

Yarra Emerging Leaders Fund

Gross returns as at 31 August 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	-2.24	2.08	9.82	10.75	7.51	11.35	11.10
Emerging Leaders Combined Benchmark†	-1.30	3.19	2.86	7.14	5.41	8.91	7.04
Excess return (before fees)‡	-0.93	-1.11	6.96	3.61	2.10	2.44	4.06

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 August 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	-2.34	1.76	8.47	9.39	6.18	9.97	9.80
Emerging Leaders Combined Benchmark†	-1.30	3.19	2.86	7.14	5.41	8.91	7.04
Excess return (after fees)‡	-1.04	-1.43	5.60	2.24	0.77	1.06	2.76

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 market retraced in August following a volatile reporting season.

The Emerging Leaders benchmark returned -1.3% for the month, taking its 12-month return to +2.9%. The broader S&P/ASX 300 generated a return of -0.8% for the period and globally the MSCI World Index declined by 2.4%.

The Communication Services (+5.9%) sector delivered a strong return for the month, mainly driven by the share performance of Carsales.com (CAR, +15.6%) after the online auto classifieds company reported solid FY23 results and forecast strong growth in revenue, adjusted EBITDA and NPAT for FY24.

Within the Energy (+3.3%) sector, Ampol (ALD, +7.5%) benefitted from the recent increase of the Brent oil price and Paladin Energy (PLD, +15.0%) gained from the strength in the uranium price. The Consumer Discretionary (+3.2%) sector was the other positive performer with several retailers rallying amidst FY23 results that were in line with downgraded expectations.

On the contrary, Utilities (-7.1%) was among the worst sector performers largely explained by AGL (AGL, -7.1%).

The electricity distributor share price dropped after a statutory loss was reported in FY23 results despite a solid second half.

Portfolio review

Key Contributors

Carsales.com (CAR, overweight) – the online auto classifieds company outperformed during the month following its full-year results. The results proved up CAR's investment case of the recent acquisitions of Trader Interactive in the US business and Webmotors in Brazil with both businesses demonstrating double digit yield growth as dynamic pricing models were introduced. Combined with a strengthened market position in Australian private car sales, there is now much greater visibility around continued price and yield increases across the business.

WiseTech (WTC, underweight) – the logistics industry software solutions provider underperformed during the period following its full-year result, where earnings guidance for the next financial year fell well short of consensus estimates. The miss was driven by higher-than-anticipated investment expenses and margin dilution from recent acquisitions.

Megaport (MP1, overweight) – our overweight position in the software technology company outperformed following a positive FY23 result and upgraded FY24 guidance. FY23 EBITDA increased materially to \$20m compared to the prior period loss of \$10m with revenue growth remaining strong at +40% yoy. FY24 EBITDA guidance has been upgraded multiples times over recent months with the cumulative uplift in EBITDA expectations over +50%. The solid earnings result was due to stronger than expected pricing, lower churn and cost reductions. We continue to hold the position as we believe customer volume trends will improve in the medium to long term as execution improves. Furthermore, we would highlight that yield growth, low customer churn, margin expansion (including cost reduction programs) and lower capex will support a transition to free cashflow positive in CY24 with significant cashflow potential longer term.

Key Detractors

Judo (JDO, overweight) – the small to medium business lender underperformed during the period with concerns over NIM (net interest margin) headwinds. Since IPO, JDO has consistently hit its targets and appears on track to achieve its medium-term goals, however lack of detailed FY24 guidance impacted investor confidence. We see JDO as differentiated in the small cap financials space given it is an ADI (authorised deposit-taking institution), allowing it to take deposits and have a relatively lower cost of funding to many other non-ADI peers in the small caps index. Lower funding costs, combined with higher yielding SME loans, should allow JDO to generate a strong NIM of ~3%+ in the medium term. The valuation is attractive with JDO trading at a material discount to book value.

Alumina (AWC, overweight) – our overweight position in the alumina producer was a detractor during the month following its half-year results. We are concerned that environmental approvals to mine, close to the Serpentine dam may not be received in a timely manner, and the company has less than 12 months of remaining low-grade ore to mine at Huntly. We see a material risk that the Kwinana and Wagerup refineries may be forced to curtail production or even close at a time where the company's debt levels are approaching unsustainable levels. This has led us to exit the position.

