

Yarra Emerging Leaders Fund

Gross returns as at 31 March 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	6.22	-1.80	16.00	14.42	12.01	12.53	11.71
Emerging Leaders Combined Benchmark†	6.16	-3.38	13.82	12.49	11.28	9.46	7.67
Excess return (before fees)‡	0.05	1.58	2.19	1.93	0.73	3.07	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 31 March 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	6.10	-2.10	14.57	13.01	10.62	11.14	10.41
Emerging Leaders Combined Benchmark†	6.16	-3.38	13.82	12.49	11.28	9.46	7.67
Excess return (after fees)‡	-0.06	1.28	0.75	0.52	-0.65	1.68	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

Australian equities defied a sharp fall in global markets during the March 2022 quarter as a better-than-expected earnings season offset uncertainty over Russia invading Ukraine and the resulting sanctions.

The Emerging Leaders Benchmark declined by 3.4% during the quarter, taking its 12-month return to 13.8%. While global indices fell (S&P500 -4.6%), 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) as strong top line growth offset rising input costs

At a sector level, Energy (+13.3%), Utilities (+17.3%) and Metals & Mining (+7.2%) were the top performers. Higher commodity prices supported the sectors, in particular oil (Brent Crude +46%) and coal (thermal +72%) as the energy crisis in Europe escalated following the Russia-Ukraine conflict. Top performers included Whitehaven Coal (WHC, +63.0%), New Hope Corporation (NHC, +52.5%), Worley (WOR, +24.0%), Beach Energy (BPT, +24.2%) and AGL Energy (AGL, +28.4%).

Conversely, Health Care (-23.6%) and Information Technology (-16.5%) declined the most in value. Losses were widespread across both sectors as the prospect of

higher interest rates compressed valuations, with notable declines including Nanosonics (NAN, -36.9%), Imugene (IMU, -37.5%), Altium (ALU, -24%), Wisetech (WTC, -13%) and Novonix (NVX, -32.5%).

Portfolio review

Key Contributors

IGO Limited (IGO, overweight) – the EV commodities miner outperformed alongside the lithium price, with spodumene rising 10% to US\$2,810/t. 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 remains premised on the miner's recent US\$1.4bn 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

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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, overweight) – the engineering services company outperformed following its 1H22 result, in which leading indicators and management’s commentary are pointing towards an improving sales environment. After two years of minimal investment, growth is resuming across the oil & gas and the chemicals side of the business. We remain overweight. We believe the company is in a strong position to benefit from the recovery in its traditional work and, increasingly, 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 18.9 times forward earnings, a sharp discount to the Industrials ex-Financials at 25.5 times.

Incitec Pivot (IPL, overweight) – the fertiliser and explosives maker outperformed as the ammonia benchmark price increased to a record high of \$1,625/t amid the global energy crisis, compared to US\$545/t a year ago. High fertiliser prices outweighed an operational disruption at the company’s WALA facility, which is not expected to resume operating in April. We remain overweight. While we are likely near the top of the cycle for fertiliser prices, we believe this is mostly reflected in consensus expectations. However, persisting spot prices would result in significant earnings upgrades and potential capital management initiatives, particularly if IPL can improve its plant performance (running at nameplate capacity).

Evolution Mining (EVN, overweight) – the gold miner outperformed alongside the commodity (+8% to US\$1942/oz), which 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.

Eclix (ECX, overweight) – the company outperformed as full-year guidance was affirmed at its AGM update during the period. We remain overweight. We believe its core business (largely fleet management) will be a strong beneficiary of Australia’s post-COVID recovery, and that the valuation provides ample support (at 10.6 times forward earnings). We believe ECX can take market share in the longer term (with high single-digit volume growth and stable pricing) and has a large cost-out opportunity available following the recent divestment of non-core businesses.

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.

Megaport (MP1, overweight) – the company underperformed after giving a 2Q22 update which revealed higher costs as the business adjusts its operating model to focus on its indirect sales channel. We view the pick-up in costs as supporting an acceleration in executing on the growth opportunity and remain overweight the stock, premised on strong growth from the core business connecting data centres to the cloud, with a strong pipeline in its key US geography as businesses invest in IT projects. With its expansion into telecommunication services – which leverages the same infrastructure – the total addressable market more than doubles. While the company is currently at an inflection point for earnings and cashflow we believe it will turn positive in the next year. We do not believe MP1’s strong and sustainable revenue growth outlook is reflected in its share price.

