

Yarra Emerging Leaders Fund

Gross returns as at 31 October 2021

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Emerging Leaders Fund	0.01	4.65	28.25	14.47	11.40	13.52	11.81
Emerging Leaders Combined Benchmark†	0.61	3.62	28.91	14.51	12.88	9.99	7.82
Excess return (before fees)‡	-0.60	1.03	-0.65	-0.04	-1.48	3.53	3.99

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 October 2021

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Emerging Leaders Fund	-0.09	4.32	26.67	13.06	10.02	12.12	10.50
Emerging Leaders Combined Benchmark†	0.61	3.62	28.91	14.51	12.88	9.99	7.82
Excess return (after fees)‡	-0.70	0.70	-2.23	-1.46	-2.86	2.13	2.68

Past performance is not a reliable indicator of future performance. Taxes payable by investors have not been taken into account. The figures shown have been provided for illustrative purposes – they are unaudited and subject to change. The total returns shown are prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.

* Inception date Yarra Emerging Leaders Fund: September 1997

† Comprising 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries Accumulation Index

‡ Excess return: The difference between the Fund's return and the benchmark return.

Market review

Australian small and mid caps rose modestly in October, underperforming global equities as Australian bond yields rose sharply in response to higher inflation expectations.

The Emerging Leaders Benchmark rose 0.6% during the month, taking its 12-month return to 28.9%. The local index underperformed global indices – with the MSCI World Index returning 5.5% – as Australian 10-year bond yields lifted 59 bps to 2.08% during the period on expectations the RBA would hike rates earlier amid inflation pressure.

Gold (+10.2%) was the top performer during the period, with the sector seen as a beneficiary of stronger inflation. Within the sector, Silver Lake Resources (SLR, +26.5%) and West African Resources (WAF, +34.0%) were the strongest contributors to the benchmark's return.

Communication Services (+1.1%) also rose during the period, largely supported by Media & Entertainment. At a stock level, Event Hospitality (EVT, +7.6%), Southern Cross Media (SXL, +6.9%) and Nine Entertainment (NEC, +4.6%) were seen as beneficiaries of the re-opening economy.

Conversely, Financials (-1.4%) and Health Care (-4.0%) were among the worst performing sectors. The former was weighed down by Pental (PDL, -19.6%), Zip Co. (Z1p, -7.9%)

and Steadfast (SDF, -4.7%), while the latter saw declines from Clinuvel Pharmaceuticals (CUV, -9.9%), Starpharma (SPL, -21.1%) and Nanosonics (NAN, -6.2%).

Portfolio review

Key Contributors

IGO Limited (IGO, overweight) – the battery mineral producer outperformed as lithium prices continued to strengthen, with spodumene rising 2% to \$US2,300/t, on top of the 92% rise in the prior month. Our positive view is premised on the recent Greenbushes acquisition, which gives IGO exposure to a high-quality, long-dated asset (>20 years mine life) and completes its suite of battery commodities with the company already producing nickel, copper and cobalt. We also think the purchase price was reasonable, with Greenbushes likely to be NPV and EPS accretive by FY23. We also hold a positive view of IGO's Nova asset – a world-class reserve which supports an increasing production profile.

Domino's Pizza Enterprises (DMP, underweight) – the company underperformed following its investor day during the period, during which management flagged a tougher FY22 amid higher food and labour costs. We remain underweight the company because we believe its valuation

– at a 12-month forward P/E of 59.5 times forward earnings
– does not reflect the potential for growth to slow post-COVID as economies re-open. And while management has increased investment to encourage franchisees to expand, we see limited opportunities in Australia where store density is already high.

Imdex (IMD, overweight) – the mining services company outperformed after delivering a better-than-expected update at its AGM, announcing that revenue grew 41% to \$86.8mn y/y in 1Q22 with growth across all regions. We remain overweight. As the leading provider of drilling equipment to the gold industry, IMD is well positioned versus its peers and is set to benefit from the increased investment in the sector. The company's relatively flat cost of doing business and its ability to increase prices by adding new products to its existing suite should support high operating leverage. IMD also has a strong balance sheet (net cash) and trades at a supportive valuation.

Key Detractors

Star Entertainment (SGR, overweight) – the casino operator underperformed in response to media allegations that it had enabled suspected money laundering, fraud and foreign interference. Following the allegations, the company announced that the Liquor and Gaming Authority's regular review of The Star Sydney would now also incorporate public hearings. We reduced our position in the company following the media allegations. We had taken some comfort from SGR having undergone several recent reviews without any major issues identified, in stark contrast to Crown Resorts (CWN). However, the allegations raise the risk profile of the stock, introduces the possibility there may be sanctions against the company, and may remove potential upside opportunities (extra gaming licences, concessions). We are engaging extensively with management and are undertaking further independent validation in relation to the allegations, which the company has labelled as misleading.