Iluka (ILU, overweight) – our overweight position in the mineral sands company was a detractor during the month. Iluka reported a 10% decline in mineral sands revenue and a 22% decline in underlying EBITDA in its FY23 results. Additionally, the market was concerned over the short-term outlook for mineral sands demand, notwithstanding ILU's commentary of flat pricing in the second half. We continue to like mineral sands markets long-term and favour ILU's leverage as the world's largest Zircon producer and fifth largest producer of titanium feedstocks. Iluka is moving into Rare Earths production through the Eneabba refinery and would be a critical component producer for the EV industry.

Key Purchases

Centuria Capital (CNI) – we took the opportunity to increase our modest position in the fund manager following the release of the company's FY23 result. The result demonstrated the company's proactive approach to managing debt levels across the business. We believe CNI's strategy has sufficient flexibility to maintain a degree of momentum by tilting towards more in-favour property sub-sectors (i.e., healthcare, agriculture). Finally, CNI's valuation already captures expected cyclical headwinds across commercial property from the rising interest rate environment, with the stock trading on an undemanding multiple of 12.5 times P/E and offering a 6.8% dividend yield.

Judo (JDO) – we increased our modest position in the small and mid-sized enterprise lending bank post the FY23 result as JDO traded materially below book value. While investors may have been disappointed in the lack of clear guidance for FY24, the medium-term guidance for JDO remains intact. We see JDO as differentiated in the small companies' financials space given it is an ADI (authorised deposit-taking institution), allowing it to take deposits and have a relatively lower cost of funding to many other non-ADI peers in the small caps index. The valuation is attractive with JDO trading at a material discount to book value, and a strong loan book growth outlook.

JB Hi-Fi (JBH) – we increased our position in the retailer reflecting our confidence in JBH, as it continued to take share and overcome the broader weakness in the consumer electronics and home appliances category. We view JBH as a best-in-class operator that is well positioned to navigate the volatility ahead despite a softening consumer environment, with strong cash generation and a robust balance sheet. Unlike its peers, consensus earnings already reflect a -28% EPS correction in FY24, resulting in JBH trading at a discount vs. history which we believe is unwarranted (13.3 times P/E vs. 14.3 times long-term average).

Key Sales

Seek (SEK) – we exited our position in SEK during the month. We view the company as having the potential to grow given the current 31% share of the Australian market and solid revenues. However, as we are approaching twelve months post inclusion in the ASX 50 Index, our preference is towards other media companies such as Carsales.com and Nine Entertainment.

Alumina (AWC) – we exited our position in the alumina producer following the company's FY23 interim result. We are concerned that environmental approvals to mine, close to the Serpentine dam may not be received in a timely manner and the company has less than 12 months of remaining low-grade ore to mine at Huntly. We see a material risk that the Kwinana and Wagerup refineries may be forced to curtail production or even closed at a time where the company's debt levels are approaching unsustainable levels.

Worley (WOR) – we took the opportunity to trim the size of the WOR overweight following a strong performance following the release of the company's 1H23 result. The company continues to grow engineering service revenues into both traditional and renewable energy end markets at strong double-digit rates, with margins continuing to improve over time.

Key Active Overweights

Reliance Worldwide (RWC) – we view the plumbing supplies company as a compelling opportunity, with the market capitalising FY24 earnings at a P/E of only 14.9 times vs 17.0 times mid cycle) which we believe doesn't give appropriate credit to the mid-cycle earnings power of the group considering the resilience of its end markets, 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. The company has a unique combination of strong long-term earnings growth combined with infrastructure like characteristics, solid returns on capital and is backed by a tangible asset base. NXT trades on 30.5 times FY25 EV/EBITDA, which compares favourably to more mature global peers.

Carsales.com (CAR) – we are overweight the online car classifieds company which has demonstrated strong yield growth potential across all of its operating segments. In Australia, which represents approximately 50% of CAR's valuation, CAR is seeing improving yields from products such as Instant Offer and Select in Australia along with a strengthened competitive position in private sales. CAR's recent acquisition of US business, Trader Interactive and Brazilian business Webmotors have demonstrated strong yield growth as new dynamic pricing models are introduced. The visibility on CAR's medium term revenue growth has improved which makes the 32.2 times FY24 earnings multiple the stock trades on relatively undemanding given the tailwinds.