Pinnacle Investment Management (PNI, overweight) – the investment manager underperformed amid heightened market volatility and more mixed performance from its affiliates recently. We continue to see PNI as a high-quality company with further upside potential on a three-year view. The asset manager now trades at a 12-month forward P/E of 23.1 times, which partially factors in its superior growth versus the wider sector and the high level of growth investment captured in earnings. In the long term we continue to expect new strategies and managers, as well as underlying growth in existing managers, to drive double digit earnings growth.

Carsales.com (CAR, overweight) – the online automotive classifieds company underperformed despite delivering a solid 1H22 result, with FY22 guidance retained for “strong” growth in adjusted net income. However, its valuation compressed alongside the wider sector amid the outlook for higher interest rates. 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 product initiatives to drive long-term growth (such as transitioning from a leads-based model to a transaction-based model) and undervalued international businesses.

Whitehaven Coal (WHC, underweight) – the coal miner outperformed in response to higher coal prices (thermal +72%) as demand for the commodity increased in response to the global energy crisis. We remain underweight the company based on our negative long-term view of the commodity. In the short term, the shift to a low carbon economy will continue to create a volatile pricing environment for coal, given the difficulty in managing a smooth transition. But with countries setting more ambitious 2030 targets on the path to net zero, we expect significantly lower demand as renewables achieve greater scale and natural gas provides a firming role. Moreover, we anticipate the ESG discount applied to WHC will grow over time – lowering its correlation with the commodity.

Key Purchases

Reliance (RWC) – we established a position in the plumbing fittings group during the period. In our view RWC is a quality industrial company which has been over-sold based on short term earnings headwinds (the roll-off of the COVID benefit, higher raw material costs), which we expect to ease over our longer-term investment horizon. Further, we are more positive on the US Repair & Remodel (R&R) market than consensus, which comprises 38% of RWC's EBITDA and is more resilient to macro factors than new housing. In terms of quality attributes, we note RWC's brand power through products such as SharkBite, loyal customers in both Lowes, and Home Depot and end customers, excellent supply chain management in normal times (98% OTIF in the Americas retail channel), and strong process power (in-house R&D). As a result, we see its valuation (at a 14 times FY24 P/E) as attractive.

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 relation 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 to cycle strong comps whilst also being margin accretive.

oOH!media (OML) – we established a position in the outdoor advertising company during the period. Our positive view is premised on OML's leverage to the re-opening Australian economy, with outdoor advertising likely to take share versus more challenging formats in the total advertising market (as penetration of digital boards

continues to increase). Audience levels have recovered in Road, Retail and Street, with additional upside to come from Fly and Office as the vaccination program rolls out. Given OML's high gross margins and its largely fixed cost base, we expect the positive revenue outlook will support strong medium-term earnings growth. We see OML's valuation as attractive, with its forward earnings multiple compressing to 16.2 times in FY23 as the economy normalises.

Key Sales

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.

CSR Limited (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 13.7 times forward earnings.

Regis Resources (RRL) – we exited our position in the gold miner during the period. Following the latest FY22 guidance downgrade, we have lower confidence in its operational performance for existing assets. Further, we expect any relative upside potential would only materialize in the regulatory approval for the McPhillamys project, which is unpredictable and, if successful, would likely require additional equity (estimated at \$400-500mn) for development. As a result, we no longer see RRL's headline valuation multiple (at a forward EV/EBITDA of 3.5 times) as attractive.

Key Active Overweights

IGO Limited (IGO) – our positive thesis is premised on the miner's recent US\$1.4bn Greenbushes acquisition 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).

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.

Worley (WOR) – we believe the company is in a strong position to benefit from the recovery in its traditional work and, increasingly, 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 18.9 times forward earnings, a sharp discount to the Industrials ex-Financials at 25.5 times.

OZ Minerals (OZL) – our positive view remains premised on OZL's two high quality, long life, 100% owned copper mines in South Australia - Prominent Hill and Carrapateena. We expect the company's copper production to double to >200ktpa by 2030, as Carrapateena moves to a block caving operation, and as the company develops the greenfield West Musgrave copper/nickel deposit in Western Australia. OZL is well positioned to fund its growth ambitions through the net cash balance sheet, strong cash flow generation, and flexibility to divest assets such as the Centro Gold deposit in Brazil. We also support OZL's plan to achieve net zero scope 1 and 2 emissions by 2030, which we view as ambitious and considered.

