

Yarra Ex-20 Australian Equities Fund

Gross returns as at 31 January 2023

	From 25 June 2018 ^A	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	5.11	5.48	10.52	7.91	3.33	5.77	7.83	7.69
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index [#]	6.21	5.80	7.49	4.69	3.73	NA	NA	NA
Excess return (before fees) [‡]	-1.10	-0.31	3.04	3.22	-0.40	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 January 2023

	From 25 June 2018 ^A	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	4.16	5.40	10.28	6.94	2.41	4.78	6.64	6.46
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index [#]	6.21	5.80	7.49	4.69	3.73	NA	NA	NA
Excess return (after fees) [‡]	-2.05	-0.40	2.79	2.26	-1.32	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.

^A 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.

[#] 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.

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

Market review

The S&P/ASX 300 Ex-20 Index returned +5.8% for the month, taking its 12-month return to +4.7%. The broader ASX300 mirrored, gaining +6.3% for the month, as did global indices (MSCI World Index +7.1%).

Most sectors delivered positive returns for the month, with Consumer Discretionary (+11.3%) the best performing sector, led by Kogan (KGN, +28.6%), JB Hi-Fi (JBH, +15.3%), Corporate Travel Management (CTD, 24.6%) reflecting resilient consumer spending patterns during the holiday season.

Within Materials (+9.3%), Metals and Mining produced some of the top performers for the month with Sandfire Resources (SFR, +14.9%), Northern Star Resources (NST, +15.0%) and Sims (SGM, +16.6%) outperforming, aided by the Gold price rising 3% to US\$1,928/oz and Copper rising ~10% over the month to close at US\$4.17/lb.

Conversely, the lagging sector was Utilities (-3.0%), which underperformed following strong sector performance in the

December quarter, led by AGL Energy (AGL, -5.2%), Origin Energy (ORG, -3.2%) and APA Group (APA, -1.9%).

Portfolio review

Key Contributors

Reliance Worldwide (RWC, overweight) – the plumbing supplies company outperformed over the month of January following news of the widespread freeze event in the US in late December. These freeze events occur approximately every three years and this one should provide a solid boost to sales as repairs are undertaken to rectify frozen pipes. US 30-year mortgage rates also compressed ~50bps over the month, a positive move for home renovators that look to draw on their mortgages, with the share price also responding positively to this movement. Looking at the stock more broadly, the market is showing concern for a falling demand environment and RWC FY23 estimates were lowered after the company's August result and 1Q23 update. We believe RWC is a compelling opportunity with the market pricing for a significant decline in earnings (P/E of only 14 times vs 17 times mid

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cycle), while we remain constructive on the demand environment given the defensive nature of the majority of RWC's repair and remodelling sales.

Computershare (CPU, underweight) – the financial administration company underperformed during the month as the market began to factor in the peak in its earning cycle, which has been driven by the rise in short term interest rates in the US, Canada, and UK. Whilst interest rate leverage has seen earnings estimates for CPU double over the last 12 months, this has masked an underlying deterioration in the base business that will become more apparent as the contribution from margin income peaks.

Northern Star (NST, overweight) – our position in the gold producer was a positive contributor during the month, with the gold price rising 3% to US\$1,928/oz at month end. We continue to favour NST's solid assets and strong cost control. Aspirations to grow the business from current production of ~1.5Moz ps to >2Moz p.a. by 2026 are achievable within the current portfolio led by the Thunderbox mill expansion project and improving grades at Pogo (Alaska). NST remains the quality name in the gold sector in our view.

Key Detractors

Incitec Pivot (IPL, overweight) – the explosives, fertilisers and industrial chemicals company underperformed over the month as ammonia prices reduced 23% to \$790/t. Ammonia prices in Europe have been falling with demand in Asia very soft, the removal of an 5.5% EU import duty & EU gas prices in late December at their lowest level for seven months. We note these movements are temporary rather than structural and note that spot prices are in line with consensus forecasts for FY23. We remain overweight the company, with positive catalysts on the horizon for the stock.

