

Yarra Ex-20 Australian Equities Fund

Gross returns as at 30 November 2021

| | 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 | 5.68 | 0.20 | 0.18 | 14.37 | 10.63 | 8.52 | 9.67 | 8.14 |
| S&P/ASX 300 ex S&P/ASX 20 Accumulation Index [#] | 8.77 | 0.53 | -0.45 | 15.02 | 13.73 | NA | NA | NA |
| Excess return (before fees) [‡] | -3.09 | -0.33 | 0.63 | -0.65 | -3.10 | 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 30 November 2021

| | 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 | 4.72 | 0.13 | -0.04 | 13.35 | 9.63 | 7.40 | 8.40 | 6.88 |
| S&P/ASX 300 ex S&P/ASX 20 Accumulation Index [#] | 8.77 | 0.53 | -0.45 | 15.02 | 13.73 | NA | NA | NA |
| Excess return (after fees) [‡] | -4.05 | -0.40 | 0.41 | -1.67 | -4.11 | 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 July 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 June 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 proved more resilient than the wider equities market in November as a new, potentially more transmissible COVID variant emerged.

The ASX 300 Ex-20 Accumulation Index rose 0.5% during the month, outperforming the broader ASX300's -0.5% return and the MSCI World Index's taking its 12-month return to 15.0%. Globally, equities declined late in the period (MSCI World Index -1.4% for November) as the latest COVID variant, labelled Omicron, drove uncertainty around the growth outlook. Further, persistent inflation in the US continued to stoke concerns about faster tapering and US interest rate rises.

At a sector level, Metals & Mining (+5.0%) provided the most support to the benchmark as commodity prices continued to rise. Battery materials producers Lynas Rare Earths (LYC, +21.0%), Mineral Resources (MIN, +17.3%), Pilbara Minerals (PLS, +18.2%) and Orocobre (ORE, +14.8%) were among the top performers. Gold (+5.9%) also outperformed amid the more volatile environment.

Information Technology (+3.2%) also delivered a strong return despite the outlook for higher interest rates. However, this was largely due to new benchmark position Novonix (NVX, +61.5%), a synthetic graphite producer which is leveraged to the positive outlook for lithium batteries. Elsewhere performance was more mixed, with Altium (ALU, +15.0%) offsetting Xero (XRO, -3.1%) and Nearmap (NEA, -27.6%).

Portfolio review

Key Contributors

Link Administration (LNK, overweight) – the share registry company outperformed after receiving several takeover offers during the period and giving a positive trading update. US-based Carlyle group returned with a \$5.38 per share offer, which included a cash component for the base business and a pro-rata distribution of LNK's PEXA stake. Meanwhile, LNK received two bids for its Banking and Credit Management (BCM) business. The second offer – at €65m – came from Ireland-based LC Financial Holdings. LNK also gave a trading update during the period, reaffirming full-year guidance and

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commenting that year-to-date trading has been ahead of expectations. We remain overweight as the corporate activity supported our view of the latent value in the business. We hold a positive view of PEXA premised on the infrastructure-like characteristics of the property settlement exchange upon maturity, supplemented by numerous growth opportunities in immediate adjacencies. Further, LNK is positively leveraged to higher US interest rates, which we see as a meaningful tailwind over the medium term.

James Hardie (JHX, overweight) – the building materials company outperformed following a better-than-expected 2Q22 result. While earnings for the period were in line with forecasts, management raised FY22 NPAT guidance by 3.5% at the midpoint, driven by better pricing and strong cost management in the face of higher inputs such as pulp. We remain overweight the high-quality building materials company. The result highlighted JHX's ability to sustain growth ahead of the market and sell higher value products, which will more than compensate for risks around growth rates normalising and higher borrowing costs. Lastly, we view JHX's valuation as attractive at 25.3 times forward earnings, below the Industrial ex-Financials at 28.6 times despite the stock's superior growth outlook.

