

Yarra Ex-20 Australian Equities Fund

Gross returns as at 30 June 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	5.99	0.50	3.63	24.14	13.04	6.21	8.29	7.96
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index [#]	5.72	0.84	2.62	14.89	9.30	5.89	NA	NA
Excess return (before fees) [‡]	0.26	-0.35	1.01	9.24	3.74	0.33	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 30 June 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	5.03	0.42	3.40	23.03	12.03	5.25	7.10	6.73
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index [#]	5.72	0.84	2.62	14.89	9.30	5.89	NA	NA
Excess return (after fees) [‡]	-0.70	-0.42	0.78	8.14	2.74	-0.64	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. 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

Australian equities gained 1.0% during the June quarter with Information Technology being the top contributor and Health Care being the weakest performer.

The Australian 10-year government bond yield continued to rise, finishing at 4.0% on the back of the RBA's cash rate hikes during the second quarter. The yield curve also inverted for the period as the 2-year bond yield increased more than the 10-year yield.

The S&P/ASX300 Ex-20 Accumulation Index climbed by 2.6% for the quarter, taking its 12-month return to +14.7%. Globally, the MSCI World Index climbed by 7.0% for the quarter.

The Information Technology (+17.1%) sector was the top performer during the period, with online accounting software provider Xero (XRO, +33.0%) the largest contributor after announcing a solid result in May and confirming a positive earnings outlook. Wisetech Global (WTC, +22.5%) was also a strong contributor to returns for the period.

Financials (+6.5%) was a solid sector performer for the quarter, with Insurance Australia Group (IAG, +21.5%) and Suncorp (SUN, +11.4%) the main contributors. Insurance giant IAG delivered a positive investor day in June which demonstrated more conservative settings around reinsurance and perils allowances, de-risking the growth outlook.

Conversely, the weakest performing sector was Consumer Staples (-8.0%), with Treasury Wine Estates (TWE, -14.1%) a meaningful detractor following its announcement in May of a 2-3% drop in sales (y/y). a2 Milk (A2M, -15.8%) and Endeavour Group (EDV, -6.8%) also added to the sector's weak quarterly performance.

Portfolio review

Key Contributors

NEXTDC (NXT, overweight) – following the announcement of the data centre operator's largest ever individual contract in April and subsequent regional expansion into Malaysia and New Zealand, NXT continued to outperform as the market's conviction in Artificial Intelligence (AI) applications as a driver

AVAILABLE TO AUSTRALIAN RESIDENT INVESTORS ONLY

of demand growth grew. Most notably, global leading specialist chip maker Nvidia's commentary around AI driven demand growth supported previous comments made by NXT management.

Xero (XRO, overweight) – the online accounting software provider outperformed during the quarter after announcing a solid result, with subscribers and revenue in line with expectations and EBITDA ahead of estimates. The result saw XRO's new CEO provide more detail about the company's shift towards more disciplined growth, with an increased focus on yield as a growth lever along with subscriber growth.

Insurance Australia (IAG, overweight) – our position in Australia's largest personal lines insurer added value over the period following a positive investor day update, which demonstrated more conservative setting around reinsurance and perils allowances, de-risking the growth outlook. Importantly, personal insurance providers are continuing to demonstrate excellent pricing power this CYTD (with double-digit premium rate increases y/y) which is offsetting increased cost inflation and supporting margin trajectory. This, in turn, is supporting an appealing stock valuation (16.0-times forward P/E).

Key Detractors

Link Group (LNK, overweight) – the diversified superannuation administration provider underperformed over the period following an adverse update in late June specific to its Retirement & Superannuation Solutions (RSS) business which confirmed that a superannuation customer representing approximately 4% of the business' revenue would not be renewing their contract in FY25. Notwithstanding LNK calling out that FY23 was overall tracking ahead of expectations, the share price weakened as investors queried if LNK may need to trade off margin for renewal certainty in future years.