Origin Energy (ORG, overweight) – the energy retailer is under a takeover offer and lagged the market during the month, falling modestly despite an upgrade to full year earnings guidance for its Energy Markets business. The exclusive due diligence period with suitors Brookfield and EIG was extended again during the month, then ultimately lapsed without a binding bid materialising. The parties remain in talks, and we expect an update from the company imminently.

Pilbara Minerals (PLS, underweight) – the lithium miner contributed to underperformance during the period. The company reported strong quarterly production for the December quarter during January, beating analyst consensus by 12%. The strong result offset modest declines in lithium prices across the month. We remain cautious on lithium prices and see considerable downside risk from easing EV demand on slowing economic conditions and the expiry of key subsidies in China. We continue to see a tight market for lithium in 2023, but not a repeat of the significant shortfalls experienced in 2022. As a result, we regard current spot pricing >\$7,000/t as unsustainable.

Key Purchases

Alumina (AWC) – we increased our position in AWC, reflecting our view that there is upside risk to demand for alumina following China's recent decision to move away from COVID-zero policies. China is a major customer of alumina to supply its under-utilized aluminium smelters that have been operating below full capacity due to the combined impacts of weak demand from COVID lockdowns, and drought conditions reducing hydroelectricity generation to power smelting operations. We expect increased industry activity and housing starts, coupled with a normalization in weather conditions will support increased aluminium demand in China, which will support an increase in demand for alumina feedstock. AWC is the best way to gain exposure to alumina in our view, and while energy costs in Spain and reliability concerns in WA have recently weighed on the company's share price, we see upside to value from both commodity prices and a turnaround in operating performance from here.

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. Scrap margins are improving following a period of significant moderation from historical highs and, in our view, are positioned to strengthen further. 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 in this area should position the business strongly relative to peers as environmental regulations tighten.

Key Sales

OZ Minerals (OZL) – we reduced our position in OZ Minerals during the period. With the \$28.25/share takeover bid from BHP supported by the OZL board, we see limited risk to deal completion at this stage. Copper prices increased ~10% over the month, however we see little likelihood of an increase in the bid given that the longer-term copper market fundamentals that support the bid remain largely unchanged. OZL is trading close to deal terms, as a result we see only limited potential for future outperformance.

Evolution Mining (EVN) – we reduced our position in Evolution during the period. EVN has rallied nearly 85% following disappointing production levels, guidance downgrades and balance sheet concerns during the middle of 2022. We continue to see support for gold prices in the near to medium term, however at current prices we believe the turnaround story in EVN is now largely fully priced.

TPG (TPG) – we reduced our position in TPG over the period following an adverse ACCC regulatory decision in December, which saw an outcome on the proposed network sharing agreement with Telstra (TLS) rejected. While TPG has appealed the decision, a ruling is not likely until the middle of this year. While headline price increases for Vodafone were encouraging in an increasingly rational mobile market, we expect inflationary pressures, interest costs and balance sheet concerns to weigh on the near-term outlook.

Key Active Overweights

Carsales.com (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 also like the opportunity to improve the profitability of Encar, CAR's South Korean business.

Reliance Worldwide (RWC) – the market is showing concern for a falling demand environment and RWC FY23 estimates were lowered after RWC's August result and 1Q23 update. We believe the plumbing supplies company is a compelling opportunity, with the market pricing for a significant decline in earnings (P/E of only 14 times vs 17 times mid cycle) while we remain constructive on the demand environment given the defensive nature of the majority of the company's repair and remodelling sales.

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.

Key Active Underweights

South32 (S32) – we remain cautious on the company. The divestment of thermal coal assets better focuses the S32 asset portfolio on future facing metals. However, manganese and coking coal prices are at risk of further price declines as they remain well above cost curve support. With these two commodities representing around 50% of S32's earnings, we see earnings risks skewed to the downside, based on supply and demand fundamentals. While we favour exposure to aluminium on increasing demand from China as the country re-opens post its COVID-zero strategy, we prefer to access this exposure via alumina rather than aluminium production, and thus favour AWC over S32 at this point.

