**Investment Commentary**
Month to 31 May 2024

# Yarra Global Share Fund

## Net returns as at 31 May 2024

| | 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# | 1.59 | 0.78 | 17.62 | 18.46 | 7.56 | 12.59 | 13.56 | 8.56 |
| MSCI All Countries World Index^ | 1.60 | 1.62 | 13.76 | 20.23 | 10.56 | 12.58 | 12.28 | 7.61 |
| Excess Return‡ | -0.02 | -0.84 | 3.86 | -1.77 | -3.01 | 0.01 | 1.28 | 0.95 |

**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 1.59% (after fees) in May, to underperform the Index return of 1.60% by 2 basis points (bps). Over the longer term (5 years), the Fund's return of 12.59% per annum (p.a.) is 1 bps p.a. ahead of the Index return of 12.58% p.a.

Key contributors to relative performance:

- NVIDIA Corporation's latest quarterly results were, once again, better than investor expectations – driven by continued, strong growth in their data centre compute business (which grew almost 30% quarter on quarter), as demand for AI infrastructure boomed. Management also talked confidently about the sustainability of this growth as they move towards full commercial launch of their new, more powerful Blackwell chips later this year.
- Netflix quickly recovered the losses seen last month as company announcements increased visibility regarding the continued strong uptake of their paid advertising plans. The company confirmed this month that they now have 40 million users on these plans and that 40% of new customers are subscribing to these (more profitable) plans.
- Shares in Bio-Techne Corporation rose more than 16% at the start of the month, after publishing a reassuring set of quarterly numbers. Whilst demand has yet to meaningfully inflect across the broader Life Science Tools industry, Bio-Techne management talked of a number of green shoots during the recent quarter, and stated their confidence that the company would resume its double-digit revenue growth if these green shoots continue to develop as they have in previous cycles.
- Ryan Specialty Holdings. outperformed this month after posting a solid quarterly trading update, with continued strong growth in their Excess & Surplus (brokerage insurance) business. Sentiment towards the insurance sector also benefitted from the back up in bond yields seen in the US this month.
- Schneider Electric benefitted from the ongoing enthusiasm surrounding AI-related developments, following NVIDIA Corporation's results. The data centres required for the AI revolution are energy intensive and will underpin strong demand for Schneider's energy management business. News that the company was going to walk away from the proposed acquisition of Bentley Systems was also well received, given investor concerns over the valuation multiple potentially attached to this transaction.

Key detractors from relative performance:

- PT Bank Mandiri underperformed as quarterly results showed continued strong loan growth but a smaller drop in profits than in recent quarters, as higher funding costs squeezed net interest margins.
- Samsonite saw some profit taking after quarterly results marginally missed investor expectations (on revenues, more than profit margins). The company cited adverse foreign exchange and a slightly weaker than expected recovery in Chinese demand. Speculative interest in the shares has also declined in recent weeks, as no formal takeover interest has emerged, after rumours earlier in the year.
- Cencora fell after quarterly results showed weaker than expected revenue growth, but stronger profit margins. The revenue growth softness was largely attributable to older insulin products, which have seen substantial price cuts in recent months. Although this stoked fears that generic drug pricing was weakening again, a management conference late in the month reiterated that this was not the case.
- Haleon underperformed the market as quarterly results were slightly weaker than expected, driven by short-term weakness in respiratory medicines and pain relief volumes

(driven by destocking). Pricing remained very strong, however, and efficiency savings are encouraging. Legacy shareholders also continued to reduce their holdings in the business this month, with Glaxo placing the final piece of their holding.

- Masimo Corporation gave back some of its recent gains, following mixed quarterly results this month. Although the company raised sales guidance for the full year and profit margins were better than expected (helped by sensor production relocation to Malaysia), the market was disappointed by continued near-term weakness in hospital monitoring spending – which will need to improve markedly in second half of 2024 for new guidance to be delivered.

## Market review

After a lacklustre April, the global equity index resumed its upward trend and gained 1.60% (AUD, unhedged) in May. Superficially, equity market leadership in May looked very similar to that observed in the first quarter of 2024 (Q1-2024), with Information Technology and Communications heavyweights like NVIDIA Corporation and Netflix, Inc. performing strongly. Beneath the surface, however, there were also some major differences, compared to earlier this year.

Most notably, there was a renewed bid for some more defensive sectors (such as Utilities & Real Estate), whilst more economically sensitive sectors like Energy, Consumer Discretionary and Materials failed to keep pace with the market.

