YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 July 2023

Yarra Global Share Fund

Net returns as at 31 July 2023

	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Global Share Fund#	-0.25	1.14	9.44	7.54	9.52	11.12	13.32	8.25
MSCI All Countries World Index^	2.40	6.41	15.24	16.92	12.73	10.38	12.04	7.34
Excess Return‡	-2.65	-5.27	-5.80	-9.38	-3.21	0.74	1.28	0.91

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 of Yarra Global Share Fund: November 1995.
# Effective 20 March 2023, the Fund was renamed from the Nikko AM Global Share Fund to the Yarra Global Share Fund. There was no change to the Fund's investment team, philosophy or process. The Fund gains exposure to global equities by investing in the Nikko AM Global Equity Fund (Underlying Fund) (a sub-fund of the Nikko AM Global Umbrella Fund which is an open ended investment company registered under Luxembourg law as a societe d'investissement, a capital variable).
^ Benchmark: MSCI All Countries World Index (with net dividends reinvested) expressed in Australian Dollars (unhedged).
‡ Excess return: The excess return figures shown represent the difference between the Fund's return and the benchmark.

Portfolio review

The Fund returned -0.25% (after fees) in July, to underperform the Index return of 2.40% by 265 basis points (bps). Over the longer term (5 years), the Fund's return of 11.12% per annum (p.a.) is 74 bps p.a. ahead of the Index return of 10.38% p.a.

Key contributors to relative performance:

- Oilfield services companies Schlumberger N.V. and Champion X Corporation both performed well on strong results and an elevated oil prices.
- Booking Holdings Inc. outperformed on the back of positive travel trends. In particular, Americans are taking more time off work and vacationing more than they have in over a decade. This has benefitted Booking, which supports customers in making travel reservations.
- Singaporean bank DBS Group Holdings Ltd. outperformed after a lackluster first half of the year. DBS continues to deliver very strong return on equity and while loan growth remains subdued, management have managed asset quality well.
- PT Bank Mandiri (Persero) Tbk an Indonesian bank performed well on strong results. Higlhlighted by loan growth of 12%, improved margins, resilient asset quality and a notable reduction in non-performing loans.

Key detractors to relative performance:

- Hexagon AB declined following a short report which alleged that organic growth had been exaggerated, the ex-CEO's investment company – Greenbridge – had been frontrunning Hexagon investments, buying mature earnings with low growth. The manager is not convinced that organic growth has been exaggerated, as the company is compliant with accounting rules and has been open about the fact that a reasonable proportion of growth is acquisition related. Regarding Greenbridge, this news is outdated and has already been addressed during the legal proceedings involving Hexagon's former CEO, Ola Rollen. He was completely cleared of the allegations. The accusation regarding acquisitions with mature earnings and low growth is true regarding Integraph in the early 2000s but less obvious with later acquisitions such as Infor.
- Masimo Corporation fell sharply after issuing a profit warning at the start of the month – as demand undershot expectations in both its Healthcare and Consumer segments, the company was too slow to react (probably because senior management were distracted by the proxy fight with an activist shareholder). Thankfully, almost all the softness in their healthcare business was attributable to short-term factors (such as component and labour shortages), and management confirmed that incoming order growth was still running in the low double digit percentage rates. The Consumer division's weakness may prove longer lasting and likely strengthens the hand of activist shareholders, who comprehensively won the recent proxy fight with management & are pursuing reforms that we believe will release substantial value for shareholders.
- The food catering business Compass Group plc struggled after Q2 results illustrated slowing top-line growth but more limited margin progression, as a result of the stubbornly high inflation backdrop. Despite these near-term dynamics, the franchise quality is high, and Compass remains a core holding in the Fund.
- Tenet Healthcare Corporation underperformed after several managed care organisations reported a slowdown in acute care patient volumes versus Q1. This had a adverse impact on hospital names such as Tenet and HCA Healthcare, who had benefited significantly from higher utilisation rates earlier in the year, lapping easy comps because of COVID-19. Volumes appear to be now normalising, with surprises to the upside less likely.

- Amadeus IT Group SA failed to keep pace with the market after the release of its Q2 earnings. Although the business continues to recover solidly from the disruption caused to travel spending by COVID-19 (with revenues growing 41%), there was some disappointment over profit margins, with costs a little higher than anticipated. This meant that management left guidance for the full year unchanged. With the shares having risen strongly earlier in the year, there was some mild profit taking.

