

Yarra Emerging Leaders Fund

Gross returns as at 31 July 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	3.68	3.09	14.31	13.58	9.01	11.81	11.24
Emerging Leaders Combined Benchmark†	3.98	2.85	6.69	9.99	6.25	9.39	7.12
Excess return (before fees)‡	-0.31	0.24	7.61	3.59	2.76	2.42	4.12

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 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	3.57	2.76	12.90	12.17	7.66	10.42	9.93
Emerging Leaders Combined Benchmark†	3.98	2.85	6.69	9.99	6.25	9.39	7.12
Excess return (after fees)‡	-0.42	-0.08	6.20	2.19	1.41	1.04	2.81

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

The Australian small and mid-cap equities market had a solid performance in July, with almost all sectors closing in positive territory.

The Emerging Leaders benchmark returned +4.0% for the month, taking its 12-month return to +6.7%. The broader S&P/ASX 300 delivered a +2.9% return for the period and globally, the MSCI World Index rose by +3.4%.

Utilities (+12.8%) was the top performing sector, as the share price of AGL Energy (AGL, +12.8%) continued to climb on the back of the company's robust earnings update in June and a positive outlook for FY24.

Consumer Discretionary (+8.4%) also outperformed during the month. The Hotels Restaurants and Leisure sub-sector was a key driver of outperformance, with stocks including Flight Centre (FLT, +22.7%) and Corporate Travel Management (CTD, +16.9%) each benefitting from strong travel recovery, with companies both posting FY23 earnings upgrades following a strong final quarter.

By contrast, Health Care (-0.5%) and Materials (-0.2%) were the only two sectors to deliver negative returns for the month. Within Health Care, Ansell (ANN, -9.7%) detracted following its trading update with expectations that FY24

earnings will decline. Materials had a mixed reaction, with the negative contribution from the Diversified Metals & Mining basket outweighing the cumulative outperformance of other sub-sectors. Notable stocks within the sector were IGO (IGO, -9.2%), Allkem (AKE, -7.5%), Evolution Mining (EVN, +14.9%) and Incitec Pivot (IPL, +10.2%).

Portfolio review

Key Contributors

Megaport (MP1, overweight) – the software technology company outperformed in July following a positive earning guidance upgrade reflecting stronger-than-expected pricing and cost reductions. Confidence in MP1's free cash flow increased which led to the tech company cancelling its (unused) debt facility. We continue to hold the position and expect volume trends will improve in the medium to long term as sales execution improves. Furthermore, we believe that yield growth, low customer churn, margin expansion (including cost reduction programs) and lower capex will support a transition to positive free cashflow in CY24 and with significant cashflow growth potential longer term.

Flight Centre (FLT, overweight) – the travel agent outperformed during the month following an upgrade to guidance on the back of better-than-expected corporate

demand and higher margins. We continue to hold an overweight position. FLT's 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 will more than offset a smaller addressable market caused by increased use of virtual meetings. Furthermore, as group earnings improve, we believe there is additional value to be released from restructuring the balance sheet.

Evolution Mining (EVN, overweight) – the gold producer was a source of outperformance during the period, with its June quarterly production report reiterating FY24 production guidance which targets an 18% increase from FY23 production levels. Evolution is entering a period of increased free cash flow generation, supporting further balance sheet de-leveraging, as the group transitions to higher production rates and lower capital spend during a period of strong gold prices. Resource upside at Ernest Henry and further turnaround potential at Red Lake lend additional support to our positive view on the stock.

Key Detractors

Iluka (ILU, overweight) – our overweight position in the mineral sands company was a detractor during the month. Despite the company's solid June quarterly production report, ILU expects demand to be softer during 2H23. Competitor Tronox also highlighted this trend which led to market concerns. While we see short-term demand risks, traditional supply sources – particularly in South Africa – appear to be in decline, supporting ILU's expectations for flat pricing in the second half. We continue to favour the mineral sands markets for long-term investment, and specifically ILU as the world's largest Zircon producer and fifth largest producer of titanium feedstocks. Iluka is moving into Rare Earths production through its Eneabba refinery, adding potential for the company to become a critical component producer for the EV industry.

Healius (HLS, overweight) – the pathology and medical imaging company underperformed following the ACCC detailing its concerns over the company's proposed merger with Australian Clinical Labs (ACL). While recent HLS operational performance has been significantly impaired by a combination of below normal pathology volumes (a slow rebound in business-as-usual activity following COVID) and elevated operational costs (elevated COVID-testing related costs), we see an opportunity under new CEO Maxine Jaquet to improve business focus, enhance operating margins and rebuild balance sheet resilience.