Key Active Underweights

WiseTech (WTC) – we remain underweight the leading developer of software solutions for the logistics industry with a preference for other names in the technology sector given WTC's demanding valuation of 90.5-times 1-year forward P/E. We believe WTC have and are continuing to build an exceptional product in CargoWise which should continue to attract and retain large freight forwarders. Despite WTC's high-quality earnings growth, we struggle to justify paying 90.5-times FY24 earnings given the more attractive opportunities available in the sector such as Xero.

REA Group (REA) – we hold an underweight position to Australia's largest online residential real estate platform business, and instead gain indirect preferred exposure to the online real estate segment via Domain Holdings (DHG) through the portfolio's position in Nine Entertainment (NEC) (which owns 60% of DHG). We see the valuation of REA as unattractive trading on 47.4-times FY24 P/E, and see

superior risk adjusted returns in other high-growth online businesses such as Carsales.com (CAR) which trades on 32.8-times FY24 P/E.

Allkem (AKE) – we remain underweight the lithium producer, instead retaining a preference for lithium exposure via IGO. While we recognize 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. The proposed merger with Livent Corporation (LTHM.US) offers increased vertical integration, but further diverts AKE's focus to South America.

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.

Moreover, the pessimistic tone of the economic activity data in the US that threatened a technical recession has given way to slightly more updated 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.

Indeed, our leading indicators suggest the negative EPS revisions trend has now largely run its course, which when combined with a levelling out in economic momentum and an end to the interest rate tightening cycle, will likely provide greater confidence in underlying valuations and a shift from bearish equity positioning. Bond yields continue to provide the more significant challenge to equity market valuations, albeit the lift in bond yields into mid-2023 can largely 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 0.4%q/q growth in the June quarter, similar to the languid growth recorded in the March quarter. Indeed, with population growth running at a 2.5% annualised pace in the six-months to June and economic growth expanding at an annualised 1.8% pace over the same period, Australia has recorded its first per capita recession since mid-2006 (excluding the COVID lockdown period). It is clear the prior tightening of monetary policy is having a material impact on the interest rate sensitive parts of the economy. For instance, discretionary consumption volumes have declined

0.6% (six-month annualised) as non-discretionary household expenses and interest costs soared by 16%yoy – the fastest annual increase since 1989. Building approvals continue to decline – now down 45% from the 2021 peak - and are likely to fall further in coming months as declining housing affordability outweighs the impact of an under supplied housing market.

Nevertheless, the good news is that after a pause in the tightening cycle in July, The Reserve Bank of Australia (RBA) has remained on hold 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. It is of note that the RBA's forecasts for domestic growth are now below our own for the first time since 2019.

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 slow nominal GDP growth 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 2.5% 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, our analysis suggests that the RBA should have concluded its hiking cycle. Moreover, we do expect that the RBA will commence a modest easing cycle in 1H24, most likely commencing in May 2024.

The A\$/US\$ had been under downward pressure as markets grappled with a seemingly more hawkish Fed and a relatively more dovish RBA and poor sentiment on the economic outlook for China. However, 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 re-emerge as the Fed pivots from its hiking strategy to an easing cycle in early 2024, we expect the A\$/US\$ will appreciate to the low-70s towards mid-20.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.46	6.74	5.72
Consumer Discretionary	8.46	11.73	-3.27
Consumer Staples	1.16	3.22	-2.06
Energy	0.00	5.72	-5.72
Financials	12.35	12.47	-0.12
Health Care	7.48	4.84	2.65
Industrials	14.94	13.50	1.43
Information Technology	10.67	8.70	1.97
Materials	17.96	22.11	-4.15
Real Estate	10.11	9.74	0.37
Utilities	0.00	1.23	-1.23

Top 5 holdings

	Portfolio %	Benchmark %	Active %
Carsales.com	5.68	2.01	3.67
NEXTDC	5.15	1.30	3.85
Reliance Worldwide	5.07	0.61	4.45
Worley	4.82	1.21	3.61
Evolution Mining	3.88	1.27	2.61