Market review

Equity markets enjoyed another positive month, with the MSCI ACWI rising 2.4% (in AUD terms), as hopes increased that the Federal Reserve could buck historical precedent and deliver a soft landing for the US economy. The US economy has continued to remain stronger than most expected in the face of significant interest rate hikes (with another 25 bps hike delivered last month) and many market strategists have abandoned their calls for a recession during 2023, as a result. Headline US CPI cooled more quickly than expected in July (to 3%) and GDP growth was also a positive surprise, coming in at 2.4% quarter on quarter. The strength of the US labour market shows little sign of relenting and this – allied to the continued cooling of inflationary pressures – is continuing to buoy US consumer confidence.

This better-than-expected economic performance led to a sell-off in fixed income markets and the yield on the US 10-year bond ended the month closing in on 4%. Although this level of yield has proven problematic for equity markets in the past, this has not been the case in July. Part of the reason is that companies continue to have relatively good access to capital – as exemplified by the spread payable on BBB corporate bonds, relative to US Government debt. This has continued to come in, even as monetary policy has tightened, and measures of global liquidity have contracted. For instance, US money supply contracted 3.6% in the latest figures.

At some stage, history suggests that this tightening will lead to a slowdown in economic activity, but it increasingly appears that Government-led spending – such as that resulting from the Inflation Reduction Act and the CHIPS Act – will delay any marked deceleration into 2024 at the earliest.

July also saw some improvement in the economic picture in other regions. Hopes have certainly increased that the Chinese Government is going to act more decisively, to support its economy. The Peoples Bank of China also cut several interest rates this month, to encourage greater bank lending.

As a result of these developments, economic cyclicals built on the strength seen in June last month. The best performing sectors this month were energy and materials, as commodity prices generally firmed (including oil, copper and grains). Consumer discretionary and financials also outperformed, as value beat growth. The broadening of equity market leadership was also evident in the fact that information technology modestly underperformed in July, as did all the defensive sectors, including healthcare, consumer staples and real estate.

The recovery in basic resources was also evident in regional performance in July. Emerging Asia, the Middle East and Africa and Latin America all outperformed, whilst the US and Japan failed to keep pace with the market, as did Europe ex-UK.

Country / regional exposure

	Fund %	Benchmark %
United States	57.74	61.95
Japan	3.93	5.46
China	0.00	3.30
United Kingdom	11.15	3.60
Canada	0.00	2.86
Europe ex UK	7.60	12.38
Asia Pacific ex China & Japan	14.38	7.91
Emerging Europe, Middle East, Africa	0.00	1.55
Latin America	0.00	0.99
Cash	5.19	0.00

Sector exposure

	Fund %	Benchmark %
Communication Services	2.39	7.48
Consumer Discretionary	15.54	11.39
Consumer Staples	7.96	7.16
Energy	4.65	4.73
Financials	13.04	15.61
Health Care	17.31	11.58
Industrials	12.08	10.50
Information Technology	18.77	21.90
Materials	3.07	4.60
Real Estate	0.00	2.34
Utilities	0.00	2.72
Cash	5.19	0.00

Top 10 holdings (underlying Fund)

	Portfolio %	Benchmark %	Country
Microsoft Corporation	6.84	3.61	United States
Accenture plc	3.34	0.30	United States
Schlumberger N.V.	3.10	0.13	United States
Linde plc	3.07	0.29	United States
Haleon plc	2.97	0.03	United Kingdom
Worley Limited	2.86	0.00	Australia
KBR, Inc.	2.82	0.00	United States
Compass Group plc	2.76	0.07	United Kingdom
Amadeus IT Group SA	2.63	0.05	Spain
HDFC Bank Limited	2.57	0.08	India

Portfolio holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.

Income and growth

	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Growth return	7.54	9.52	11.12	12.12
Distribution return	0.00	0.00	0.00	1.20

Fund growth return is the change in redemption prices over the period. Fund distribution return equals total Fund return minus Fund growth total return. Total Fund returns are post fees, pre tax using redemption prices and assume reinvestment of distributions.

Features

Investment objective	The Fund aims to achieve capital growth over the long term, with total returns (before fees) 3% above the MSCI All Countries World ex-Australia Index (with net dividends re-invested) expressed in Australian Dollars (unhedged) over rolling three-year periods.	
Recommended investment time frame	5+ years	
Fund inception	November 1995	
Fund size	A$280 million as at 31 July 2023	
APIR code	SUN0031AU	
Estimated management cost	0.99% p.a.	
Buy/sell spread	+/- 0.15%	
Platform availability	AMP North Asgard BT Panorama Hub24 Macquarie Wrap MLC Navigator MLC Wrap	Netwealth OneVue PortfolioCare Praemium uXchange Wealth02 Xplore Wealth

Applications and contacts

Investment into the Yarra Global Share Fund can be made by Australian resident investors only.

Website www.yarracm.com

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