Select Harvests (SHV, overweight) – the almond producer partially retraced strong outperformance. Significant rainfall is forecast for California – ending its current drought and bringing more almond supply to market. We remain overweight SHV, with our positive view based on several factors. Firstly, we see considerable upside to sales from both pricing (pre-COVID-19 was at A\$8.50/kg) and volume (which we expect to grow by +5% per annum over the next three years as orchards mature). Secondly, we expect costs to decline from abnormally high levels, with water prices likely to fall as drought conditions recede. Thirdly, limited value is currently implied in SHV's food processing business, which it is realising value through capital releases. Lastly, SHV has a strong balance sheet and supportive valuation, with hard assets comprising more than 60% of the company's enterprise value.

AUB Group (AUB, overweight) – partially retraced strong outperformance from prior periods without any materially negative news. We remain overweight the company based

on our view that earnings are resilient in the current environment (mid-single digit premium rate rises) as management focuses on the core business. Underperforming divisions such as Risk Services now comprise only a small part of the overall business – limiting potential downside – while the core business should see higher earnings growth via improved product and capacity offerings. As a result, we view the company's valuation as attractive (22.5 times forward earnings), above peer Steadfast (SDF) (21.9 times) but with stronger growth options.

Key Purchases

Evolution Mining (EVN) – we established a position in the gold miner during the period. The gold miner 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.

BWP Trust (BWP) – we established a position in the REIT during the period. We believe BWP trades at a compelling valuation versus peers – 1.3 times NTA (based on conservative cap rates) with a 4.3% forecast yield – when considering its strong operating outlook, driven by well-located properties that encourage high rates of lease renewals from tenant Bunnings. Further, the REIT is set to benefit from higher inflation given CPI leases account for around 53% of its lease structures.

Link Group (LNK) – we increased our position in the company during the period. We continue to see compelling value in its base share registry business and electronic conveyancing business PEXA. Notwithstanding the PEP/Carlyle consortium walking away from its takeover proposal, we continue to see value in PEXA (with the company retaining its 45% stake in the IPO). Our positive view of PEXA is premised on infrastructure like characteristics of the property settlement exchange upon maturity supplemented by numerous growth opportunities in immediate adjacencies. Excluding PEXA, LNK trades at a forward P/E of less than 10-11 times, a substantial discount to peer Computershare (CPU) at 25.2 times.

Key Sales

Star Entertainment (SGR) – we reduced our position in the company following the media allegations that the company had enabled suspected money laundering, fraud and foreign interference. We had taken some comfort from SGR having undergone several recent reviews without any major issues identified, in stark contrast to Crown Resorts (CWN). However, the allegations raise the risk profile of the stock, introduces the possibility there may be sanctions against the company, and may remove potential upside opportunities (extra gaming licences, concessions). We are engaging extensively with management and are

undertaking further independent validation in relation to the allegations, which the company has labelled as misleading.

Select Harvests (SHV) – we trimmed our position in the company following outperformance in prior periods. We remain overweight SHV, with our positive view based on several factors. Firstly, we see considerable upside to sales from both pricing (pre-COVID-19 was at A\$8.50/kg) and volume (which we expect to grow by +5% per annum over the next three years as orchards mature). Secondly, we expect costs to decline from abnormally high levels, with water prices likely to fall as drought conditions recede. Thirdly, limited value is currently implied in SHV's food processing business, which is realising value through capital releases. Lastly, SHV has a strong balance sheet and supportive valuation, with hard assets comprising more than 60% of the company's enterprise value.

Incitec Pivot (IPL) – we trimmed our position following recent outperformance but remain overweight the fertiliser and explosives maker. We believe the risk is skewed to the upside at current levels (at 12.5 times forward earnings), particularly as operational issues are resolved. The company's key end markets – fertilisers and coal volumes – are benefiting from an emerging energy crisis globally, which we believe will result in upgrades to consensus forecasts. As an ammonia producer in the US, IPL is benefiting from a widening spread between Ammonia prices (where the marginal producer is in Europe) and the US natural gas price.

Key Active Overweights

IGO Limited (IGO) – our thesis is premised on the miner's recent \$US1.4bn Greenbushes acquisition and its existing portfolio of high-quality assets. We support the acquisition for several reasons. Not only does it give IGO exposure to a high-quality, long-dated asset (>20 years mine life), but it also completes IGO's suite of battery commodities with the company already producing nickel, copper and cobalt. We also think the purchase price was reasonable, with Greenbushes likely to be NPV and EPS accretive earlier than FY23. We also hold a positive view of IGO's Nova asset – a world-class reserve which supports an increasing production profile.

Link Group (LNK) – we are overweight the company because we continue to see compelling value in its base share registry business and electronic conveyancing business PEXA. Notwithstanding the PEP/Carlyle consortium walking away from its takeover proposal, we continue to see value in PEXA (with the company retaining its 45% stake in the IPO). Our positive view of PEXA is premised on infrastructure like characteristics of the property settlement exchange upon maturity supplemented by numerous growth opportunities in immediate adjacencies. Excluding PEXA, LNK trades at a forward P/E of less than 10-11 times, a substantial discount to peer Computershare (CPU) at 25.2 times.