Incitec Pivot (IPL, overweight) – the company outperformed after delivering a better-than-expected FY21 result and as ammonia prices moved to record highs. Management reported underlying NPAT of \$359mn, well above consensus for \$297mn, with strong performances from both the fertiliser and explosives divisions. Meanwhile, the December Tampa ammonia price increased by 20% to US\$990/t, with margins increasing as US gas prices remained relatively low. We remain overweight the company. While we are likely near the top of the cycle for fertiliser prices, we believe this is mostly reflected in consensus expectations with the stock trading at 11.0 times forward earnings, well below the wider Industrial ex-Financials at 28.6 times. However, persisting spot prices would result in significant earnings upgrades and potential capital management initiatives, particularly if IPL can maintain its improved plant performance (running at nameplate capacity).

Key Detractors

Worley (WOR, overweight) – the engineering services firm underperformed during the period alongside the oil price, with Brent Crude declining 15% to US\$71/bbl as Omicron sparked concerns around global growth. We remain overweight the company, which we believe is in a strong position to withstand a lower-than-expected recovery in its traditional work. Following the Jacobs ECR acquisition, the business is diversified across different markets and is well positioned to capture higher structural demand from energy transition work to low carbon solutions. We believe WOR's valuation provides significant support at current levels, with the stock trading on 13.5 times forward earnings, a sharp discount to the Industrials ex-Financials at 28.6 times.

Tyro Payments (TYR, overweight) – the company underperformed after providing a confusing trading update at its AGM during the period. While gross profit was below

expectations (YTD +14%), the company did not properly explain that this stemmed from one-off issues (i.e. lockdowns) and, moreover, the way it was reporting the contribution from the Bendigo Bank Alliance (that came into effect in June 2021). While the result was still disappointing, we believe the stock was oversold and remain overweight. As the lead provider of software that allows payment terminals to be integrated into point-of-sale (POS) systems, TYR remains in a defensible position versus peers such as the banks which rely on a clunky intermediary. Moreover, short-term headwinds are more than reflected in TYR's valuation, with the stock trading at 2.8 times forward sales – a significant discount to technology peers.

Alumina (AWC, overweight) – the alumina producer partially retraced prior outperformance without any materially negative news during the period. We remain overweight the company. We expect global aluminium demand to continue to improve as the Transportation sector recovers and, more broadly, the drive to decarbonise increases demand for the lightweight metal. More broadly we continue to hold a positive view of AWC's high-quality assets and strong earnings, cash flow and capital management potential. As a result, we see its valuation (at a forward P/E of 10.6 times with a 9.3% forecast dividend yield) as attractive.

Key Purchases

Insurance Australia Group (IAG) – we established a position in the insurer during the period for several reasons. We took advantage of recent underperformance, which reflected IAG enduring an unusually high level of mid-sized events FYTD (at ~8 times normal losses). As a result, the stock was trading at a 20% discount to the ASX 200 on FY23 earnings, well below its long-run average of -2%. While we acknowledge the structural pressure on catastrophe allowances and that IAG will need to increase its loss estimates going forward, we believe this is mostly captured by consensus. Further, IAG has \$1.15bn of business interruption reserves, most of which we believe will not be required – putting the company in a strong capital position. With \$12.5bn in policyholder and shareholder funds, IAG also has significant positive interest rate leverage: every 10 bp increase in base rates translates to a 1% increase in NPAT.

Atlas Arteria (ALX) – we increased our position in the toll road operator during the period. We maintain a high-conviction overweight position based on ALX's strong liquidity and balance sheet position, discounted valuation, and exposure to traffic recovery in Europe and the US. ALX on less than 11.0 times normalised EV/EBITDA, which more than captures the disruption from COVID as travel restrictions and lockdowns reduce traffic volumes in the short term. Beyond traffic normalisation, we see a path towards value creation for ALX through concession extensions at APRR achieved as a means of funding expansion projects and settling the Dulles Greenway tolling regime.

