

Yarra Ex-20 Australian Equities Fund

Gross returns as at 30 November 2022

	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	4.69	7.66	3.63	1.36	3.11	5.67	8.48	7.58
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index [#]	5.99	5.39	2.39	-3.05	3.60	NA	NA	NA
Excess return (before fees) [‡]	-1.30	2.27	1.25	4.41	-0.49	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 2022

	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	3.74	7.58	3.40	0.46	2.19	4.67	7.27	6.34
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index [#]	5.99	5.39	2.39	-3.05	3.60	NA	NA	NA
Excess return (after fees) [‡]	-2.25	2.19	1.01	3.51	-1.41	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

Australian equities delivered another month of strong performance, gaining a further 6.6% in November following the 6% recovery in October.

The S&P/ASX 300 Ex-20 Index returned 5.4% for the month, taking its 12-month return to -3.1%. The broader ASX300 mirrored similarly, gaining 6.5% for the month, as did global indices (MSCI World Index 7.0%).

All sectors delivered positive returns for the month, with Utilities (+20.9%) the top performing sector, led by Origin Energy (ORG, +41.1%) off the back of a takeover bid, and further supported by AGL Energy (AGL, +16.9%) and APA Group (APA, +6.5%).

Materials (+16.3%) was not far behind, with strong performance delivered by gold and iron ore miners such as Bellevue Gold (BGL, +48.7%), Sandfire Resources (SFR, +45.2%) and Champion Iron (CIA, +39.0%) being some of the key highlights for the month.

The worst performing sector was Information Technology (+2.5%), with Software and Electronic Equipment constituents including as Bravura Solutions Ltd (BVS, -35.25%), Infomedia (IFM, -10.2%) and NOVONIX (NVX, -16.5%) the weaker performers during the period.

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. We remain attracted to 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.

Sandfire (SFR, overweight) – the copper producer was a positive contributor to the portfolio during the period. Copper prices increased 9% over the month to close at US\$3.73/lb. We like copper as a commodity given its leverage to electrification

as a key material in batteries and electric motors. In addition, the company undertook an equity raising during the period which was well received by investors. We participated in the company's \$200m Entitlement Offer during the period and view the raising as an important de-risking event for the 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 the MATSA asset in Southern Spain. Further de-risking of these projects, coupled with the positive outlook for copper markets, will continue to generate share price outperformance in our view.

Northern Star Resources Ltd (NST, overweight) – our position in Northern Star was a positive contributor during the month, with the gold price rising 8% to US\$1,768/oz at month 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 implied 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 – are key differentiators for NST.

Key Detractors

Reliance Worldwide (RWC, overweight) – the plumbing supplies company underperformed during the period following JHX'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.

Xero (XRO, overweight) – we took the opportunity to buy into XRO following its weaker than expected 1H23 result given the longer-term attractiveness of the outlook and supportive valuation levels. XRO underperformed after its 1H23 result as the market digested the news of an unexpected CEO changeover, a large EBITDA miss of 23% versus consensus which was due to stronger than expected cost growth below the gross margin line (38% cost growth versus 30% revenue growth), and weaker momentum in net new subscribers in the US, UK, and ROW. The outlook for subs growth in 2H23 is for a rebound in the US and UK (different issues) and more controlled costs. Longer term, XRO should benefit from further cloud migration in international markets; stronger take-up of platform revenues across all geographies; stronger sub growth in the UK driven by the MTD legislation.

ResMed (RMD, overweight) – our overweight position detracted from returns over the month of November which saw the market digest the company's 1Q result which revealed mixed underlying trends. While the result itself was in-line, we observed large geographic divergence, with strong performance for US sales (+9% ahead) with Rest-Of-World sales missing (-13% below expectations). In our view, the outlook commentary for F23 was overall supportive, with the

expectation of sequential growth in quarterly devices underpinning the improving market backdrop. The strong growth outlook coupled with undemanding valuation (34.1 times P/E and 24.6 times EV/EBITDA on a 12-month forward basis) continues to support the overweight stock stance.

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 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.