TPG Telecom (TPG) – our positive view 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

Bluescope Steel (BSL) – the steel producer became a key underweight during the period after we reduced our position. In our view the current favourable conditions are unsustainable in the medium term, with steel prices likely to revert and housing volumes likely to normalise. As a result, its headline forward P/E of 4.5 times is misleading. That being said, we continue to view BSL as a high-quality cyclical company with attractive assets (both domestically and internationally) and a strong balance sheet.

Domino's Pizza Enterprises (DMP) – we remain underweight the company because we believe its valuation – at a 12-month forward P/E of 50.0 times forward earnings – does not reflect the potential for growth to slow post-COVID as economies re-open. And while management has increased investment to encourage franchisees to expand, we see limited opportunities in Australia where store density is already high.

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 forecast EV/Sales of 24.3 times, 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.

Market outlook

After completing 1H2021 with strong momentum, renewed Covid-related lockdowns in Melbourne and Sydney will see the Australian economy contract in 3Q21, albeit it has been notable how well both business surveys and employment indicators have held up in Q3, suggesting a modest contraction than might have been expected several months ago. Real-time data suggests Q4 economic growth will rebound solidly, led by the service-based industries.

We continue to believe the interruption to economic growth from renewed lockdowns will be an aberration within an improving trend. Indeed, the fundamentals that will drive the economic recovery remain in place. The recovery in labour market income has been sufficient to offset the gradual withdrawal of temporary fiscal support. Moreover, the accumulation of an estimated \$185bn in excess household saving, in concert with strong asset price gains, leaves the consumer uniquely positioned to underpin economic growth in 2021- 2022. Dwelling investment is set to provide solid support for economic growth over the next 6 months as previously approved housing moves through the construction phase, and a broader-based lift in business investment expectations is an important step in ensuring a

sustained economic recovery. We expect the global economy to expand 6% and the Australian economy to expand 4.5% in 2021. We expect another strong year of economic growth in 2022 of 4.0%.

Nevertheless, there are some areas that are cause for concern. For over 12 months we have warned about rising US inflation pressures and rising inflation expectations. However, supply chain constraints and energy shortages in the Northern Hemisphere risk inflation pressures becoming more widespread and more entrenched. With the peak in global business surveys having passed, cost inflation continuing to escalate and the Federal Reserve announcing its decision to taper its bond purchases, we expect bond yields will move higher through the remainder of 2021. We expect US 10-year yields to approach 1.80% by the end of 2021, providing some ongoing challenges for risk assets in Q4.

The A\$/US\$ has recently been buffeted by concerns of a peak in global industrial growth indicators, slowing China economic momentum and recent declines in iron ore prices. Nevertheless, Australia's external accounts are in their best position since the early 1970s and despite some moderation in commodity prices, we believe the A\$/US\$ should remain supported by global reflationary forces through 2021-22. We expect the A\$/US\$ to finish the year in the 76-78c range, and remain around that level through 1H22.

We are most overweight stocks within the Health Care, Communication Services and Consumer Staples sectors, and are underweight Real Estate, Financials and Industrials.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	13.62	8.07	5.55
Consumer Discretionary	11.79	13.36	-1.57
Consumer Staples	5.44	3.78	1.66
Energy	3.12	6.30	-3.18
Financials	6.68	11.13	-4.45
Health Care	10.52	4.67	5.86
Industrials	7.74	10.57	-2.83
Information Technology	9.30	8.15	1.15
Materials	23.55	22.29	1.26
Real Estate	5.52	9.34	-3.82
Utilities	0.00	2.35	-2.35

Top 5 holdings

	Portfolio %	Benchmark %	Active %
IGO	4.81	1.15	3.66
Atlas Arteria	3.91	1.06	2.85
Carsales.com	3.86	1.23	2.62
Link Administration	3.59	0.41	3.17
OZ Minerals	3.58	1.49	2.09

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
IGO	4.81	1.15	3.66
Link Administration	3.59	0.41	3.17
TPG Telecom	3.33	0.43	2.90
Underweights			
Bluescope Steel	0.00	1.84	-1.84
Domino's Pizza Enterprises	0.00	1.52	-1.52
Wisetech Global	0.00	1.47	-1.47

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	25.06	11.42	8.22	9.80
Distribution return	1.61	1.64	1.80	2.32

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\$59.5 mn as at 31 October 2021	
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 October 2021.



For illustrative purposes only. Past performance does not guarantee future results, which may vary. The total net fund returns shown are prepared on an exit to exit basis (i.e. they include all ongoing fees and expenses and assume reinvestment of all distributions). They do not take personal taxation into account. The comparison with the benchmark (comprising 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries Accumulation Index) is for comparative purposes only. Index returns do not allow for transactional, management, operational or tax costs. An index is not managed and investors cannot invest directly in an index.

Applications and contacts

Investment into the Yarra Emerging Leaders Fund can be made by Australian resident investors only.

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Disclaimers

The Yarra Emerging Leaders Fund is substantially invested in the Yarra Emerging Leaders Pooled Fund ('Pooled Fund'). References in this document to the underlying assets or investments of the Fund generally relate to the assets held in the Pooled Fund. The Fund's benchmark comprises 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries Accumulation Index.

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