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Reliance Worldwide	5.07	0.61	4.45
NEXTDC	5.15	1.30	3.85
Carsales	5.68	2.01	3.67
Underweights			
WiseTech	0.00	2.27	-2.27
REA Group	0.00	1.58	-1.58
Allkem	0.00	1.56	-1.56

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	1.64	1.89	1.13	6.26
Distribution return	6.82	7.49	5.05	3.71

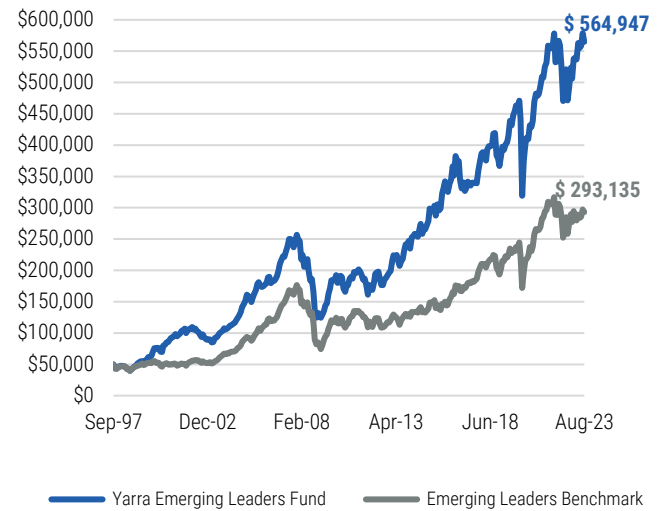
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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\$88.5 mn as at 31 August 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 August 2023.



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

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com

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.

Yarra Funds Management Limited (ABN 63 005 885 567, AFSL 230 251) ('YFM') is the issuer and responsible entity of a range of registered managed investment schemes, which includes those named in this document ('Funds'). YFM is not licensed to provide personal financial product advice to retail clients. The information provided contains general financial product advice only. The advice has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before making a decision to acquire, hold or continue to hold an interest in the Funds you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. Prior to investing in any of the Funds, you should obtain and consider the product disclosure statement ('PDS') and target market determination ('TMD') for the relevant Fund by contacting our Investor Services team on 1800 034 494 or from our website at www.yarracm.com/pdsupdates/. The information set out has been prepared in good faith and while Yarra Funds Management Limited and its related bodies corporate (together, the "Yarra Capital Management Group") reasonably believe the information and opinions to be current, accurate, or reasonably held at the time of publication, to the maximum extent permitted by law, the Yarra Capital Management Group: (a) makes no warranty as to the content's accuracy or reliability; and (b) accepts no liability for any direct or indirect loss or damage arising from any errors, omissions, or information that is not up to date. No part of this material may, without the Yarra Capital Management Group's prior written consent be copied, photocopied, duplicated, adapted, linked to or used to create derivative works in any form by any means.

YFM manages each of the Funds and will receive fees as set out in each PDS. To the extent that any content set out in this document discusses market activity, macroeconomic views, industry or sector trends, such statements should be construed as general advice only. Any references to specific securities are not intended to be a recommendation to buy, sell, or hold such securities. Past performance is not an indication of, and does not guarantee, future performance. Information about the Funds, including the relevant PDSs, should not be construed as an offer to any jurisdiction other than in Australia. With the exception of some Funds that may be offered in New Zealand from time to time (as disclosed in the relevant PDS), we will not accept applications from any person who is not resident in Australia or New Zealand. The Funds are not intended to be sold to any US Persons as defined in Regulation S of the US federal securities laws and have not been registered under the U.S. Securities Act of 1933, as amended.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. Holdings may change by the time you receive this report. Future portfolio holdings may not be profitable. The information should not be deemed representative of future characteristics for the strategy. There can be no assurance that any targets stated in this document can be achieved. Please be advised that any targets shown are subject to change at any time and are current as of the date of this document only. Targets are objectives and should not be construed as providing any assurance or guarantee as to the results that may be realized in the future from investments in any asset or asset class described herein. If any of the assumptions used do not prove to be true, results may vary substantially. These targets are being shown for informational purposes only.