

Yarra Emerging Leaders Fund

Gross returns as at 30 November 2020

	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	7.29	9.09	2.60	9.30	8.60	11.01	11.44
Emerging Leaders Combined Benchmark†	8.42	8.67	8.81	8.13	12.06	7.34	7.34
Excess return (before fees)‡	-1.13	0.42	-6.21	1.17	-3.46	3.67	4.10

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 30 November 2020

	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	7.18	8.75	1.33	7.95	7.25	9.64	10.14
Emerging Leaders Combined Benchmark†	8.42	8.67	8.81	8.13	12.06	7.34	7.34
Excess return (after fees)‡	-1.24	0.08	-7.48	-0.18	-4.81	2.29	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

Australian small and mid-caps rose alongside global markets in November, driven by positive vaccine news and a decisive US election outcome.

The Emerging Leaders benchmark rose 8.4% for the month, taking its 12-month return to +8.8%. The return was behind the broader market, with the ASX 300 returning 10.2%. Markets surged globally after three major COVID-19 vaccine candidates were announced as highly effective in extensive trials, and after Joe Biden was declared the winner of the US Presidential Election.

Sectors which were hit hardest by COVID-19 rallied sharply. Energy (+26.6%) was the strongest performer as Brent Crude lifted 27% to \$US47.5 per barrel, led by Worley (WOR, +37.1%) and Beach Energy (BPT, +49.2%).

Other strong performers included Regional Banks (+31.0%), Retail REITs (+14.8%), Transportation (+11.6%) and Consumer Services (+14.7%), with travel services companies like Webjet (WEB, +65.3%) and Flight Centre (FLT, +52.0%) rebounding.

Conversely, sectors which had proved resilient during the downturn – Gold (-11.5%), Utilities (-1.0%), Consumer Staples (+4.5%), Health Care (+5.8%) and Information

Technology (+3.0%) – underperformed. At a stock level, the worst performers included Kogan (KGN, -20.4%), Saracen Minerals (SAR, -16.5%), NEXTDC (NXT, -11.7%) and Ansell (ANN, -6.9%).

Portfolio review

Key Contributors

Worley (WOR, overweight) – the engineering services company outperformed after Brent Crude increased by 27% during the period. We continue to believe WOR is in a strong position to withstand an economic slowdown and lower oil prices, with significant refinancing headroom and business diversification across different markets. We believe WOR's valuation provides significant support at current levels, with the stock trading on 15.4 times two-year forward earnings – a cyclical low multiple despite its more resilient earnings base.

Nanosonics (NAN, overweight) – the disinfection medical device maker outperformed during the period after issuing a well-received trading update. Both its consumables and hardware business lines have rebounded FY21 to date from the COVID-impacted months of FY20, with sales up +25% and +16% respectively. Despite US hospitals handling record COVID cases, second-wave impacts have been less severe due to better equipment and preparation. We remain

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overweight the company, premised on the growing acceptance of its proprietary product translating into higher earnings growth. NAN's product, Trophon, is the global market leader with over a 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

Northern Star Resources (NST, overweight) – the gold miner underperformed as the commodity declined 6% to \$US1,763 per ounce during the period. We were underweight NST based on its stretched valuation metrics (6.3 times forward EV/EBITDA), with our preferred exposures Regis Resources (RRL), Saracen Minerals (SAR) and diversified miner Independence Group (IGO). However, NST has announced a merger with SAR, with SAR shareholders receiving 0.3763 NST shares for every SAR share. We see the business combination as logical, with highly complementary operations (the Superpit joint venture) and organisational cultures, and the synergy metrics as attractive (A\$1.5-2.0bn pre-tax NPV). On valuation, we see the potential for the combined group to re-rate to peer Newcrest Mining (NCM, 6.6 times forward EV/EBITDA) given its comparable size and growing production profile in Western Australia and Alaska.

Key Detractors

Saracen Minerals (SAR, overweight) – the gold miner underperformed as the gold price declined 6% to \$US1,763 per ounce during the period. We remain overweight following the company's announced merger with Northern Star Resources (NST). We see the business combination as logical, with highly complementary operations (the Superpit joint venture) and organisational cultures, and the synergy metrics as attractive (A\$1.5-2.0bn pre-tax NPV). On valuation, we see the potential for SAR/NST to re-rate to peer Newcrest Mining (NCM, 6.6 times forward EV/EBITDA) given its comparable size and growing production profile in Western Australia and Alaska.