James Hardie (JHX, underweight) – the leading fibre cement sheeting manufacturer to the housing industry outperformed in the period following the release of its FY23 financial results. While the result was broadly in-line with expectations, the company provided forward profit guidance for the June-quarter that was 10% ahead of market expectations, underpinned by solid volume and margin outcomes. While JHX is a quality building materials name, we remain cautious of the sustainability in its end markets (a portion of discretionary renovation spend), making it difficult to support the stock at its current valuation of 20.9 times forward P/E. Instead, we maintain a preference for plumbing supplies company Reliance (RWC), which trades on 14.2 times forward P/E.

United Malt (UMG, overweight) – the global commercial malt processor and distributor underperformed during the period. UMG received a takeover bid from peer Malteries Soufflet priced at \$5.00/share (+45% premium to prior closing price) in late March but has retraced modestly from its highs as a degree of deal risk began to be priced. Our view has been that Malteries Soufflet has required time to undertake sufficient due diligence and that the likelihood of a deal proceeding remains high. Positively, following end of the June period on 3 July, UMG received confirmation of the bid proceeding at

\$5.00 subject to a number of deal requirements. This saw the stock up +8.6% on the first trading day in July.

Key Purchases

Tabcorp (TAH) – we initiated a position in the wagering operator during the quarter, reflecting our view that TAH will be a net beneficiary of the upcoming Victorian wagering license tender and regulatory alignment between retail and digital operators. In our view, TAH also remains well positioned to benefit from its refreshed TAB25 strategy and gradual consolidation in the sector, which we expect will assist in delivering on the company's medium-term 10% ROIC target.

Chorus (CNU) – we established a position in the high-quality regulated telecommunications utility during the quarter, which trades on a 5.8% FY24 dividend yield. As the build out of its fibre network comes to an end, CNU will move to strong free cash flow generation, with a balance sheet that is under levered vs target gearing, and strong line of sight on regulatory revenues. Based on current market metrics, CNU would earn a nearly 300 bps higher regulatory return in the next regulatory period from July 2024, providing further upside to the medium-term dividend yield.

Region (RGN) – we initiated a position in the suburban shopping mall owning REIT in the period. We believe RGN's retail asset base, which comprises 96 predominantly neighbourhood shopping centres, will prove to be resilient during the consumer downturn. This is supported by its high skew to supermarket/anchor tenant income (46% total Net Operating Income), affordable specialty rents (8.7% average occupancy cost) and high overall portfolio occupancy (98%). The stock valuation is attractive, at 0.86-times net asset backing and offering a dividend yield above 6%.

Stockland (SGP) – we initiated a small position in Australia's largest land subdivider, reflecting our expectations of the resilience of SGP's Trust assets (underpinned by suburban shopping malls) and the likely improvement in residential development sentiment and activity in CY24 as the RBA likely eases cash rates. Additionally, we are positive on the strategic direction under the stewardship of CEO Tarun Gupta, shifting to a more capital light business model. New partnerships with large global investors such as Mitsubishi Estate Asia, in our mind, validate the strategy. The stock's valuation is attractive, trading at 0.98-times net asset backing, and offering a dividend yield above 6%.

Vicinity Centre (VCX) – we initiated a position in the shopping mall owning REIT in the period. Key supportive factors include VCX's asset mix, with over half its asset base exposed to more advantaged segments of retailing (i.e. luxury, DFO outlets in recovering CBDs), more resilient in-place leases with high occupancy and fewer holdovers. Further, VCX has a strong balance sheet (gearing 25.7% as at Dec-22) and attractive valuation, with the stock trading at 0.80-times net asset backing and offering a dividend yield above 6%.

Key Sales

Qantas (QAN) – we completed the portfolio's exit of Qantas during the month. The airline has experienced a period of unprecedented profitability with high demand and limited capacity coming out of COVID. While we believe some of the improvements in market structure that QAN is enjoying will persist, it is clear that profitability will reduce from current peak levels, warranting exiting the position.

Evolution Mining (EVN) – we exited our position in the gold miner during the quarter. With gold prices trading close to US\$2,000/oz, we see limited additional commodity price upside at these levels. EVN has rebounded strongly following downgrades and disappointing news during mid-2022, and while we favour the company's improved balance sheet and free cash generation, we now regard EVN as being fully valued. Our preferred exposure in the gold sector is through peer Northern Star Resources (NST), which offers better production growth from its long-life, low-cost assets.

