

Yarra Emerging Leaders Fund

Gross returns as at 30 November 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	6.16	0.81	-4.79	5.45	8.34	11.69	11.07
Emerging Leaders Combined Benchmark†	4.95	1.59	-6.07	6.74	7.16	9.47	7.21
Excess return (before fees)‡	1.21	-0.78	1.29	-1.29	1.18	2.23	3.87

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 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	6.05	0.49	-5.96	4.15	7.00	10.31	9.77
Emerging Leaders Combined Benchmark†	4.95	1.59	-6.07	6.74	7.16	9.47	7.21
Excess return (after fees)‡	1.10	-1.09	0.11	-2.59	-0.16	0.85	2.57

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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 delivered another month of strong performance, gaining a further 6.6% in November following that of its 6.0% recovery in October.

The Emerging Leaders Benchmark returned +5.0% for the month, taking its 12-month return to -6.0%. The broader ASX 300 Accumulation Index also produced positive gains of 6.5% for the month, as did global indices (MSCI World Index +7.0%).

Utilities (+16.9%) came out on top as the best performing sector, attributed to AGL Energy (AGL, +16.9%), whereby major corporate events surrounding the company drew in significant investor and media attention over the month.

Materials (+16.3%) was not far behind, with strong performance delivered by Metals & Mining constituents with Bellevue Gold (BGL, +48.7%), Sandfire Resources (SFR, +45.2%) and Champion Iron (CIA, +39.0%) being some of the key highlights for the month.

The worst performing sector was Consumer Discretionary (+1.87%), with the negative returns of Collins Food (CKF, -18.6%) and Star Entertainment (SGR, -7.8%) casting a shadow over some of its sector counterparts, notably Webjet (WEB, +20.8%).

Portfolio review

Key Contributors

Evolution Mining (EVN, overweight) – the gold miner was a positive contributor during the month, with the gold price rising 8% to US\$1,768/oz at month end. Following a period of significant underperformance relative to listed gold peers, due to disappointing production levels and guidance downgrades, we now see attractive value support for EVN. While gearing levels – around 30% (D/D+E) – remain higher than peers, the risk of an unexpected capital raising to support the balance sheet is considerably over-played in our view. AUD denominated gold prices remain robust, and we continue to see price support for gold in the near to medium term.

Sandfire (SFR, overweight) – the copper producer was a positive contributor to the portfolio during the period. Copper prices increased 9% over the month to close at US\$3.73/lb. We like copper as a commodity given its leverage to electrification as a key material in batteries and electric motors. In addition, the company undertook an equity raising during the period which was well received by investors. We participated in the company's \$200m Entitlement Offer during the period and view the raising as an important de-risking event for the balance sheet. The

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company is now better funded to complete the Motheo project in Namibia, and progress drilling activities to increase the mine life at the MATSA asset in Southern Spain. Further de-risking of these projects, coupled with the positive outlook for copper markets, will continue to generate share price outperformance in our view.

NEXTDC (NXT, overweight) – the data centre operator outperformed the market during the month in which they reiterated guidance and gave positive qualitative commentary around the sales outlook for FY23. We believe the high recurring nature of NXT's revenues, its infrastructure like characteristics and tangible asset base are attractive. NXT has been excessively discounted and we see no diminution to its growth trajectory. NXT trades on 21.3 times FY24 EV/EBITDA, which compares favourably to its more mature global data centre peers.

Key Detractors

Select Harvests (SHV, overweight) – the almond producer underperformed during the period after a weaker than expected result and outlook. The outlook for the almond price and cost inflation both deteriorated compared to prior expectations. We continue to hold the SHV position given almond prices are currently depressed below sustainable levels, costs are currently abnormally high and the downside is protected by a large tangible asset base including land and water assets.

Collins Food (CKF, overweight) – the restaurant operator underperformed during the period after a weaker than expected 1H23 result and outlook. The KFC businesses across both Australia and Europe reported strong sales growth however the margin outlook was downgraded given higher than expected cost inflation and a focus on maintaining volume market share. The Taco Bell business reported weaker than expected results and the new store rollout was put on hold. We continue to hold the CKF overweight positions given we view the margin pressures within both KFC businesses as largely temporary with a recovery in the medium term. While the probability of success with the Taco Bell format has reduced, there is now limited value currently reflected in the share price for this format.

Reliance Worldwide (RWC, overweight) – the plumbing supplies company underperformed during the period following JHX's (ASX-listed peer) weaker than expected market update. The market is showing concern for a falling demand environment and RWC FY23 estimates were lowered after the August result. We believe RWC's reaction to JHX's update is un-warranted. We believe RWC is a compelling opportunity with the market pricing for a significant decline in earnings (P/E of only 12 times vs. 17 times mid-cycle) while we remain constructive on the demand environment given the defensive nature of the majority of RWC's repair and remodelling sales.