NEXTDC (NXT, overweight) – the data centre operator partially retraced prior outperformance despite reaffirming its FY21 guidance during the period. Management expects underlying EBITDA in the range of \$125-130mn next financial year, up 20-24% y/y. We continue to believe NXT is structurally set to benefit from increasing adoption of cloud technology, and is accelerating its expansion to meet client demands by building new data centres which will support significant medium to longer term earnings growth.

Elders (ELD, overweight) – the agribusiness company partially retraced strong outperformance from prior periods despite delivering a better-than-expected FY20 result. EBIT came in at \$119.4mn – 8% ahead of forecasts – largely due to market share gains in livestock and a higher real estate contribution. While the company didn't provide earnings guidance, it reiterated its target for 5-10% EBIT and EPS

growth through the cycle and a ROIC of 15%. We remain overweight the company. We are supportive of its recent acquisition of Australian Independent Rural Retailers (AIRR), which expands ELD into the rural merchandise market and is expected to be earnings accretive in FY21. More broadly, we continue to see cyclical upside, the potential for further accretive acquisitions, a simplified capital structure relative to prior years and modest valuation. The company has strong corporate appeal given its attractive business segments, and we see its 12-month forward P/E multiple of 13.3 times as supportive.

Key Purchases

Nanosonics (NAN) – we increased our position in the disinfection device maker during the period, taking advantage of recent underperformance prior to the trading update. Our overweight position remains premised on the growing acceptance of its proprietary product translating into higher earnings growth. NAN's product, Trophon, is the global market leader with over a 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

Hotel Property Investments (HPI) – we increased our position in the REIT during the period, reflecting increased confidence in the leasing outlook for its properties as COVID-related restrictions are eased across Australia. More broadly, we remain attracted to HPI as the owner of large scale hotel venues and with a tenant (AVC) that is a specialist in operating successful venues. HPI's dividend – which currently offers a 6.3% forecast yield – expected to grow at 4% p.a. over the next two years with low risk.

Iluka Resources (ILU) – we increased our position in the mineral sands business during the period. While we recognise that the short-term demand outlook for mineral sands remains challenging, we regard the industry structure as attractive (consolidated supply), with less pricing volatility compared to previous cycles. Further, there is improving confidence that zircon and rutile markets are improving, with 3Q20 volumes likely to be higher than 2Q20 and projections in the Western world for a 10% decline in CY20 versus prior projections of -12-20%. As a result, we see ILU's valuation as attractive (at 4.8 times EV/EBITDA), which is below its Diversified Mining peer group (at 5.5 times).

Key Sales

Carsales.com (CAR) – we reduced our position size following recent outperformance, but remain overweight the online automotive classifieds company. We continue to believe CAR should benefit from attractive earnings growth, conservative accounting (with low capitalisation of research and development investment) and undervalued international businesses.

Collins Foods (CKF) – we trimmed our position in the fast service restaurant company early in the period following outperformance but remain overweight. We hold a positive view of both its KFC and Taco Bell businesses as well as the company's strong balance sheet. Following its resilient performance during the COVID-19 downturn (due to drive-through and home delivery services), the KFC Australia division (80% of sales) is well placed to grow the number of its stores, like-for-like sales and improve its margins. CKF also has an attractive growth platform in Germany and the Netherlands, which, while delayed, offers the potential for store numbers to more than triple over the long term.

Nine Entertainment (NEC) – we reduced our position size following recent outperformance and the news that its chief executive unexpectedly announced his resignation. That being said, we remain overweight with our investment thesis intact. Our positive view remains premised on a supportive valuation, its high-quality digital assets (Stan, 9Now and Domain), and a number of savings initiatives in the short term. We believe the difficult ad markets relating to the COVID-19 crisis are already factored into NEC's valuation, with the stock trading at 18.5 times FY22 earnings. At these levels, we do not believe sufficient value is attributed to its subsidiaries when considering their long-term growth profile, with double-digit earnings growth expected in FY21.

