YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 October 2024

Yarra Australian Equities Fund

Gross returns as at 31 October 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Australian Equities Fund	-2.32	2.66	19.92	7.84	7.47	7.72	10.46
S&P/ASX 200 Accumulation Index†	-1.31	2.10	24.89	8.00	8.16	8.31	9.32
Excess return (before fees)‡	-1.01	0.57	-4.97	-0.16	-0.69	-0.59	1.14

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 31 October 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Australian Equities Fund	-2.39	2.44	18.86	6.88	6.51	6.73	9.46
S&P/ASX 200 Accumulation Index†	-1.31	2.10	24.89	8.00	8.16	8.31	9.32
Excess return (after fees)‡	-1.08	0.34	-6.04	-1.12	-1.65	-1.58	0.14

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* Inception date Yarra Australian Equities Fund: July 1996

† The benchmark for the Yarra Australian Equities Fund has been amended since the Fund's inception. Effective 28 February 2008 the benchmark is the S&P/ASX 200 Accumulation Index, replacing the S&P/ASX 200 ex Property Accumulation Index Monthly. Further information on changes to the Fund's benchmark is available upon request.

‡ Excess return: The difference between the portfolio's return and the benchmark return.

Market review

The Australian Equities market weakened during the month of October.

The S&P/ASX 200 Accumulation Index returned -1.3% for the month taking its 12-month return to +24.9%. Comparatively, the S&P/ASX 300 Accumulation Index generated a -1.3% return, and globally, the MSCI World Index rose by -2.0%.

Financials (+3.3%) was the largest sector contributor with outperformance mainly stemming from Commonwealth Bank (CBA, +5.4%) following a positive market reaction to their AGM. Other contributors included National Australia Bank (NAB, +3.9%) and ANZ (ANZ, +2.2%).

In contrast, Materials (-5.2%) was the worst performing sector during the month as stimulus announcements from China in early October fell short of market expectations. BHP (BHP, -7.2%) was the largest detractor while Rio Tinto (RIO, -7.6%) and Fortescue (FMG, -7.3%) were other notable underperformers.

Consumer Discretionary (-3.7%) was also an underperforming sector during October with Wesfarmers (WES, -4.5%) the largest detractor following little company specific news. Other underperformers included WEB Travel Group (WEB, -22.5%) and Flight Centre Travel Group (FLT, -28.5%) following poorly received trading updates.

Portfolio review

Key Contributors

Block Inc (SQ2, overweight) – the payment technology company outperformed during the period, despite the absence of any company-specific news. We maintain a positive outlook for SQ2 as we believe improved distribution capabilities, focus on driving value in CashApp and the increasing likelihood of a soft economic landing will drive an acceleration in gross profit growth. For a cash generative growth business, Block trades on the undemanding multiple of 14.9-times FY26 earnings (18.8-times FY25), a PEG <0.5-times for a business with low credit risk.

Northern Star (NST, overweight) – the gold producer performed strongly as gold prices rose 10% across the month to close at US$2,778/oz. During the period NST released its September production report, with growth plans for FY25 and FY26 on track. Additionally, the KCGM mill expansion, aimed at growth beyond FY26, is also on track. We believe that Northern Star has the most robust organic production growth profile in the gold sector. Operational excellence, combined with strong organic growth, supports our overweight position.

ResMed (RMD, overweight) – the medical equipment company delivered a solid first quarter result and was a source of outperformance. The result reflected ongoing momentum and strong execution across all areas with the business delivering 11% year-on-year revenue growth. Additionally operational excellence resulted in margin expansion and a 34% increase in operating profit. We remain attracted to RMD's valuation: FY25 P/E 25.7-times vs 29-times LTA. We consider this an attractive valuation relative to ASX industrials and healthcare peers given RMD generates superior returns on capital, generates strong cash flow and has tailwinds from increasing penetration into a large and relatively undiagnosed sleep apnoea market globally.

Key Detractors

Reliance Worldwide (RWC, overweight) – the plumbing company underperformed during the month following its trading update which was broadly in line with expectations, aside from some continued softness in EMEA. RWC is focused on market growth via innovation, channel expansion and M&A. In our view this thesis is supported by the valuation and evidence that execution is delivering gains.