Aristocrat Leisure (ALL) – we exited our position in the gaming content developer as the stock continued to re-rate higher, with evidence of a normalisation in Digital momentum after a period of elevated trading through COVID. We retain a positive view of the company given its position in Land-Based gaming and expectations that Digital revenues will likely continue to stabilise in coming months. However, we remain wary that expectations for the business are elevated (consensus EPS growth +18%/+8% in FY23/24) and P/E multiples are approaching long-run averages (19-times vs 21-times 10-year avg.). As a result, we believe better opportunities can be found elsewhere at this time.

Key Active Overweights

Reliance Worldwide (RWC) – the market is showing elevated concern for a weaker demand environment for the manufacturer and distributor of plumbing and heating parts, with RWC's FY23 earnings estimates now lowered following recent market updates. We view RWC as a compelling opportunity; while the market is pricing for a significant decline in earnings (P/E of only 14.2-times vs 17.0 times mid-cycle), we remain constructive on the demand environment given the defensive nature of its revenue base, the majority of which relates to non-discretionary repair activity.

Origin Energy (ORG) – the portfolio is overweight the energy company, which is currently subject to a binding takeover offer from Brookfield and EIG. ORG trades at an attractive discount to terms and while the transaction still requires ACCC and FIRB approval, we believe this will be received in due course.

Worley (WOR) – we remain overweight the leading provider of global engineering services. WOR's earnings recovery is in its early stages following COVID-19 impacts across FY20-22. Revenue is expected to grow 13-15% in FY23, with leading indicators (Factored Sales Pipeline +36%, Rolling 12 Month Bookings +28%, Backlog +8%) and structural drivers (capital investment required to decarbonise) pointing to strong top-line growth ahead. Margins are also set to accelerate over the coming years as WOR benefits from a more consolidated

industry structure, operating leverage, and active mix management.

Key Active Underweights

Brambles (BXB) – we remain underweight the global provider of pallet pooling solutions. Brambles currently has strong momentum (16% underlying profit growth in 1H23), with expectations for 17-19% growth over FY23 and improving free cashflow. We remain cautious, however, on the sustainability of the current high level of profit and believe the market is already factoring in improving free cash flow at current levels.

James Hardie (JHX) – we retain an underweight position in the leading building materials supply company. Notwithstanding a number of quality aspects to JHX's business (i.e. market share growth, a responsive operational and manufacturing footprint) we remain cautious of the ongoing strength in end markets for JHX (a portion of discretionary renovation spend, often labelled as remodelling activity). These factors are suggestive of future earnings vulnerability, making it difficult to support the stock at its current valuation of 20.9-times forward P/E. Our preferred building material company remains Reliance Worldwide (RWC), which trades on 14.2-times forward earnings.

Suncorp (SUN) – we remain underweight Australia's second largest insurer and regional bank Suncorp, with a preference for insurance exposure via peers Insurance Australia Group (IAG) and QBE Insurance (QBE), while we retain an underweight sector view on Australian banks. While we maintain a positive outlook for domestic general insurance which will benefit SUN, we also see some risk that the deal to sell SUN's bank to ANZ may not proceed in its current form, following concerns cited by the ACCC, which presents a risk that currently assumed sale benefits may not necessarily ensue.

Market outlook

We have been of the view that the June quarter 2023 will mark the top of the interest cycle for most of the developed world, however, global central banks are seemingly prepared to continue hiking interest rates despite evidence inflation is moderating, lending availability tightening and economic growth faltering. With respect to the latter, we have received confirmation that the Euro Area entered recession and the Federal Reserve staff have retained their forecast that a modest recession in the US is likely. Nevertheless, it seems the appetite for policy makers to persist with the tightening cycle into Q3 has remained, with central bankers seemingly perplexed at why services inflation has yet to ease and why the labour market has yet to ease appreciably. It is possible that a pause in the hiking cycle in June by the Fed will set the scene for a pause across most of the developed world, however, the risk of overtightening and even weaker economic activity is now a real prospect. We believe the US labour market is set to post more modest employment gains from mid-23 which in concert with improving labour supply will continue to moderate wage growth and help underwrite the commencement of a gradual easing cycle in the US by the end of 2023. However, we have to acknowledge that the message

from most central banks is that further hikes may be required and an interest rate easing cycle is not in prospect.