Key Active Overweights

Atlas Arteria (ALX) – we maintain a high-conviction overweight position based on ALX's strong liquidity and balance sheet position, which leaves it well placed to weather the COVID-19 related downturn in revenues for FY20, and a positive long-term view. ALX holds attractive, long-duration assets and trades at a discounted valuation (10.0 times normalised EV/EBITDA), which more than captures the disruption from COVID-19 as travel restrictions and lockdowns reduce traffic volumes in the short term. We continue to believe the intrinsic value of ALX's assets will eventually be realised following the simplification of its ownership structure in the past two years, resulting in significant upside.

Link Group (LNK) – we remain overweight the share registry company following the proposed takeover by the Carlyle and Pacific Equity Partners (PEP) consortium. Their increased offer values LNK's base business on 14.6 times FY22 earnings which compares to 16.1 times for listed peer CPU. The implied valuation multiple of PEXA, its property settlements and exchange business, is 15.5 times EV/EBITDA compared to globally listed equity exchanges which trade on 20.5 times forward EV/EBITDA and growth oriented domestic marketplaces such as SEK, CAR and REA which trade on 28 times forward EV/EBITDA. 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.

Worley (WOR) – our positive view of the company is premised on our belief that WOR is in a strong position to withstand an economic slowdown and lower oil prices, with significant refinancing headroom and business diversification across different markets. We believe WOR's valuation provides significant support at current levels, with the stock trading on 15.4 times two-year forward earnings – a cyclical low multiple despite its more resilient earnings base.

Key Active Underweights

Afterpay (APT) – our underweight position is premised on several factors. In the short term, we believe APT's valuation (at 22.4 times EV/sales) does not reflect the uncertainty associated with COVID-19 despite the company's strong balance sheet position. While APT's loss rates are low so far, it remains extremely early in the bad debt cycle (where APT is exposed as an unsecured consumer lending business). In addition, APT's long-term risks remain, including heightened regulation (e.g. expense verification), increased competition (such as from PayPal) and the sustainability of the company's attractive margins.

Xero (XRO) – we are underweight the accounting software provider because we believe its strong growth outlook is fully factored into its valuation, but its potential risks are not. XRO trades at 20.7 times EV/sales, reflecting lofty expectations for subscriber growth to accelerate as the company continues to expand overseas and for add-on products and services to drive higher average revenue per user (ARPU). However, international expansion carries significant risks due to greater competition in more fragmented markets, with significant ongoing product reinvestment required for XRO to maintain its advantages relative to peers.

Northern Star (NST) – we were underweight NST based on its stretched valuation metrics (7.2 times forward EV/EBITDA), with our preferred exposures Regis Resources (RRL), Saracen Minerals (SAR) and diversified miner Independence Group (IGO). However, NST has announced a merger with SAR, with SAR shareholders receiving 0.3763 NST shares for every SAR share. We see the business combination as logical, with highly complementary operations (the Superpit joint venture) and organisational cultures, and the synergy metrics as attractive (A\$1.5-2.0bn pre-tax NPV). On valuation, we see the potential for NST to re-rate to peer Newcrest Mining (NCM, 6.6 times forward EV/EBITDA) given its comparable size and growing production profile in Western Australia and Alaska.

Market outlook

The recovery phase for the Australian economy is now well underway. Despite the concerning trends for new COVID-19 cases in the US and Western Europe, global economic data has continued to show solid improvement through Q3 and into Q4 2020. While it is reasonable to expect this positive data momentum will moderate as renewed lockdowns commence through Europe, the contrast with Australia could not be greater. COVID cases in Australia have reverted to their June lows and the gradual reopening in Victoria means that 100% of Australia is now in recovery mode. Economic recovery is occurring even faster than our relatively optimistic forecasts and economic growth now looks set to contract by less than 3% in 2020 before expanding by a forecast 5.5% in 2021.

The driving force of the recovery into 2021 will be consumption growth. The combination of the highest household saving ratio since the mid-1970 in concert with resilient asset prices, declining unemployment, rising hours worked and improving consumer confidence is expected to underpin a 7.0% rise in consumption growth in 2021. Although concerns have persisted over fiscal fade via lapsing fiscal stimulus measures, our analysis has long suggested that the extension of some fiscal programs, the pull forward of income tax cuts and the recovery in labour income as furloughed workers return to work is sufficient to avoid a bout of fiscal fade weighing in household income growth.