National Australia Bank (NAB, underweight) – NAB modestly outperformed during the period with no company specific news. We remain underweight Australian banks reflecting our negative sector view. The elevated valuations of the Australian banking sector are not supported by the fundamental outlook, where we expect flat to deteriorating pre-provision profits through modest revenue growth and elevated expense growth.

Iluka (ILU, overweight) – the mineral sands producer underperformed during the period following the release of its third quarter update. The company had a strong quarter for production but weak for sales and revenue. Sales and revenue for the quarter were impacted by a delay in the shipment of synthetic rutile into Q4. We remain constructive on the mineral sands market in CY25 despite a seasonally slow 4Q24 given effects of EU anti-dumping tariffs, Chinese stimulus and US rate cuts.

Market outlook

The lead up and reaction to the US election results was always going to be eventful. A Trump clean sweep has excited equity markets and prompted a sell off in bonds as markets welcomed the combination of an extension of tax cuts and business friendly policies whilst bond markets worried about the inflation implications of tariffs and renewed fears of US debt sustainability. The conflicting cross currents also appear to have impacted the Fed, cutting by 25bps as we expected in November yet flagging a more incremental approach to interest rate reductions in the future. Our view remains that the Fed will cut by 25bps in December as they seek to shore up the labour market and remain content with the trajectory of core inflation and inflation expectations. However, they too are now recalibrating their forecasts and risk assessments.

On balance, we see President Trump's policies as a net negative for global growth and for US growth, yet he has inherited an economy growing with solid momentum and benefiting from the tailwind of easier financial conditions. It is feasible that the benefit from easing bank regulation, encouraging more energy investment and potentially lower oil prices provide an offset to the 0.5% hit to US economic growth we estimate from Trump's 60/10 tariff proposal. However, it is also possible that a return to a trade war mentality not only increases global economic uncertainty and delays investment and employment opportunities, but could also facilitate a return to rising inflation expectations and a higher terminal rate for monetary policy. Clearly it is too early to conclude which outcome is more likely, however, our bias is that further policy easing will be needed outside of the US and the Fed will now be cutting interest rates by 50-75bps less than they otherwise might have under a status quo scenario.

The implications for Australia are again uncertain, but our bias is that US imposed China tariffs will be met with both reciprocal tariffs on the US and greater domestic stimulus for housing and infrastructure projects in China. In short, it is possible that Australia's trade interests are less impacted than many currently fear. Indeed, China's increased appetite for counter cyclical fiscal policy has led to some green shoots in their data set and they may well feel embolden to act more decisively on fiscal policy post the US election.

Locally, Australia continues to operate near stall speed economic growth. GDP increased just 0.2% (q/q) and 1.0% (y/y) in 2Q the weakest annual rate of growth in 32 years, excluding COVID. The Reserve Bank of Australia (RBA) remains of the view that inflation is too high and economic growth had been too strong for the supply side of the economy to respond. The RBA is particularly uncertain over the outlook for the household saving rate as the tax cuts are delivered and the risk that prior strong wealth gains translate to strong consumption growth. From our perspective there is little evidence of a material acceleration in economic activity post the tax cuts and consumption is likely to undershoot the RBA's projections. Add the policy decision to rapidly slow population growth from 1 Jan 2025 via cutting student numbers, then the risks to economic growth projections are skewed to the downside in the absence of policy easing. Recent inflation data has printed modestly below the RBA projections, and we believe the RBA will recognise that wage and inflation pressures have eased sufficiently by the end of 2024 that they commence a modest easing cycle through 2025. As such, the RBA will likely wait until February to commence an easing cycle in Australia. We now expect the RBA will ease 25bps per quarter in 2025.

Higher global uncertainty, higher bond yields, potentially higher inflation and lower economic growth expectations typically work against equities, so it is of interest that US financials, small caps, pharma and tech names have responded so positively to the US election result. Given valuations were already stretched prior to the election we are somewhat cautious as to extrapolating recent market moves. On balance, we are entering a more volatile macro landscape and investment strategies that favour active security selection over broad based market exposure should come to the fore.