IGO (IGO, overweight) – the lithium and nickel miner underperformed following the company's \$880-\$980m impairment on assets acquired from Western Areas for \$1.2bn in June 2022. While the impairment is intangible in nature, questions have been raised around the acquisition cost and asset quality of IGO's nickel business. Within the lithium space, we favour IGO given its high-quality, low cost and long-dated lithium assets, coupled with diversity offered by the company's nickel assets.

Key Purchases

Centuria Capital (CNI) – we initiated a position in the \$20bn property fund manager in July, though remain underweight the A-REIT sector at this time. We are attracted to Centuria's diversified funds management business across investor type, investment channel and property exposure. Current challenges in the company's ability to maintain FUM growth has impacted CNI's share price, creating an opportunity to invest. At this time, CNI's valuation already captures expected cyclical headwinds across commercial property from the rising interest rate environment, with the stock trading on undemanding multiple of 11.9 times P/E and offering a dividend yield above 6%.

Vicinity Centre (VCX) – we increased our position in the shopping mall REIT during the period. Key supportive factors include VCX's asset mix, with over half its asset base exposed to more advantaged segments of retailing (i.e. luxury, DFO outlets in recovering CBDs), more resilient in-place leases with high occupancy and fewer holdovers. Further, VCX has a strong balance sheet (gearing 25.7% as at Dec-22) and attractive valuation, with the stock trading at 0.80-times net asset backing and offering a dividend yield above 6%.

Region (RGN) – we took the opportunity to increase our position in the suburban shopping mall A-REIT during the month. We believe RGN's retail asset base, which comprises 96 predominantly neighbourhood shopping centres, will prove to be more resilient than expectations during the consumer downturn. This is supported by its high skew to supermarket/anchor tenant income (46% total Net Operating Income), affordable specialty rents (8.7% average occupancy cost) and high overall portfolio occupancy (98%). The stock valuation is attractive, at 0.89-times net asset backing and offering a dividend yield above 6%.

Key Sales

Iluka (ILU) – we trimmed a small portion of our position in the mineral sands producer during the period on expectations of a soft 2H23. While the company's June quarterly production report was solid, the company expects some softness in demand during the second half of 2023. Competitor Tronox also highlighted this trend, leading to market concerns. While we see short-term demand risks, traditional supply sources – particularly in South Africa – appear to be in decline, supporting ILU's expectations for flat pricing in the second half. We continue to favour the mineral sands markets for long-term investment, and specifically ILU as the world's largest Zircon producer and fifth largest producer of titanium feedstocks. Iluka is moving into Rare Earths production through its Eneabba refinery, adding potential for the company to become a critical component producer for the EV industry.

AUB Group (AUB) – we continued to trim our overweight position in the insurance broker following strong outperformance relative to the Small Ordinaries Index. AUB has continued to outperform reflecting upgrades to guidance, positive premium growth trends, and solid

execution on the Tysers acquisition. The company also raised \$150m during the period to retain the Tysers UK Retail business (which was to be sold to PSI Insurance) and increase capacity for M&A. We retain a positive view on AUB which remains a key portfolio overweight.

EBOS (EBO) – we modestly trimmed our position during the period after it was confirmed the pharmaceutical distributor had lost the Chemist Warehouse distribution contract. We have a positive view towards the company, with defensive earnings growth across both health care and animal care divisions, with both businesses having no other material recontracting risk similar to Chemist Warehouse. Furthermore, both divisions have opportunities to supplement organic growth via acquisitions with the company having a strong track record of identifying suitable targets and integrating them successfully.

Key Active Overweights

Reliance Worldwide (RWC) – we view the plumbing supplies company as a compelling opportunity, with the market pricing a significant decline in earnings (P/E of only 14.8 times vs 17.0 times mid cycle) whereas we remain constructive on the through-cycle demand environment given the defensive nature of RWC's revenue base, the majority of which relates to more non-discretionary, repair type housing activity.

NEXTDC (NXT) – the portfolio maintains an overweight position in the leading Australian data centre owner and developer. NXT has the unique combination of having a strong long-term earnings growth profile combined with infrastructure-like characteristics, solid returns on capital and backed by a tangible asset base. NXT trades on 28.2 times FY25 EV/EBITDA, which compares favourably to more mature global peers.