A secondary force assisting the recovery is the upswing in new housing approvals, new housing orders, and housing finance approvals. Despite a sharp drop in net migration and earlier concerns over house price declines, sentiment regarding housing has been buoyed by record low interest rates, a shift in responsible lending onus back to the borrower and large government incentives for construction.

Our expectation is that looking beyond the US election, additional expected fiscal stimulus in the US, additional expected QE in major offshore markets and a new QE program in Australia will leave a pro-growth fiscal and financial conditions environment for Australian economic growth and earnings growth.

The RBA's explicit aim of QE is to lower Australian longer term bond rates and lower the A\$. We expect the RBA to be partially successful in moderating the appreciation of the A\$, however, upward pressure on the A\$ will likely remain as the global economic recovery continues. We expect the A\$ to finish calendar 2020 at 75c and 2021 at 80c.

Smaller companies have been particularly impacted by the Government directed restrictions. The challenges of 1H20 of operational survival, liquidity and capital management have given way to which companies will be capable of capturing the operational leverage through the recovery phase and which companies have pricing power to withstand the disinflationary threats of global excess capacity. Within the small companies' sphere, the risks vs reward within such a macro backdrop is somewhat binary.

Active management has perhaps never been more important in navigating the minefield.

We see significant value in certain sectors but believe others to be overvalued based on our earnings and cash flow expectations. We are most overweight stocks within the Health Care, Communication Services and Industrials sectors, but are underweight Financials, Information Technology and Real Estate.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	15.15	7.98	7.17
Consumer Discretionary	9.48	13.43	-3.95
Consumer Staples	6.25	4.54	1.72
Energy	4.71	3.12	1.58
Financials	4.01	11.07	-7.07
Health Care	14.84	6.80	8.04
Industrials	12.54	9.59	2.95
Information Technology	7.51	13.88	-6.38
Materials	21.42	20.82	0.60
Real Estate	2.69	7.48	-4.79
Utilities	0.00	1.27	-1.27

Top 5 holdings

	Portfolio %	Benchmark %	Active %
Atlas Arteria	4.78	1.14	3.64
Worley	4.22	0.75	3.47
Link Administration	4.11	0.48	3.63
Nanosonic	3.65	0.37	3.28
Incitec Pivot	3.65	0.81	2.84

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Atlas Arteria	4.78	1.14	3.64
Link Administration	4.11	0.48	3.63
Worley	4.22	0.75	3.47
Underweights			
Afterpay	0.00	3.99	-3.99
Xero	0.00	2.83	-2.83
Northern Star Resources	0.00	1.71	-1.71

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	0.15	6.20	5.42	7.10
Distribution return	1.18	1.75	1.84	2.54

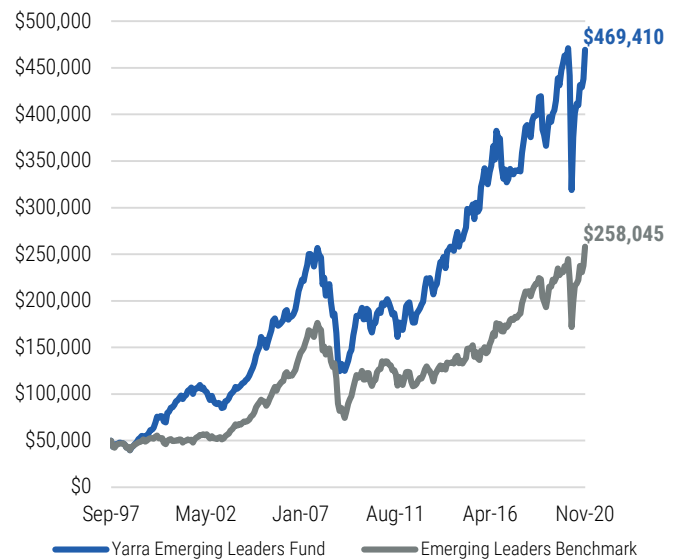
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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\$152.26 mn as at 30 November 2020	
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 November 2020.



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.

Website www.yarracm.com

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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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