

Yarra Emerging Leaders Fund

Gross returns as at 31 July 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	1.37	4.71	31.38	11.34	8.14	12.41	11.72
Emerging Leaders Combined Benchmark†	0.68	4.70	33.13	10.65	10.94	8.94	7.74
Excess return (before fees)‡	0.68	0.01	-1.75	0.69	-2.80	3.46	3.98

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 July 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	1.26	4.38	29.76	9.96	6.80	11.02	10.42
Emerging Leaders Combined Benchmark†	0.68	4.70	33.13	10.65	10.94	8.94	7.74
Excess return (after fees)‡	0.58	-0.32	-3.37	-0.69	-4.14	2.08	2.68

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 shares rose modestly in July despite ongoing lockdowns across the east coast of the country.

The Emerging Leaders Benchmark returned 0.7% for the month, taking its 12-month return to 33.1%. However, the market lagged overseas indices, with the S&P500 returning 2.4% during the month amid an upbeat US corporate earnings season.

Metals & Mining ex-Gold (+12.1%) was the top contributor to the index, supported in most part by miners leveraged to the electric vehicle theme, including IGO Limited (IGO, +22.0%), Lynas Corporation (LYC, +28.6%), Pilbara Minerals (PLS, +22.1%), Orocobre (ORE, +27.5%) and Galaxy Resources (GXY, +27.0%).

Corporate activity increased across the broader market during the period. Australian Pharmaceutical Industries (API, +26.5%) received a takeover bid from Wesfarmers (WES) at \$1.38 per share (all-cash), a 21% premium to its last-traded share price prior to the announcement. Elsewhere, Tabcorp (TAH, -4.4%) rejected a third takeover bid for its wagering & media business, instead choosing to spin off its lotteries division.

Conversely, sectors leveraged to the re-opening theme underperformed during the period. Underperformers included Consumer Services (-4.4%), Media & Entertainment (-4.5%) and Retailing (-2.7%). At a stock level, Marley Spoon (MMM, -30.7%) was the worst performer after delivering a disappointing market update, with sales unable to match high growth in the pcg and costs elevated due to labour shortages and supply chain disruptions.

Portfolio review

Key Contributors

IGO Limited (IGO, overweight) – the diversified miner outperformed after announcing the completion of its Greenbushes lithium acquisition late in the prior period and, secondly, a strong June quarter production report. While no guidance was outlined for Greenbushes, production and costs at Nova were well ahead of consensus estimates and FY22 guidance was broadly in line with forecasts. Our positive view is premised on the recent Greenbushes lithium acquisition, which gives IGO exposure to a high-quality, long-dated asset (>20 years mine life) and completes its suite of battery commodities, with the company already producing nickel, copper and cobalt. We also believe the purchase price was reasonable, with Greenbushes likely to be NPV and EPS accretive by FY23. We also hold a positive

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view of IGO's Nova asset, a world-class reserve which supports an increasing production profile.

Select Harvests (SHV, overweight) – rebounded as management gave a positive update, announcing that current market prices for almonds have increased 10% to A\$6.75-7.25 since its last update in July. We remain overweight SHV, with our positive view 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 we expect to 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 (FY20 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.

Carsales.com (CAR, overweight) – the online automotive classifieds company outperformed during the period without any material news. We remain overweight the automotive online classifieds company. Our positive view is premised on the belief CAR should benefit from attractive earnings growth, conservative accounting (with low capitalisation of research and development investment) and undervalued international businesses.

Key Detractors

Mineral Resources (MIN, underweight) – the diversified mining and mining services company outperformed during the period amid a stronger-than-expected fourth-quarter result. Lithium spodumene sales of 155kt were more than 30% ahead of consensus forecasts and mining services volumes grew a solid 20%, more than offsetting iron ore production which didn't quite meet expectations. We remain underweight the company. Notwithstanding MIN's current tailwinds, 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.

Nanosonics (NAN, overweight) – the disinfection medical device maker underperformed without any material news. 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.

Lynas Corporation (LYC, underweight) – the rare earths miner outperformed following a strong fourth-quarter result. Revenue grew +68% q/q to \$186mn, supported by record pricing of \$39/kg and resilient production (despite COVID-19 restrictions in Malaysia lowering capacity). Notwithstanding the positive outlook for rare earths, particularly given its leverage to the EV thematic, we remain underweight the company due to regulatory uncertainty of its operating licence in Malaysia and its valuation, at a 12-month forward EV/EBITDA of 15.9 times. Our preferred EV exposure is IGO Limited (IGO), which traded at a more attractive 15.0 times despite superior diversification and lower geopolitical risk.

Key Purchases

Tabcorp (TAH) – we established a position in the wagering and lotteries company during the period. 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 20 times.

PEXA (PXA) – we participated in the IPO of the electronic conveyancing business during the period. Our investment thesis is premised on the infrastructure like characteristics of the property settlement exchange upon maturity, supplemented by numerous growth opportunities in immediate adjacencies (data and new markets). We see significant earnings upside as cost reductions are realised as the business transitions from a growth phase towards more of a utility phase, supporting higher sustainable EBITDA margins going forward.

