

# Yarra Ex-20 Australian Equities Fund

## Gross returns as at 31 December 2022

	From 25 June 2018 <sup>A</sup>	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.*
Yarra Ex-20 Australian Equities Fund	3.98	-2.67	11.12	-3.43	2.52	4.64	7.91	7.29
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index <sup>#</sup>	5.02	-3.59	7.73	-8.84	3.08	NA	NA	NA
Excess return (before fees) <sup>‡</sup>	-1.04	0.92	3.39	5.41	-0.56	NA	NA	NA

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 fees, meaning they do not reflect the deduction of any investment management fees 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 December 2022

	From 25 June 2018 <sup>A</sup>	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.*
Yarra Ex-20 Australian Equities Fund	3.03	-2.74	10.87	-4.29	1.61	3.65	6.71	6.06
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index <sup>#</sup>	5.02	-3.59	7.73	-8.84	3.08	NA	NA	NA
Excess return (after fees) <sup>‡</sup>	-1.98	0.85	3.14	4.55	-1.47	NA	NA	NA

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.

<sup>A</sup> Effective 25 June 2018 the Fund's investment strategy, name and benchmark was changed. Performance prior to 25 July 2018 is provided here for consistency purposes only – the historical performance data shown relates to the previous strategy and should not be used to assess past or future performance of the Fund. See [here](#) for further information.

Performance data relating to the previous strategy is available upon request. 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 Ex-20 Australian Equities Fund: August 2010.

<sup>#</sup> The benchmark for the Yarra Ex-20 Australian Equities Fund has been amended since the Fund's inception. Effective 25 July 2018, the benchmark is the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index, replacing the S&P/ASX 300 Accumulation Index.

<sup>‡</sup> Excess return: The difference between the Fund's return and the benchmark return.

### Market review

Australian equities gained 9.4% during the December quarter, with all sectors recording positive returns.

The S&P/ASX 300 Ex-20 Accumulation Index returned +7.7% for the quarter, taking its 12-month return to -8.8%. In comparison, the broader ASX300 gained +9.1% for the quarter and, globally, the MSCI World Index climbed by +9.9%.

All sectors delivered positive returns for the quarter, with Utilities (+28.0%) the best performing sector, led by Origin Energy (ORG, +49.3%), AGL Energy (AGL, +18.0%) and APA Group (APA, +15.0%).

Australian Real Estate (+10.4%) rallied strongly over the period. The sector was supported by some moderation in the interest rate environment with the 10-year bond rate pulling back over the period supporting securities including Hotel Property Investments (HPI, +24.7%), Dexis Industria REIT (DXI, +24.1%) and Centuria Industrial (CIP, +22.0%).

Within Financials (+9.3%), the sector performed strongly over the quarter as the market factored in higher expectations around the pace of net interest margin expansion led by Bendigo & Adelaide Bank (BEN, +26.0%), Challenger (CGF, +3.3%) and Judo Capital (JDO, +22.7%)

Conversely, the weakest performing sector was Information Technology (+1.8%) with Link Administration (LNK, +24.6%) shaping up as the key highlight for the period.

### Portfolio review

#### Key Contributors

**Origin Energy (ORG, overweight)** – the energy company disclosed a takeover approach from Brookfield and EIG at \$9.00 per share, a 55% premium to the pre-disclosure share price, valuing the company at an enterprise value of \$18.4b. Talks had been ongoing since August and the indicative approach at \$9.00 has been recommended by the Board, should the bid become binding. We view \$9.00 as a fair price for Origin's privileged energy assets and retail position, noting

that the deal will be subject to FIRB and ACCC approval, with the latter subject to a public review.

**Northern Star Resources (NST, overweight)** – our position in the gold producer was a positive contributor during the period, with the gold price rising to US\$1,828/oz at quarter end. We continue to favour NST's ability to control costs in contrast with peers Newcrest (NCM) and Evolution Mining (EVN), with FY23 cost guidance implying inflation pressures are expected to remain lower than peers (+6% at the mid-point). We believe the company's ownership of power assets in Kalgoorlie, coupled with a lack of exposure to Australia's east coast power market – in contrast to NCM and EVN – remain key differentiators for NST.