Worley (WOR) – we remain overweight the leading provider of global engineering services. WOR's earnings recovery is in its early stages following COVID-19 impacts across FY20-22. Revenue is expected to grow 13-15% in FY23, with leading indicators (Factored Sales Pipeline +36%, Rolling 12 Month Bookings +28%, Backlog +8%) 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 WOR benefits from a more consolidated industry structure, operating leverage, and active mix management.

Key Active Underweights

WiseTech (WTC) – we remain underweight the logistics industry software solutions provider, with a preference for other names in the technology sector given WTC's demanding valuation of 75.7 times 1-year forward P/E. We believe WTC is continuing to build an exceptional product in CargoWise, which should continue to attract and retain large key freight forwarders. Despite WTC's high-quality earnings growth, we struggle to justify paying 76 times earning given the more attractive opportunities available in the sector (e.g. XRO).

Allkem (AKE) – we remain underweight the lithium producer, instead retaining a preference for lithium exposure via IGO. While we recognise Allkem offers lithium supply diversity across both brine (Olaroz) and hard-rock (Mt Cattlin) operations, we remain concerned by asset-specific risks. Olaroz has faced significant operating challenges associated with chemical processing at altitude, while hyperinflation challenges in Argentina present a macro risk overlay. Mt Cattlin is a smaller and higher cost spodumene mine than IGO's Greenbushes operations. The proposed merger with Livent Corporation (LTHM.US) offers increased vertical integration, but further focuses AKE in South America.

REA Group (REA) – we hold an underweight position in Australia's largest online residential real estate platform business, and instead gain indirect exposure to the online real estate segment via Domain Holdings (DHG) through the portfolio's position in Nine Entertainment (NEC) (which owns 59% of DHG). We regard the valuation of REA as unattractive, trading on 49.6-times P/E, and see superior risk adjusted returns in other high-growth online businesses such as Carsales.com (CAR) which trades on 31.3-times P/E.

Market outlook

With the major central banks declaring that further interest rates are now data dependent and as evidence continues to accumulate that inflation continues to moderate, our long-held view that mid-2023 would mark the top of the interest rate cycle appears to be broadly on track. Crucially, both labour markets and core services inflation have eased in recent months and forward indicators suggest further progress should be made through the rest of 2023.

As a consequence, interest rate futures have been quick to price 125 bps of easing in the US through 2024, albeit interest rate futures in most other major economies have merely removed multiple rate hike expectations and adopted a flatter profile through 2024 around current levels rather than actively embedding interest rate reductions.

Moreover, the pessimistic tone of the economic activity data in the US that threatened a technical recession has given way to slightly more update data in recent weeks encouraging the belief that the US will escape a technical recession in 2023. Indeed, some leading indicators are suggesting that a broader turn in the global industrial cycle is at hand, which should encourage a rotation from a narrow mega-cap tech led equity market rally to broader participation in 2023.

While negative EPS revisions are likely to persist for several more months, a levelling out in economic momentum and an end to the interest rate tightening cycle will likely provide a shift from bearish equity positioning. Rising bond yields continue to provide the more significant challenge to equity market valuations, albeit the lift in bond yields into mid-2023 can mostly be attributed to a significant lift in the supply of US bonds as the US budget deficit continues to increase

sharply, thereby providing a counter cyclical boost to economic growth.

Economic growth has also slowed in Australia, recording just 0.3% q/q growth in the March quarter, with much of this growth able to be traced merely to strong population growth and ongoing engineering construction projects. It is clear the prior tightening of monetary policy is having a material impact on the interest rate sensitive parts of the economy. Nominal retail sales have slowed to 0% (six-month annualised), following on from declining volumes in recent quarters. Building approvals continue to decline and are likely to fall further in coming months as declining housing affordability outweighs the impact of an under supplied housing market. Moreover, it is also clear that despite the Federal Budget forecast to return to surplus, government demand growth is waning even faster than private demand growth.

Nevertheless, the good news is that after a pause in the tightening cycle in July, The Reserve Bank of Australia (RBA) remained on hold in August and flagged that future monetary policy adjustments will be data dependent. To be clear, the RBA retains a tightening bias, however an update of their inflation forecasts now has inflation returning to inside the target band in 2025, providing a signal that absent any unexpected inflation shocks the RBA's rate tightening cycle is complete. The RBA also revised down economic growth modestly to just 1.0% in 2023, acknowledging that local economic growth had faltered.

