YARRA
CAPITAL MANAGEMENT

Investment Commentary
Quarter to 30 September 2024

Yarra Australian Equities Fund

Gross returns as at 30 September 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	3.80	8.03	17.78	8.59	8.00	8.43	10.59
S&P/ASX 200 Accumulation Index†	2.97	7.79	21.77	8.44	8.37	8.93	9.40
Excess return (before fees)‡	0.83	0.24	-3.98	0.15	-0.37	-0.50	1.18

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 September 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	3.72	7.78	16.73	7.62	7.04	7.43	9.59
S&P/ASX 200 Accumulation Index†	2.97	7.79	21.77	8.44	8.37	8.93	9.40
Excess return (after fees)‡	0.75	0.00	-5.03	-0.82	-1.33	-1.50	0.18

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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 moved higher during the third quarter of 2024.

The S&P/ASX 200 Accumulation Index returned +7.8% for the quarter taking its 12-month return to +21.8%. Comparatively, the S&P/ASX 300 Accumulation Index generated a +7.8% return, and globally, the MSCI World Index jumped by +6.0%.

Financials (+8.3%) was the best performing sector during the period, as lower than expected CPI results during the quarter reduced the likelihood of future rate hikes, with Commonwealth Bank (CBA, +8.2%), Westpac (WBC, +16.5%) and ANZ (ANZ, +7.9%) all contributing strongly to performance.

Materials (+10.8%) was also a strong performing sector during the quarter. Mining companies were the main source of outperformance as commodity prices rose in September following news of a Chinese stimulus package, with BHP (BHP, +10.8%), Rio Tinto (RIO, +11.2%) and Northern Star Resources (NST, +24.9%) all contributing strongly to performance.

In contrast, Energy (-6.2%) was the worst performing sector as global oil prices fell during the quarter. Woodside Energy (WDS, -7.0%), Santos (STO, -5.9%) and Beach Energy (BPT, -20.3%) were all market detractors.

Portfolio review

Key Contributors

Reliance Worldwide (RWC, overweight) – the plumbing supplies company outperformed during the period on the expectation of improving sales growth and operating leverage as the macro backdrop becomes more supportive of remodelling housing activity. At current levels, we believe the stock valuation doesn't give appropriate credit to the mid-cycle earnings power of the group considering the resilience of its end markets, the majority of which relates still to more non-discretionary, repair type housing activity.

JB Hi-Fi (JBH, overweight) – the electronics retailer outperformed during the period following the release of its FY24 results. The company saw improved operating momentum through 4Q24, with improved sales resilience offsetting cost pressures across both JB-Hi-Fi Australia and The Good Guys. The business also declared an 80c special dividend and reported a strong start to FY25, which drove upgrades to consensus estimates. We continue to see long-term upside in JBH and expect the business to take share in the consumer electronics category, albeit the stock's upside has moderated at 19.6-times FY25 P/E.

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Vicinity (VCX, overweight) – our overweight position in the second largest pure play shopping centre REIT on the ASX (owner of 59 centers across Australia) contributed over the quarter, following its FY24 result which was broadly in line with guidance, supported by the FY25 outlook. Strong leasing activity and high portfolio occupancy (99%+) underpinned cash flow resilience. Additionally, as the cap rate cycle peaks there is a potential for updated valuations. Lastly, the stock has been rewarded for strong balance sheet management (gearing remains below 30%) with management highlighting divestment activity to fund both development works and acquisitions.

Key Detractors

Tabcorp (TAH, overweight) – the wagering operator underperformed during the period following the release of its FY24 results. The company rebased expectations under new management, removing its strategic market share targets, forward guidance for reductions in operating expenses and the expected Victorian license contribution in FY25. The company has also been impacted by weaker conditions in the domestic wagering market and operating deleverage, with turnover down across both retail (-0.7%) and digital channels (-4.9%) over the period.

Woodside Energy (WDS, overweight) – the oil and gas producer underperformed over the quarter, driven by a 10.1% fall in Brent Crude Oil prices which ended the quarter at US$71.7/bbl. In addition, the company's planned acquisition of US listed Tellurian Energy (TELL.US) led to some concerns around the sustainability of the company's 80% dividend payout ratio. We remain attracted to the strong growth profile from new projects, which remain on budget and schedule, which in turn, will increase production by more than 30% over the next two years and drive double digit free cash flow yields.

Origin Energy (ORG, overweight) – the gas and electricity retailer underperformed following successive downgrades to FY25 EBITDA expectations for its energy markets division due to higher coal costs and lower than anticipated cost savings from the implementation of software platform Kraken. We do not believe either of these impacts will have a meaningful permanent impact on the earnings power of ORG.