Brambles (BXX) – 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 market enthusiasm at the commencement of 2023 has been stoked by three key forces; signs globally that the period of excess inflation is starting to recede, an acceleration in the trend decline in the US\$ which is helping to ease the contraction in global credit, and the expected impetus from "China's reopening" post its movement away from COVID zero. Each of these factors helps to diminish the risk of a harder landing for global growth and marginally increase the probability that a formal global recession may be avoided.

Importantly, the long-awaited pivot from major central banks appears to have been delayed until labour markets show more convincing signs of easing and the inflation down trend more assured. On balance, we still believe the US and Europe will enter a modest recession in 1H23 and inflation dynamics will change sufficiently for policy makers to conclude that the monetary policy is sufficiently restrictive to halt the tightening cycle in coming months.

We continue to argue that Australia presents as a safe haven from both the perspective of more robust growth relative to the G7 peer group and as having good leverage to signs of a trough in the economic cycle in China. Although both the RBA and we expect economic activity to slow significantly in 2023 to average just 1.5%, we believe Australia should be able to avoid a technical recession due to four 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 and even though commodity prices are now off their peaks they remain very elevated from a historical perspective. The consequence has been strong national income growth, profits growth and an improving underlying fiscal position. Indeed, the Commonwealth Budget will likely be close to surplus for the 2023 financial year.
2. The household sector continues to hold a significant buffer of over \$270bn 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. Australia remains incredibly well placed to benefit from the global energy transition. Lithium is already a A\$10bn export industry for Australia 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 2nd largest copper resource. LNG is an important energy transition fuel, and currently accounting for 23% of global electricity generation. Australia just happens to be the world's equal largest exporter of LNG. Iron ore obviously remains Australia's biggest export and China the dominant customer.

However, we expect the global energy transition to be steel intensive, opening up new customers.

- 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 appears likely in coming months, ensuring that Australia's population growth will be close to 2% in 2023.

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 February rate hike of 25 bps, we believe financial conditions are now in the restrictive zone and the RBA is now close to the finish of the tightening cycle. Nevertheless, following the February hike its clear the RBA is retaining the option of delivering two or more further rate hikes. From our perspective the RBA's focus on global growth, trends in household spending and the outlook for inflation and labour markets in informing their future decisions suggest that multiple additional hikes are unlikely to be required. Interest rate hikes in Australia will remain a month-to-month proposition for the next six months, however, our bias is that just one further 25 bps hike is likely to be delivered this 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 prove more robust and the prospect the US\$ down trend will persist 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 sectors, and are underweight Real Estate, Health Care and Financials.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	12.82	4.32	8.51
Consumer Discretionary	8.54	7.68	0.85
Consumer Staples	2.00	4.37	-2.37
Energy	4.47	4.73	-0.26
Financials	10.32	13.99	-3.67
Health Care	4.48	8.70	-4.22
Industrials	11.29	10.00	1.29
Information Technology	13.49	7.48	6.01
Materials	22.79	23.44	-0.65
Real Estate	0.00	11.92	-11.92
Utilities	4.94	3.37	1.58

Top 5 holdings

	Portfolio %	Benchmark %	Active %
QBE Insurance	5.47	2.30	3.17
Origin Energy	4.94	1.45	3.50
Carsales.com	4.86	0.90	3.96
ResMed	4.48	1.41	3.06
Worley	4.47	0.65	3.82

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Carsales.com	4.86	0.90	3.96
Reliance Worldwide	4.21	0.31	3.90
Worley	4.47	0.65	3.82
Underweights			
South32	0.00	2.34	-2.34
Brambles	0.00	1.87	-1.87
Suncorp	0.00	1.78	-1.78

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	3.78	0.27	2.43	3.86
Distribution return	3.16	2.14	2.35	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\$11.7 mn as at 31 January 2023	
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.

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