Qantas (QAN) – we increased our position in the airline during the period. Our positive view is predicated on QAN emerging from COVID with a significantly improved industry structure and more competitive cost base in both its domestic and

international businesses. We are particularly optimistic on the domestic side of the business, where we expect the improved industry structure, operating leverage and cost out initiatives to drive significant earnings upside versus consensus forecasts. We expect relative multiples to retrace to historic averages as confidence in the recovery builds (trading at or above pre-COVID multiples on normalised earnings).

Key Sales

Lendlease (LLC) – we exited our position in the property group during the period in response to greater uncertainty over the outlook and to fund more compelling, near-term opportunities elsewhere. LLC's strategy targets have been pushed out to FY24 (from FY23/24 previously) as COVID continues to impact LLC's real estate markets, particularly its UK developments, and the new chief executive reset earnings expectations with a more conservative approach to profit recognition.

Iluka Resources (ILU) – we reduced our position during the period but maintain a smaller overweight in the mineral sands producer. The smaller overweight reflects our view that zircon and rutile markets are elevated following strong rises in prior periods, with the current pace of the recovery exceeding our expectations amid the global economic recovery. That being said, we regard the industry structure as attractive (consolidated supply), with less pricing volatility compared to previous cycles. As a result, we see ILU's valuation as attractive (at 5.4 times EV/EBITDA). While the outlook for rare earths appears promising in the context of a strong demand profile (as a component for electric vehicles) and potential government support, we ascribe limited value given it is long-dated opportunity with significant execution risks. We ascribe zero to ILU's valuation from Sierra Rutile after the company suspended operations due to ongoing poor financial performance.

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

Key Active Overweights

Link Group (LNK) – we are overweight the company because we continue to see compelling value in its base share registry business and electronic conveyancing business PEXA, which has been supported by recent corporate interest. We hold a positive view of PEXA premised on its infrastructure-like characteristics of the property settlement exchange upon maturity, supplemented by numerous growth opportunities in immediate adjacencies. Further, LNK is positively leveraged to higher US interest rates, which we see as a meaningful

tailwind over the medium term. Lastly, LNK trades at 20.0 times forward earnings, an attractive discount to peer Computershare (CPU) at 23.0 times.

TPG Telecom (TPG) – our positive view is premised on the improving outlook for the mobiles market, recovery in volumes post COVID and the recently completed Vodafone merger, which in our view will unlock significant synergies. The combined entity is well placed to harness its infrastructure, scale, and balance sheet to disrupt incumbents Telstra (TLS) and Optus through its lower-cost structure, as well as new products such as Fixed Wireless.

James Hardie (JHX) – we continue to believe JHX is well positioned to benefit from the stronger US housing environment following the resolution of the COVID crisis. JHX has the ability to sustain growth ahead of the market and sell higher value products, which will more than compensate for risks around growth rates normalising and higher borrowing costs. We are confident in the company's market share outlook due to its high-quality and reliable products, improved sales strategies (positioning the product as superior versus alternatives) and the resolution of US supply and manufacturing issues. We view JHX's valuation as attractive at 25.3 times forward earnings, below the Industrial ex-Financials at 28.6 times despite the stock's superior growth outlook.

Key Active Underweights

Sydney Airport (SYD) – we are underweight on the grounds that the latest takeover offer for the company fully reflects its recovery at \$8.75 per share and, at an EV of 23 times CY19 earnings, is above other major airport transactions globally. Further, if it is unsuccessful, there are underappreciated risks arising from airline and tenant agreements and the prospect of higher interest rates in the long term. Most airline agreements are scheduled for renewal in July 2021 which, if they are not extended, may result in adverse pricing outcomes for the airport operator.