JB Hi-Fi (JBH) – we increased our position in the specialist retailer during the period. We view JBH as a best-in-class operator that is well positioned to navigate the volatility ahead in spite of a softening consumer environment, with strong cash generation and a robust balance sheet. Unlike other Covid beneficiaries, consensus earnings already reflect a 30% earnings decline over the next three years, resulting in JBH trading at a discount vs. history which we believe is unwarranted (8 times EV/EBIT vs. 10 times long-term average).

Xero (XRO) – we took the opportunity to buy into XRO following its weaker than expected 1H23 result given the longer-term attractiveness of the outlook and supportive valuation levels. XRO underperformed after its 1H23 result as the market digested the news of an unexpected CEO changeover, a large EBITDA miss of 23% versus consensus which was due to stronger than expected cost growth below the gross margin line (38% cost growth versus 30% revenue growth), and weaker momentum in net new subscribers in the US, UK, and ROW. The outlook for subs growth in 2H23 is for a rebound in the US and UK (different issues) and more controlled costs. Longer term, XRO should benefit from further cloud migration in international markets, stronger take-up of platform revenues across all geographies, and stronger sub growth in the UK driven by the MTD legislation. After the tech sell-off, the current valuation levels (Market Cap/LTV) have not been seen since late 2017, providing an attractive valuation to be long XRO with a long-term outlook.

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 asset (>20 years mine life) and completes IGO's suite of battery commodities with the company already producing nickel, copper and cobalt.

Atlas Arteria (ALX) – the portfolio's position in the toll road owner was reduced during the month after appreciating sharply on no new information. ALX is now trading close to an enterprise value equivalent to where it was trading before it undertook its acquisition of the Chicago Skyway toll road.

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

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 revenue 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.

Link Group (LNK) – despite the uncertainty created by the failed takeover bid from Dye & Durham and regulatory action on its Fund Solutions business, we still see considerable value in LNK's constituent parts and a pathway to crystallising this value. In the interim LNK's two main operating businesses are performing well with two upgrades to guidance provided in the last six months.

Worley (WOR) – we remain overweight the professional project and asset services company. Following years of underinvestment in oil & gas projects by the industry, 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% YoY growth. 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 maintain a negative medium to longer-term view towards the company. In our view S32's key commodity prices remain unsustainably high despite recent price falls. While manganese and coking coal prices have declined, they remain well above cost curve support. With these two commodities representing around 50% of S32's earnings, we see earnings risk skewed to the downside, based on supply and demand fundamentals. The company faces increasing inflation pressures across its portfolio from rising energy and labour costs. 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.

Sonic Healthcare (SHL) – we are underweight the company on the grounds that normalisation of COVID-19 testing volumes are likely to create an earnings headwind for the company which has seen significant earnings support from these testing activities globally. While short-term earnings will remain robust, we expect EBITDA to decline in FY23 as fewer COVID-19 tests are issued. We do not view its valuation as sufficiently compelling versus alternatives, with the company trading on approximately 19 times elevated forward earnings.

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 strongly in October and November 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 the first three quarters of 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.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	13.78	4.27	9.51
Consumer Discretionary	8.45	7.48	0.97
Consumer Staples	1.85	4.26	-2.41
Energy	4.35	4.86	-0.52
Financials	10.08	13.91	-3.83
Health Care	4.34	8.81	-4.47
Industrials	11.53	10.15	1.38
Information Technology	13.68	7.75	5.93
Materials	24.05	23.02	1.03
Real Estate	0.00	11.89	-11.89
Utilities	5.20	3.61	1.59

Top 5 holdings

	Portfolio %	Benchmark %	Active %
QBE Insurance	5.21	2.18	3.02
Origin Energy	5.20	1.55	3.65
Carsales.com	5.05	0.92	4.13
Worley	4.42	0.63	3.79
ResMed	4.34	1.50	2.84

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Carsales.com	5.05	0.92	4.13
Link Administration	4.09	0.21	3.89
Worley	4.42	0.63	3.79
Underweights			
South32	0.00	2.13	-2.13
Brambles	0.00	1.92	-1.92
Computershare	0.00	1.83	-1.83

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	-2.08	0.11	2.10	4.48
Distribution return	2.54	2.08	2.56	2.79

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\$11.5 mn as at 30 November 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.

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