This weak economic growth narrative in concert with enthusiasm over the potential impacts from AI has seen large cap 'growth' stocks drive a narrow but strong equity market rally. This has largely hidden from view an ongoing negative earnings revision cycle which in concert with rising bond yields is leaving aggregate market valuations looking more challenging.

Economic growth has also slowed in Australia, recording just 0.3%qoq growth in the March quarter and much of this growth can merely be traced to strong population growth and ongoing engineering construction projects. It is clear the prior tightening of monetary policy is having a material impact on the interest rate sensitive parts of the economy. Nominal retail sales have slowed to 0% six -month annualised, following on from declining volumes in recent quarters. Building approvals continue to decline and are likely to decline further in coming months as declining housing affordability outweighs the impact of an under supplied housing market. Moreover, it is also clear that despite the Federal Budget forecast to return to surplus, that government demand growth is waning even faster than private demand growth.

Nevertheless, after describing the May decision to increase interest rates as finally balanced, the Reserve Bank of Australia (RBA) followed up with a further hike in June and a pause in July, but has flagged that further tightening may be required. The RBA has clearly shifted its focus to worrying about weak productivity growth and high unit labour costs as the main reason for fearing inflation may be higher than it forecasts. We think this ignores the fact that average compensation per hour has not risen sharply, and the main reason for high unit labour costs is a surge in hours worked and employment as the influx in immigration is absorbed into a slowing economy. While this shift in the RBA's focus risks a further hike in August, in our view the RBA would have been better served to pause after the May rate hike, rather than risking a harder economic landing.

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 be for nominal GDP growth will slow quickly over the next 6 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 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 accounts for 23% of global electricity generation. 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% 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. 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. While interest rate hikes in Australia will remain a month-to-month proposition for the next six months, our bias is that the RBA should have concluded its hiking cycle, yet an ever-shifting RBA framework suggest they may hike again in August. It is unlikely that policy easing will be delivered in 2023, however, we do expect that the RBA will commence a modest easing cycle in 1H24.

The A\$/US\$ had been under downward pressure as markets grappled with a seemingly more hawkish Fed and a relatively more dovish RBA. However, the RBA has recently sounded more hawkish than the Fed the A\$ has started to appreciate. 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 hiking strategy to an easing cycle in 2023, we expect the A\$/US\$ will appreciate to the mid-70s towards the end of 2023.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	13.69	4.41	9.28
Consumer Discretionary	10.37	7.16	3.21
Consumer Staples	3.44	3.89	-0.45
Energy	0.00	3.02	-3.02
Financials	12.58	15.92	-3.34
Health Care	4.59	9.17	-4.58
Industrials	8.51	12.97	-4.46
Information Technology	12.83	6.96	5.87
Materials	21.39	21.66	-0.28
Real Estate	5.13	11.12	-5.99
Utilities	5.22	3.72	1.50

Top 5 holdings

	Portfolio %	Benchmark %	Active %
QBE Insurance	5.62	2.69	2.94
Origin Energy	5.22	1.66	3.56
Resmed	4.59	1.47	3.11
Carsales.com	4.54	1.03	3.51
Reliance Worldwide	4.29	0.37	3.91

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Reliance Worldwide	4.29	0.37	3.91
Origin	5.22	1.66	3.56
Worley	4.22	0.68	3.55
Underweights			
Brambles	0.00	2.30	-2.30
James Hardie	0.00	2.02	-2.02
Suncorp	0.00	1.96	-1.96

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	20.77	9.68	2.89	4.46
Distribution return	2.26	2.35	2.36	2.64

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\$12.0 mn as at 30 June 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.

Website www.yarracm.com

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) 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/. 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.