In fairness, the increased interest in Utilities is attributable to investors looking for new ways to invest in the booming demand for Artificial Intelligence (AI), rather than seeking safe havens. Whilst the ultimate amount of energy required to power the next generation of data centers remains uncertain, given the rapid advancements made in chip energy performance, they will provide increasingly visible demand growth for a sector that has not seen much demand growth in the last decade. This demand felt much more tangible in May, after National Grid's announcement of a rights issue, to help fund a doubling of capital investment spending.

Part of the challenge for the Utilities sector (and other defensive sectors, like Pharmaceuticals and Consumer Staples) has been the fact that US Government bonds are delivering yields higher than their dividend yields. The month of May showed little sign of this challenge easing, as disappointing bond auctions saw the yield on the US 10-Year bond exceed 4.7%. Could geopolitics be playing a part here, with reduced buying of US Government bonds by China?

The back up in bond yields was not attributable to economic data this month, with inflation data generally coming in in-line with expectations, increasing evidence of a cooling US labour market and signs that this normalisation is beginning to feed through into reduced consumer spending. This all contributed to a softer showing in the cyclical sectors noted above.

Greater selectivity in spending was also observable within Information Technology. Whereas spending on hardware and AI infrastructure has continued to grow, May saw some evidence that this spending may be squeezing other parts of Information Technology – principally software. With valuation multiples looking broadly fair, negative earnings revisions here quickly took share prices lower. For example, Salesforce fell 20% after its numbers disappointed.

Regionally, developed markets outperformed emerging markets this month. The US benefitted from its relatively heavy exposure to the AI theme and in Europe inflation is cooling quickly and will allow the European Central Bank to ease monetary policy sooner, rather than later, potentially supporting risk assets.

## Country / regional exposure

| | Fund % | Benchmark % |
|---|---|---|
| United States | 71.66 | 64.36 |
| Japan | 0.00 | 5.42 |
| China | 3.26 | 2.46 |
| United Kingdom | 0.00 | 3.36 |
| Canada | 0.00 | 2.71 |
| Europe ex UK | 7.21 | 11.67 |
| Asia Pacific ex China & Japan | 15.28 | 7.75 |
| Emerging Europe, Middle East, Africa | 0.00 | 1.39 |
| Latin America | 0.00 | 0.87 |
| Cash | 2.58 | 0.00 |

## Sector exposure

| | Fund % | Benchmark % |
|---|---|---|
| Communication Services | 7.28 | 7.82 |
| Consumer Discretionary | 16.91 | 10.47 |
| Consumer Staples | 6.25 | 6.46 |
| Energy | 1.77 | 4.54 |
| Financials | 13.67 | 16.02 |
| Health Care | 17.43 | 10.93 |
| Industrials | 6.52 | 10.71 |
| Information Technology | 25.32 | 24.08 |
| Materials | 2.26 | 4.21 |
| Real Estate | 0.00 | 2.11 |
| Utilities | 0.00 | 2.66 |
| Cash | 2.58 | 0.00 |

## Top 10 holdings (underlying Fund)

| | Portfolio % | Benchmark % | Country |
|---|---|---|---|
| Microsoft Corp | 6.69 | 4.05 | United States |
| NVIDIA Corp | 6.60 | 3.74 | United States |
| Amazon.com | 4.89 | 2.27 | United States |
| Meta Platforms Inc | 3.68 | 1.43 | United States |
| Netflix, Inc. | 3.60 | 0.39 | United States |
| Taiwan Semiconductor Manufacturing Co. | 3.08 | 0.86 | Taiwan |
| Broadcom Inc. | 2.90 | 0.82 | United States |
| Encompass Health Corp | 2.72 | 0.00 | United States |
| Compass Group plc | 2.61 | 0.07 | United Kingdom |
| Haleon plc | 2.51 | 0.04 | United Kingdom |

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 | 18.46 | 7.56 | 12.59 | 12.58 |
| Distribution return | 0.00 | 0.00 | 0.00 | 0.97 |

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$289 mn as at 31 May 2024 | |
| APIR code | SUN0031AU | |
| Estimated management cost | 0.99% p.a. | |
| Buy/sell spread | +/- 0.15% | |
| Platform availability | AMP North<br>Asgard<br>BT Panorama<br>Hub24<br>Macquarie Wrap<br>MLC Navigator<br>MLC Wrap | Netwealth<br>OneVue<br>PortfolioCare<br>Praemium<br>uXchange<br>Wealth02<br>Xplore Wealth |

## Applications and contacts

Investment into the Yarra Global Share 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