**Link Administration (LNK, overweight)** – the company's price recovered somewhat during the quarter following sharp underperformance in the prior quarter post the termination of the agreed takeover from Dye & Durham's. We still see considerable value in LNK and a pathway to crystallising value, with the value accretive demerger of its stake in PEXA a pertinent example.

### Key Detractors

**Reliance Worldwide (RWC, overweight)** – the plumbing supplies company underperformed during the period following James Hardie'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. In addition, the widespread and strong US freeze over the holiday period in late December should provide a strong boost to sales as repairs are undertaken to rectify frozen pipes.

**ResMed (RMD, overweight)** – our overweight position in the sleep device company detracted from overall quarterly returns for both sector specific (Healthcare-sector lagged the S&P/ASX200 by in excess of 7%) and company specific reasons. On the latter point, noting prior share price appreciation, some investors may have been disappointed with RMD's 1Q23 update, which overall did not drive further incremental positive FY23 earnings revisions. Take-up rates of new devices in countries outside of the USA were the key reason for the result not beating expectations. We see these as shorter-term issues (chip-supply driven) and remain overweight given the company's attractive market opportunity to consolidate higher share of the global sleep apnoea device and mask market, following the ongoing competitor recall. We also expect ResMed to see tailwinds in gross margins emerge as we enter 2023 due to supportive pricing and moderating input costs.

**Nine Entertainment Group (NEC, overweight)** – the media company underperformed during the period reflecting in part the sell-off in Domain (DHG) which downgraded earnings guidance in late December. DHG reported a weaker than

expected listings environment since its AGM, as well as softer than expected yield in 2Q23. We remain constructive on NEC's ability to grow higher-margin digital revenues in a potentially softer advertising environment in 2H23. The sell-off in both companies placed NEC (excluding DHG) on a 4.5 times FY23 EV/EBITDA multiple which we think is an attractive valuation for a leading media company which is diversifying its revenue streams to be less cyclical and higher margin.

### Key Purchases

**Evolution Mining (EVN)** – we increased our position in the gold producer during the period. 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% – are 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.

**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. A skew towards improving environmental performance on increased capital spend should position the business strongly relative to peers as environmental regulations tighten.

**Sandfire Resources (SFR)** – we have increased our exposure to the company during the period. We like copper as a commodity given its leverage to electrification as a key material in batteries, electric motors and related infrastructure. We participated in the company's \$200m Entitlement Offer during the period and view the raising as an important de-risking event for its 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 its MATSA asset in Southern Spain. On our view, further de-risking of these projects, coupled with the outlook for copper markets, will continue to generate share price outperformance.

### Key Sales

**IGO (IGO)** – we reduced our position in IGO during the period following strong recent performance on continued lithium price strength, ahead of consensus forecasts. We retain our positive thesis on IGO, premised on the miner's \$US1.4bn Greenbushes and \$A1.25bn Western Areas (WSA) acquisitions, and its existing portfolio of high-quality assets. Greenbushes gives IGO exposure to a high-quality, long-dated lithium asset (>20 years mine life) and completes IGO's suite of battery commodities, with the company already producing nickel, copper and cobalt.

**James Hardie (JHX)** – we completed our exit in the period reflecting concerns around the company's ability to offset earnings headwinds as housing end-markets rapidly slow in

the US, Europe and Australia-Pac, and negative operating leverage challenges intensify. Indeed, the company's recent 2Q23 update confirmed expectations of a slowing market, with new segment sales in the US guided down 30% in the six months to March 2023. While this cyclical nature in the new segment ought not be a great surprise as higher interest rates take hold on US consumers, our chief concern is around heightened risks in JHX's R&R segment (~65% group), where consensus does not contemplate meaningful slowing. With an ongoing positive view of structural growth prospects for JHX in its key segments, we will continue to monitor the stock for a re-entry point as the cycle, expectations and valuation adjust accordingly.

**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, 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% growth (y/y). 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.

**Carsales (CAR)** – we remain overweight the online car classifieds company based on improving yields from products such as Instant Offer and Select in Australia (~50% of CAR valuation). We are also constructive on the outlook for Trader Interactive, CAR's US business (~30% CAR valuation), which has strong potential from various drivers (an uplift in dealer penetration, moving from a subscription based to a leads-based and higher yielding model, and an improvement in inventories on the site). We are also attracted to the opportunity to improve the profitability of Encar, CAR's South Korean business.