Key Purchases

JB Hi-Fi (JBH) – we increased our position in the specialist retailer during the period. We view JBH as a best-in-class operator that is well positioned to navigate the volatility ahead in spite of a softening consumer environment, with strong cash generation and a robust balance sheet. Unlike other Covid beneficiaries, consensus earnings already reflect a 30% earnings decline over the next three years, resulting in JBH trading at a discount vs. history which we believe is unwarranted (8 times EV/EBIT vs. 10 times long-term average).

Sandfire (SFR) – we increased our exposure to the copper producer during the period. We like copper as a commodity given its leverage to electrification as a key material in batteries and electric motors and a supply-side with considerable constraints in the short-term. We participated in the company's \$200m Entitlement Offer during the period, and view the raising as an important de-risking event for what was a stretched balance sheet. The company is now better funded to complete the Motheo project in Namibia, and progress drilling activities to increase the mine life at the MATSA asset in Southern Spain. Further de-risking of these projects, coupled with the outlook for copper markets, will continue to generate share price outperformance in our view.

Sims Metals (SGM) – we increased our position in the scrap and metals recycling company during the period. The company's US business SA Recycling is performing strongly and we see further upside from bolt-on acquisitions in this highly fragmented market. While we see further near-term risks to scrap margins despite recent moderation from historical highs, we believe Sims is trading close to trough earnings and represents attractive value at these levels. With ongoing increased environmental awareness globally, we see scope for improved demand for scrap in the future as an input to less carbon intensive steel. We believe SGM's is well placed to benefit in this environment.

Key Sales

Atlas Arteria (ALX) – the portfolio's position in the toll road owner was reduced during the month after appreciating sharply on no new information. ALX is now trading close to an enterprise value equivalent to where it was trading before it undertook its acquisition of the Chicago Skyway toll road.

Tabcorp (TAH) – we exited our position in gambling company during the period. While we were encouraged by the digital opportunities presented to TAH post demerger, we remain wary of the impact of an increasingly competitive wagering market and the associated pressure on margins from new market entrants. We place less upside risk on potential new license wins for TAH, reducing a potential catalyst and believe better opportunities can be found elsewhere.

Key Active Overweights

Worley (WOR) – we remain overweight the professional project and asset services company. Following years of underinvestment in oil & gas projects by the industry, and with the more recent supply disruptions stemming from the war in Ukraine, expectations for project spend across WOR's traditional customer base has increased to 27% YoY growth. There is also a strong pipeline of margin accretive capital spend required to decarbonise energy production and provide more sustainable solutions across chemical and resources customers.

Link Administration (LNK) – despite the uncertainty created by the failed takeover bid from Dye & Durham and regulatory action on its Fund Solutions business, we still see considerable value in LNK's constituent parts and a pathway to crystallising this value. In the interim LNK's two main operating businesses are performing well with two upgrades to guidance provided in the last six months.

Nine Entertainment (NEC) – we have a positive view on the media company reflecting our constructive outlook for advertising spend, and NEC's ability to grow higher-margin digital revenues in a potentially softer environment. The company's sell off CYTD in part reflects the sell-off in Domain (DHG), which is 59% owned by NEC. The sell-off in both companies placed NEC, excluding DHG, on a 4.5 times FY23 EV/EBITDA multiple which we regard as attractive for a leading media company which is diversifying its revenue streams to be less cyclical, driven by higher margin digital revenues.

Key Active Underweights

WiseTech (WTC) – we remain underweight the technology company, with a preference for other names in the technology sector given WTC's demanding valuation of 77 times 1-year forward P/E. We believe WTC has and continues to build an exceptional product in CargoWise, which should continue to attract and retain large and key freight forwarders. We do, though, struggle to justify paying a 77-times multiple for WTC's high-quality earnings growth and maintain a preference for more attractive opportunities in the tech space.

Whitehaven Coal (WHC) – we remain underweight Whitehaven Coal. Coal prices continue to trade at significantly inflated levels, we view current prices for both thermal and metallurgical coal as unsustainable, and well in excess of cost curve support. Additionally, we are cognisant of coal's diminishing role in the global energy mix as stationary energy systems shift to lower carbon intensity.

Allkem (AKE) – we are underweight Allkem, our preference is for IGO Limited (IGO) amongst lithium exposures. While we recognize Allkem offers lithium supply diversity across both brine (Olaroz), and hard-rock (Mt Cattlin) operations, we are concerned with 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. Lastly,

Mt Cattlin is a relatively small and higher cost spodumene mine.

Market outlook

Financial markets have now embraced the risk of recession in the US and Europe over the past quarter, and the gap between our more pessimistic forecasts for the global economy and the consensus has narrowed. Indeed, with markets anticipating the end of the Fed tightening cycle may be at hand, financial conditions have eased considerably in the US as credit spreads narrowed, the equity market rallied strongly in October and November and the US\$ declined.