Sonic Healthcare (SHL) – we are underweight the company on the grounds positive vaccine outcomes are likely to create an earnings headwind for the company which has seen significant earnings support from its COVID testing services. While short-term earnings will remain robust, we expect EBITDA to decline in FY22 as fewer tests are issued. We no longer view its valuation as sufficiently compelling versus alternatives, with the company trading 19.0 times elevated forward earnings.

Xero (XRO) – we are underweight the accounting software provider because we believe its strong growth outlook is fully factored into its valuation, but its potential risks are not. XRO trades at 17.4 times EV/sales, reflecting lofty expectations for subscriber growth to accelerate as the company continues to expand overseas and for add-on products and services to drive higher average revenue per user (ARPU). However, international expansion carries significant risks due to greater competition in more fragmented markets, with significant ongoing product reinvestment required for XRO to maintain its advantages relative to peers.

Market outlook

We expect the Australian economy to continue to rebound in the short-term, following a better-than-expected contraction in 1Q21 amid COVID-related lockdowns in Melbourne and Sydney.

Notwithstanding the ongoing risk from new variants such as Omicron, we believe interruption to economic growth from renewed lockdowns will be an aberration within an improving trend. Indeed, the fundamentals that will drive the economic recovery remain in place. The recovery in labour market income has been sufficient to offset the gradual withdrawal of temporary fiscal support. Moreover, the accumulation of an estimated \$185bn in excess household saving, in concert with strong asset price gains, leaves the consumer uniquely positioned to underpin economic growth in 2021- 2022. Dwelling investment is set to provide solid support for economic growth over the next six months as previously approved housing moves through the construction phase, and a broader-based lift in business investment expectations is an important step in ensuring a sustained economic recovery. We expect the global economy to expand 6% and the Australian economy to expand 4.5% in 2021. We expect another strong year of economic growth in 2022 of 4.0%.

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

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

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

Sector allocation

| | Portfolio % | Benchmark % | Active % |
|------------------------|-------------|-------------|----------|
| Communication Services | 14.86 | 4.91 | 9.95 |
| Consumer Discretionary | 8.88 | 8.83 | 0.05 |
| Consumer Staples | 2.15 | 4.01 | -1.87 |
| Energy | 3.16 | 4.70 | -1.54 |
| Financials | 12.66 | 13.46 | -0.79 |
| Health Care | 6.67 | 9.22 | -2.55 |
| Industrials | 7.71 | 10.29 | -2.57 |
| Information Technology | 9.93 | 8.26 | 1.67 |
| Materials | 24.96 | 20.74 | 4.22 |
| Real Estate | 4.15 | 12.66 | -8.51 |
| Utilities | 3.38 | 2.91 | 0.47 |

Top 5 holdings

| | Portfolio % | Benchmark % | Active % |
|-------------------------|-------------|-------------|----------|
| James Hardie Industries | 6.61 | 2.58 | 4.03 |
| QBE Insurance | 5.27 | 1.79 | 3.48 |
| Link Administration | 4.69 | 0.28 | 4.41 |
| Atlas Arteria | 4.61 | 0.65 | 3.97 |
| TPG Telecom | 4.60 | 0.26 | 4.34 |

Key active positions

| Overweights | Portfolio % | Benchmark % | Active % |
|-------------------------|-------------|-------------|----------|
| Link Administration | 4.69 | 0.28 | 4.41 |
| TPG Telecom | 4.60 | 0.26 | 4.34 |
| James Hardie Industries | 6.61 | 2.58 | 4.03 |
| Underweights | | | |
| Sydney Airport | 0.00 | 2.33 | -2.33 |
| Sonic Healthcare | 0.00 | 2.13 | -2.13 |
| Xero | 0.00 | 1.95 | -1.95 |

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. | Since inception % p.a. |
|---------------------|----------|----------------|----------------|------------------------|
| Growth return | 11.16 | 7.13 | 4.62 | 4.19 |
| Distribution return | 2.19 | 2.50 | 2.78 | 2.69 |

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\$13.8 mn as at 30 November 2021 | |
| 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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