude that the monetary policy is sufficiently restrictive to halt the tightening cycle in coming months.

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:

1. 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 1H2022 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.
2. 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.
3. 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 accounting 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 to be steel intensive, opening up new customers.

4. 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 be close to 2% in 2023.

While the RBA has been later than most other developed nations in tightening policy, tighter financial conditions in 2022 have come via both significantly higher cash rates, higher government bond yields and wider corporate bond spreads. Following the February and March rate hikes of 25 bps, we believe financial conditions are now in the restrictive zone and the RBA is now close to the finish of the tightening cycle. Importantly, it is clear the RBA is now openly considering pausing the hiking 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. Interest rate hikes in Australia will remain a month-to-month proposition for the next six months, however, our bias is that the last hike has likely been delivered this cycle.

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, 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 Information Technology sectors, and are underweight Real Estate, Energy and Materials.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.75	5.87	6.88
Consumer Discretionary	9.43	11.20	-1.78
Consumer Staples	1.25	3.82	-2.57
Energy	4.60	8.05	-3.45
Financials	11.27	10.85	0.42
Health Care	6.96	4.57	2.39
Industrials	11.78	11.72	0.07
Information Technology	9.27	8.52	0.75
Materials	20.31	23.92	-3.61
Real Estate	3.82	10.70	-6.88
Utilities	0.00	0.79	-0.79

Top 5 holdings

	Portfolio %	Benchmark %	Active %
Carsales.com	4.78	1.52	3.26
Reliance Worldwide	4.72	0.54	4.18
Worley	4.60	1.08	3.52
OZ Minerals	3.92	1.79	2.13
NextDC	3.76	0.90	2.87

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Reliance Worldwide	4.72	0.54	4.18
Worley	4.60	1.08	3.52
Carsales.com	4.78	1.52	3.26
Underweights			
Wisetech Global	0.00	2.08	-2.08
Vicinity Centres	0.00	1.50	-1.50
Ampol	0.00	1.50	-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	-12.29	1.18	2.96	5.82
Distribution return	13.34	5.72	4.23	3.35

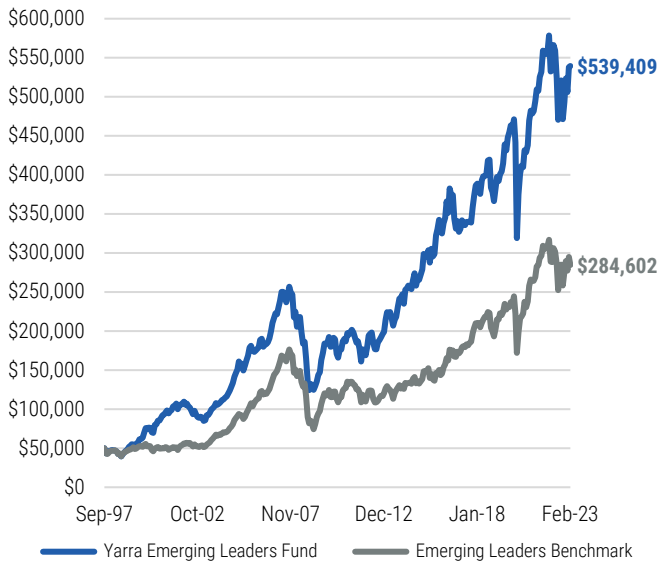
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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\$86.1 mn as at 28 February 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 February 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.

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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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