**Origin Energy (ORG)** – our overweight position has been predicated on our longer-term view of the significant value embedded within ORG's diversified Energy Markets business (electricity, gas) and its integrated gas business through its investment in Australia Pacific LNG (APLNG). Furthermore, energy security and energy transition themes only further support the increasingly important role these businesses represent. With the listed market often more focused on short-term dynamics, we were unsurprised to see Origin disclose a takeover approach from Brookfield and EIG at \$9.00 per share, a 55% premium to the pre-disclosure share price, which valued the company at an enterprise value of \$18.4b. Talks had been ongoing since August and the indicative approach at \$9.00 has been recommended by the Board, should the bid become

binding. We view \$9.00 as a fair price for Origin's privileged energy assets and retail position, noting that the deal will be subject to FIRB and ACCC approval, with the latter subject to a public review.

### Key Active Underweights

**South32 (S32)** – we maintain a negative medium to longer-term view towards the company: in our view S32's key commodity prices are unsustainable, with the prices of manganese and coking coal – around 50% of S32's earnings – skewed to the downside, based on supply and demand fundamentals. S32 appears devoid of growth opportunities, with short mine lives, no active exploration, increased capital intensity and material geopolitical risk from its South African operations.

**Brambles (BXB)** – we are underweight the global provider of pallet pooling solutions to various FMCG producers. We remain cautious on the normalisation of pallet volumes and the company's ability to drive medium term growth in key markets such as the US. The normalisation of lumber prices is providing near term relief to margins, but we believe the longer-term margin profile is mature.

**Suncorp (SUN)** – the portfolio has an underweight position in SUN but is overweight the insurance sector overall. SUN announced the sale of its bank to ANZ in July 2022, a transaction which is expected to complete in mid-2023 subject to regulatory approval. Subsequent to this, and the associated capital return, SUN will assume a smaller weight in the index. We maintain a preference for QBE and IAG in the insurance sector.

### 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 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 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 Communication Services, Information Technology and Consumer Discretionary and are underweight Real Estate, Health Care and Consumer Staples.

## Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.61	4.16	8.45
Consumer Discretionary	8.31	7.31	1.00
Consumer Staples	1.97	4.45	-2.48
Energy	4.52	4.94	-0.41
Financials	10.51	14.52	-4.02
Health Care	4.51	8.76	-4.25
Industrials	11.11	10.19	0.92
Information Technology	13.22	7.47	5.75
Materials	24.96	22.64	2.32
Real Estate	0.00	11.89	-11.89
Utilities	5.24	3.67	1.57

## Top 5 holdings

	Portfolio %	Benchmark %	Active %
QBE Insurance	5.58	2.37	3.20
Origin Energy	5.24	1.58	3.65
Carsales.com	4.64	0.87	3.77
Worley	4.52	0.67	3.86
ResMed	4.51	1.44	3.07

## Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Worley	4.52	0.67	3.86
Carsales.com	4.64	0.87	3.77
Origin Energy	5.24	1.58	3.65
Underweights			
South32	0.00	2.18	-2.18
Brambles	0.00	2.00	-2.00
Suncorp	0.00	1.81	-1.81

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	-7.12	-0.51	1.32	3.94
Distribution return	2.83	2.12	2.33	2.77

The Growth Return is measured by the movement in the Fund's unit price, 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 Australian Securities Exchange listed securities excluding the largest 20 by market capitalisation (as defined by the S&P/ASX 20 Index). In doing so, the aim is to outperform the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index over rolling 3-year periods.	
Recommended investment time frame	5 - 7 + years	
Fund inception	August 2010	
Fund size	A\$11.2 mn as at 31 December 2022	
APIR code	JBW0052AU	
Estimated management cost	0.90% p.a	
Buy/sell spread	+/- 0.15%	
Platform availability	BT Panorama Hub24	Praemium

---

## Applications and contacts

Investment into the Yarra Ex-20 Australian Equities Fund can be made by Australian resident investors only.

**Website** [www.yarracm.com](http://www.yarracm.com)

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

---

---

### Disclaimers

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 acting on any advice, 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/](http://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.