We are most overweight stocks within the Materials, Utilities and Communication Services sectors, and are underweight Financials, Real Estate and Consumer Staples.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	6.80	3.68	3.12
Consumer Discretionary	6.33	7.30	-0.97
Consumer Staples	1.94	3.71	-1.76
Energy	4.73	3.98	0.75
Financials	23.44	33.31	-9.88
Health Care	8.98	9.63	-0.65
Industrials	9.52	6.85	2.67
Information Technology	5.10	3.08	2.02
Materials	24.85	20.30	4.55
Real Estate	2.33	6.85	-4.53
Utilities	4.81	1.32	3.50

Top 3 holdings

	Portfolio %	Benchmark %	Active %
BHP Group	10.78	8.92	1.86
Commonwealth Bank of Australia	7.30	9.86	-2.56
Westpac Banking	6.03	4.58	1.45

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
ResMed	3.94	0.90	3.04
Woodside Energy	4.73	1.86	2.87
Transurban	4.16	1.63	2.53
Underweights			
National Australia Bank	0.00	4.94	-4.94
Macquarie Group	0.00	3.39	-3.39
Wesfarmers	0.00	3.15	-3.15

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	14.69	0.11	-3.69	-2.24
Distribution return	4.17	6.76	10.20	8.97

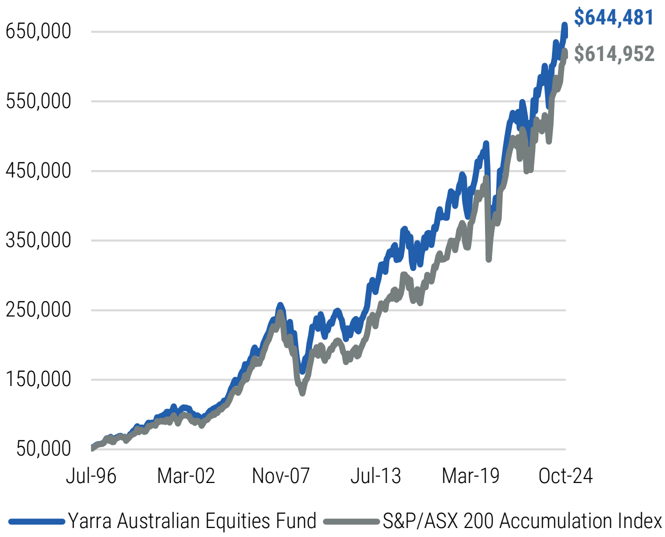
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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 companies listed on the Australian Securities Exchange. In doing so, the aim is to outperform the S&P/ASX 200 Accumulation Index over rolling 3-year periods.	
Recommended investment time frame	5 - 7 + years	
Fund inception	July 1996	
Fund size	A$107.9 mn as at 31 October 2024	
APIR codes	JBW0009AU	
Estimated management cost	0.90% p.a.	
Buy/sell spread	+/- 0.15%	
Platform availability	Asgard Ausmaq BT Panorama BT Super Wrap FirstWrap GrowWrap	Hub24 IOOF Pursuit Macquarie Wrap Netwealth Oasis Powerwrap

Investment performance comparison of $50,000

After fees, since inception of the Yarra Australian Equities Fund, July 1996 to October 2024.



For illustrative purposes only. Past performance does not guarantee future results, which may vary. The total net fund returns shown are prepared on an exit to exit basis (i.e. they include all ongoing fees and expenses and assume reinvestment of all distributions). They do not take personal taxation into account. The comparison with the S&P/ASX 200 Accumulation Index is for comparative purposes only. Index returns do not allow for transactional, management, operational or tax costs. An index is not managed and investors cannot invest directly in an index. Note that the minimum initial investment amount for the Yarra Australian Equities Fund is $10,000.

Applications and contacts

Investment into the Yarra Australian Equities Fund can be made by Australian and New Zealand resident investors only.

Website www.yarracm.com

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