The period of excess inflation is starting to recede, with prior surges in commodity prices retreating, an easing in supply constraints, and signs of slowing demand likely to compress elevated sales margins. As central banks continue to await firmer signs that inflation expectations have stabilised and for labour demand to ease, financial markets are faced with the positive news of less restrictive monetary policy and the negative news of likely weaker company earnings.

In a world of heightened concerns of recession in major developed economies, subdued economic activity in China and ongoing conflict between Russia and the Ukraine which has contributed to commodity shortages, high inflation and rising interest rates, the Australian economy presents as a relative safe haven.

Australia's economic data has remained robust in the first three quarters of 2022, although we do expect economic activity to slow significantly in 2023 to average just 1.5%. While a local recession is possible in 2023, we believe Australia should be able to avoid a technical recession due to three key reasons:

1. Australia has been a net beneficiary of global commodity shortages. This surge in commodity prices saw Australia's export prices in A\$ terms move to their highest levels since the 1880s in 1H2022. The consequence has been strong national income growth, profits growth and an improving underlying fiscal position.
2. The household sector continues to hold a significant buffer of over \$260bn of excess savings relative to pre-COVID levels. Although we expect the impact of higher interest rates and higher living expenses will curtail consumer spending, we do expect the combination of rising wage growth and a run down in the level of savings to continue to support consumption spending.
3. Low levels of spare productive capacity, strong profit and low corporate debt have contributed to robust capital investment intentions.

In the medium term we believe a recovery in net immigration levels into Australia and Australia's exposure to

key commodities crucial to the global energy transition will provide a solid underpin for future economic growth.

While the RBA has been later than most other developed nations in tightening policy, tighter financial conditions in 2022 have come via both significantly higher cash rates, higher government bond yields and wider corporate bond spreads. Following the December rate hike of 25bps we believe the RBA is now very close to the finish of the tightening cycle. Officially we expect a final 15bps hike in February. Indeed, we believe the RBA inflation forecasts will likely be downgraded slightly in February 2023 which will be used to put a full stop to the current rate tightening cycle. The A\$/US\$ has finally started to appreciate, after a long period of relative weakness. With Australia's external accounts remaining in excellent health, our expectation that Australia's economic growth will be more robust than its peers and the prospect the US\$ uptrend will peak as the Fed pivots from its aggressive hiking strategy we expect the A\$/US\$ will appreciate to the mid-70s by mid-2023.

We are most overweight stocks within the Health Care, Communication Services and Information Technology sectors, and are underweight Real Estate, Materials and Energy.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.93	5.71	7.22
Consumer Discretionary	9.11	10.96	-1.85
Consumer Staples	1.38	3.66	-2.27
Energy	4.45	8.12	-3.67
Financials	10.41	10.57	-0.15
Health Care	6.97	4.47	2.49
Industrials	11.51	11.46	0.05
Information Technology	9.28	8.19	1.09
Materials	25.91	26.34	-0.43
Real Estate	4.43	9.65	-5.22
Utilities	0.00	0.86	-0.86

Top 5 holdings

	Portfolio %	Benchmark %	Active %
OZ Minerals	4.46	1.67	2.80
Worley	4.55	1.00	3.55
Carsales.com	4.25	1.45	2.79
Pilbara Minerals	3.95	2.19	1.76
IGO	3.88	1.88	2.00

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Worley	4.55	1.00	3.55
Link Administration	3.77	0.38	3.38
Nine Entertainment	3.66	0.55	3.11
Underweights			
Wisetech Global	0.00	1.79	-1.79
Whitehaven Coal	0.00	1.74	-1.74
Allkem	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	-17.84	-1.24	2.87	7.01
Distribution return	11.88	5.39	4.13	3.30

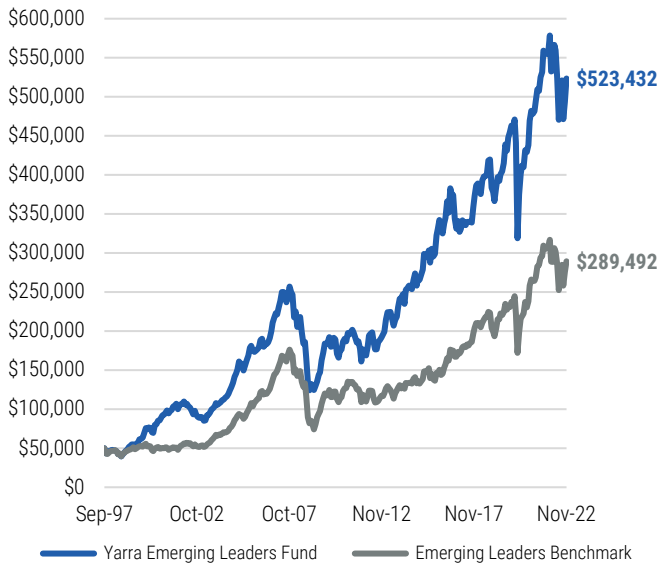
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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\$81.6 mn as at 30 November 2022	
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 November 2022.



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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