TPG Telecom (TPG) – our thesis is premised on the improving outlook for the mobiles market, recovery in volumes post COVID and the recently completed Vodafone merger, which in our view will unlock significant synergies. The combined entity is well placed to harness its infrastructure, scale and balance sheet to disrupt incumbents Telstra (TLS) and Optus through its lower-cost structure, as well as new products such as Fixed Wireless.

Key Active Underweights

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 12.0 times. Our preferred EV exposure is IGO Limited (IGO), which trades at a more attractive 7.1 times despite superior diversification and lower geopolitical risk.

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 into the medium term.

Wisetech (WTC) – we remain underweight WTC based on the company's unappealing valuation and high risk profile following a string of acquisitions. WTC now trades at a 47.7 times sales, which we believe continues to capitalise unrealistic growth expectations (based on the recent acceleration in demand for its software platform and expanding margins), and ignores downside risks.

Pilbara Minerals (PLS) – while we hold a positive view towards the company as commercial production ramps up at its flagship Pilgangoora project our preferred EV commodity exposure is IGO Limited (IGO). Our positive thesis on IGO is premised on the miner's recent US\$1.4bn Greenbushes acquisition, its \$A1.1bn takeover of nickel miner Western Areas (WSA) and its existing portfolio of high-quality assets.

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 in 2022, shaking risk sentiment and challenging consensus' optimistic forecast for global growth. 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 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 to try to contain rising inflation expectations. The reality for 2022 is likely a world of higher inflation, slower growth and higher financing costs.

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 likely 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 settings at a 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 and 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) and further wage pressure will 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 35 bps hike. We expect a further four 25 bps rate hikes in 2023 and we believe the consumer is well placed to absorb the 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 are providing an incentive for the A\$/US\$ to commence an appreciation cycle well before the RBA joins alongside 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	13.24	5.99	7.25
Consumer Discretionary	10.81	12.22	-1.41
Consumer Staples	5.23	3.78	1.45
Energy	4.04	6.04	-2.00
Financials	7.94	10.29	-2.36
Health Care	9.61	3.61	6.01
Industrials	9.99	11.62	-1.63
Information Technology	9.71	7.74	1.97
Materials	24.87	27.95	-3.08
Real Estate	3.45	9.85	-6.39
Utilities	0.00	0.90	-0.90

Top 5 holdings

	Portfolio %	Benchmark %	Active %
IGO	6.25	1.68	4.57
OZ Minerals	4.48	1.59	2.89
Link Administration	4.40	0.49	3.92
Worley	4.04	0.85	3.19
Atlas Arteria	3.64	1.12	2.53

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
IGO	6.25	1.68	4.57
Link Administration	4.40	0.49	3.92
Worley	4.04	0.85	3.19
Underweights			
Lynas Rare Earths	0.00	1.73	-1.73
Mineral Resources	0.00	1.56	-1.56
Wisetech Global	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	13.19	11.44	8.85	8.94
Distribution return	1.38	1.57	1.78	2.21

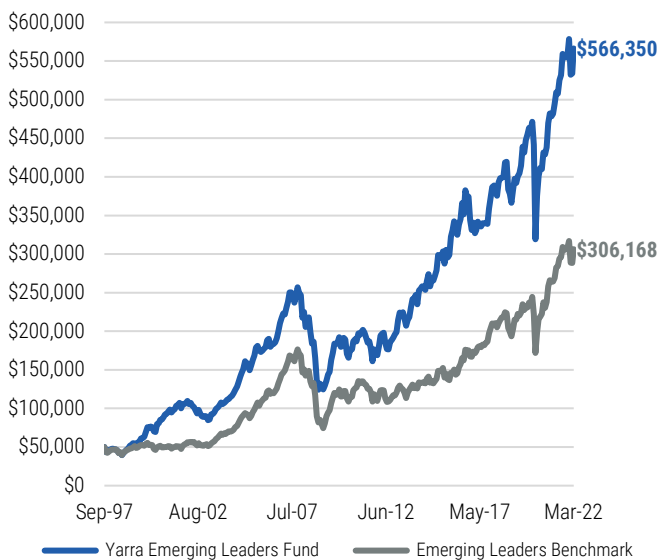
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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\$58.0 mn as at 31 March 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 March 2022.



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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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