Australia should still be able to avoid a technical recession due to four key reasons:

1. Australia has been a net beneficiary of global commodity shortages and the prior surge in commodity prices. Commodity prices are now off their peaks, and although they remain very elevated from a historical perspective, the impact of moving through the peak will be for nominal GDP growth will slow quickly over the next six months, removing some of the cushion that has protected corporate profits, tax receipts and wage growth.
2. The household sector continues to hold a significant buffer of excess savings which can be used to smooth consumption growth amid acute cost of living pressures. Nevertheless, our analysis suggests that the residual of the savings buffer skews to older households, leaving younger and more indebted households exposed. As such, we remain particularly cautious on discretionary retail spending.
3. Australia remains incredibly well placed to benefit from the global energy transition. Lithium is already a A\$10bn export industry domestically 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 second largest copper resource. LNG is an important energy transition fuel – it currently accounts for 23% of global electricity generation – and Australia just happens to be the world's equal largest exporter of LNG. The limiting

factor nearer term is that escalating costs and project delays risk pushing out the economic benefits.

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 has occurred in recent months, ensuring that Australia's population growth will exceed 2% in 2023. This will be the primary mechanism keeping Australia out of recession, yet it comes with the complication of exacerbating the rental shortage evident across all capital cities.

While the RBA has been later than most other developed nations, we believe financial conditions are now firmly in the restrictive zone. While interest rate hikes in Australia will remain a month-to-month proposition for the next six months, our bias is that the RBA should have concluded its hiking cycle. However, we do expect that the RBA will commence a modest easing cycle in 1H24.

The A\$/US\$ had been under downward pressure as markets grappled with a seemingly more hawkish Fed and a relatively more dovish RBA. However, the RBA has recently sounded more hawkish than the Fed the A\$ has started to appreciate. 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 hiking strategy to an easing cycle in early 2024, we expect the A\$/US\$ will appreciate to the mid-70s towards mid-2024.

We are most overweight stocks within the Communication Services, Health Care and Industrials sectors, and are underweight Energy, Consumer Discretionary and Consumer Staples.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.29	6.26	6.03
Consumer Discretionary	8.61	11.23	-2.62
Consumer Staples	1.15	3.28	-2.12
Energy	0.00	5.51	-5.51
Financials	12.66	12.72	-0.06
Health Care	7.85	5.02	2.83
Industrials	15.05	13.43	1.62
Information Technology	10.33	8.86	1.47
Materials	20.72	22.28	-1.56
Real Estate	9.74	10.08	-0.34
Utilities	0.00	1.33	-1.33

Top 5 holdings

	Portfolio %	Benchmark %	Active %
Reliance Worldwide	4.89	0.61	4.28
Carsales.com	4.85	1.71	3.15
NEXTDC	4.79	1.20	3.59
Worley	4.74	1.18	3.56
Evolution Mining	3.82	1.24	2.58

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Reliance Worldwide	4.89	0.61	4.28
NEXTDC	4.79	1.20	3.59
Worley	4.74	1.18	3.56
Underweights			
Wisetech Global	0.00	2.75	-2.75
Allkem	0.00	1.62	-1.62
REA Group	0.00	1.48	-1.48

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	5.79	4.49	2.54	6.70
Distribution return	7.10	7.68	5.12	3.73

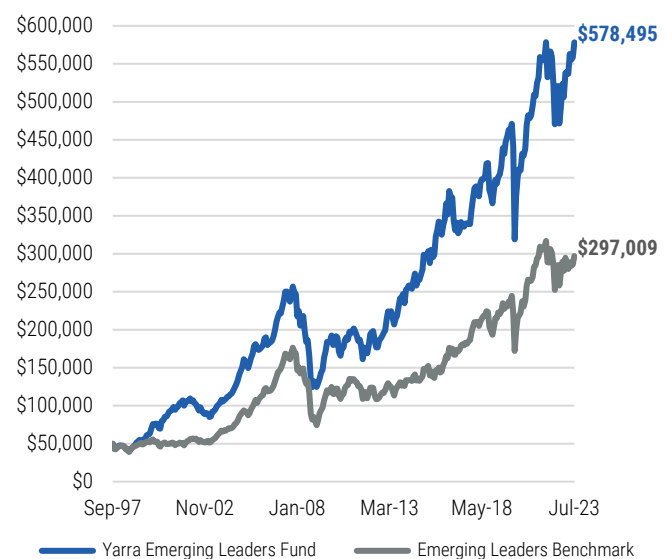
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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\$89.9 mn as at 31 July 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 July 2023.



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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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