Flight Centre (FLT) – we modestly increased our holdings in the travel agency company during the period after establishing a position in the prior month. While the short-term outlook appears uncertain – with the international border likely to remain closed until well into 2022 – we see significant upside at current levels when taking a longer-term view. We expect the Leisure division (38% of pre-COVID EBIT) to benefit from pent-up travel demand in FY23 and FY24, with a skew towards bricks & mortar. In comparison, consensus is factoring Total Travel Value (TTV) remaining 30% below FY19 levels by FY24. And while Corporate (60% of pre-COVID EBIT) faces challenges from cost savings and a preference for Zoom meetings, FLT is taking market share in the segment. As a result, we see FLT as highly attractive at an EV/EBITDA of 5.1 times in FY23.

Key Sales

Bingo Industries (BIN) – we exited our position shortly before the waste management company was de-listed during the period following the successful takeover from a consortium comprising CPE Capital and Macquarie Infrastructure and Real Assets (MIRA).

Seven Group (SVW) – we exited our small overweight position in the conglomerate following recent outperformance. In our view the WesTrac and Coates businesses have strong long-term outlooks. The former, which provides equipment to the mining and construction industries, is set to benefit from customers both upgrading and purchasing new fleet following years of underinvestment. For the latter, we see improved utilisation and pricing of its equipment as infrastructure activity increases and is pushed out (extending the loan period for its products). However, the company's increased stake in Boral (BLD) – now at almost 80% with SVW taking control – dilutes the value of WesTrac and Coates and increases exposure to Australia's housing market, where we believe growth rates will slow following its record stimulus induced rally.

Deterra Royalties (DRR) – we exited our position in the iron ore royalties company during the period, following recent outperformance. We continue to hold a positive view of DRR's Mining Area C (MAC) royalty, which entitles the company to receive 1.232% of iron ore revenue generated from BHP Group (BHP)'s Mining Area C mine and, in addition, an annual capacity payment of \$1mn for every million tonne increase in exports from the area. However, we believe iron ore's recent strength – rising to almost US\$200 per tonne – is unsustainable into the medium term. In this context, we do not see DRR's headline valuation (at a 12-month forward EV/EBITDA of 14.5 times) as attractive. Within Metals & Mining we prefer Iluka Resources (ILU) and IGO Limited (IGO), which offer exposure to commodities with more attractive long-term fundamentals.

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.

Link Group (LNK) – 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 21.8 times.

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 trades on less than 11.0 times normalised EV/EBITDA, which more than captures the disruption from COVID-19 as travel restrictions and lockdowns impact 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.

Key Active Underweights

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.

REA Group (REA) – we are underweight the real estate online classifieds company on the grounds that its positive outlook is fully factored into its valuation (at 49.2 times forward earnings), and more compelling opportunities in the space exist elsewhere. We currently own Carsales.com (CAR) and SEEK (SEK), which in our view trade at more compelling valuations, are market leaders in their industries and have strong growth prospects outside of Australia.

OZ Minerals (OZL) – we are underweight the copper-gold miner based on its stretched valuation metrics (at 6.8 times 12-months forward EV/EBITDA), minimal free-cash-flow generation as the company invests in projects, and downside risk to the copper price, which currently trades at decade-high levels. Notwithstanding the supportive economic environment for the commodity, we remain cautious due to higher supply coming to the market in the short term, with OZL vulnerable versus international peers given its concentrates increasingly contain uranium and thorium. Our preferred base metals exposure remains Independence Group (IGO).

Market outlook

The Australian 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 people employed comfortably exceed pre-pandemic levels. The

unemployment rate declining from a peak of 7.5% in July 2020 to just 4.9% in June 2021 is the clear highlight. Nevertheless, renewed COVID-related lockdowns in Melbourne, Sydney and South East Queensland 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 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 sectors.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.74	7.60	5.14
Consumer Discretionary	11.33	14.73	-3.41
Consumer Staples	6.38	3.22	3.16
Energy	3.33	4.18	-0.86
Financials	7.49	11.49	-4.01
Health Care	12.83	7.11	5.73
Industrials	5.83	9.62	-3.79
Information Technology	10.02	7.15	2.87
Materials	21.61	24.35	-2.75
Real Estate	3.78	9.11	-5.33
Utilities	0.00	1.42	-1.42

Top 5 holdings

	Portfolio %	Benchmark %	Active %
IGO	5.41	1.09	4.32
Atlas Arteria	4.08	1.05	3.03
Link Administration	3.60	0.45	3.15
Carsales.com	3.53	1.04	2.50
Iluka Resources	3.40	0.81	2.59

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
IGO	5.41	1.09	4.32
Link Administration	3.60	0.45	3.15
Atlas Arteria	4.08	1.05	3.03
Underweights			
Mineral Resources	0.00	1.82	-1.82
REA Group	0.00	1.41	-1.41
OZ Minerals	0.00	1.34	-1.34

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	28.11	8.37	5.06	8.73
Distribution return	1.65	1.59	1.74	2.29

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\$164.7 mn as at 31 July 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 July 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.

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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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