Market outlook

Last month we reiterated our non-consensus view that the US Federal Reserve would commence an easing cycle with a 50bps reduction and that a 100bps of easing before year end was likely. In the end, the 50bps reduction carried out by the Federal Reserve in September was greeted with enthusiasm by risk markets as they quickly embedded an expectation of successive 50bps hikes. Federal Reserve Chairman Powell has since attempted to dampen that expectation and a strong labour market report for September has clearly challenged the need for aggressive near-term easing. Nevertheless, the case for two successive 25bp rate cuts over the remainder of 2024 remains both justified and is our base case.

The additional catalyst for the month of October has been renewed efforts by Chinese authorities to bolster the Chinese housing market via a combination of mortgage rate reductions, lower downpayment requirements and liquidity facilities. While equity markets have interpreted this package very favourably, we caution that the prospect of a material reacceleration in Chinese housing turnover, house prices and new housing construction is likely to be closer to 18 months away. While Chinese equities and related assets may continue to rally on the expectation that Chinese policy makers will continue to ease policy, our view is that Chinese authorities have little intention to rapidly reflate the housing market. The objective is to stabilise and reflate in a controlled manner. As such, we caution against expecting meaningful shifts in demand for Chinese construction activity growth for at least 12 months.

Elsewhere, moderate inflation and easing activity data in Europe suggest the easing cycle in the Euro Area will continue, and together with New Zealand and Canada, the risk is skewing to greater easing in the near term. In short, our central thesis of moderating inflation and easing policy sufficient to generate a reflationary environment remains well in place.

Locally, Australia continues to operate with economic growth at near stall speed. GDP increased just 0.2% (q/q) and 1.0% (y/y) in 2Q24, the weakest annual rate of economic growth in 32 years (excluding COVID). The Reserve Bank of Australia (RBA) remains of the view that inflation is too high and that economic growth has been too strong for the supply side of the economy to respond. It is particularly uncertain on the outlook for the household savings rate as tax cuts are delivered and the risk that prior strong wealth gains translate to strong consumption growth. From our perspective the saving rate will rise rather than fall in coming quarters given the starting point is a saving rate already near zero, consumer spending remains subdued whilst income growth is recovering and the recent rise in the SG levy is a mandatory lift in the saving rate.

In concert with the observations that the buffer of liquid excess savings from the post-COVID period has now been completely depleted and a clear trend rise in the unemployment rate, it is likely that a bout of precautionary saving ensues in the months ahead. In the absence of easing, along with the decision to rapidly slow population growth from 1 Jan 2025 via cutting student numbers, the risks to economic growth projections are skewed to the downside. We believe the RBA will recognise that wage and inflation pressures have eased sufficiently by the end of 2024 and that they will commence a modest easing cycle at the December meeting.

Against this moderation in inflationary pressures we still expect economic growth to accelerate sequentially through 2H24, albeit remaining well below 'potential' growth. The growth outlook should be supported by ongoing business investment and a recovery in real household income growth driven by ongoing wage growth, income tax cuts, cost of living support delivered in the Budget and the commencement of the rate easing cycle later in 2024.

We expect economic growth to average 1.5% versus a consensus forecast of 1.2% in 2024, bond yields to finish the year at 4.0%, the $A/$US to reach 72c, and Australian equities to return 10-12%.

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	6.72	3.60	3.12
Consumer Discretionary	6.06	7.49	-1.43
Consumer Staples	2.03	3.93	-1.90
Energy	4.96	4.14	0.81
Financials	22.34	31.83	-9.49
Health Care	8.71	9.42	-0.71
Industrials	10.04	6.94	3.10
Information Technology	5.16	3.18	1.99
Materials	25.07	21.13	3.94
Real Estate	2.50	6.94	-4.44
Utilities	5.09	1.40	3.69

Top 3 holdings

	Portfolio %	Benchmark %	Active %
BHP Group	11.48	9.49	1.99
Commonwealth Bank of Australia	6.84	9.22	-2.39
Westpac Banking	5.88	4.47	1.42

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Woodside Energy	4.96	1.95	3.01
ResMed	3.69	0.84	2.85
Reliance Worldwide	2.99	0.19	2.80
Underweights			
National Australia Bank	0.00	4.69	-4.69
Macquarie Group	0.00	3.36	-3.36
Wesfarmers	0.00	3.25	-3.25

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	12.64	0.81	-3.22	-1.60
Distribution return	4.09	6.81	10.25	9.03

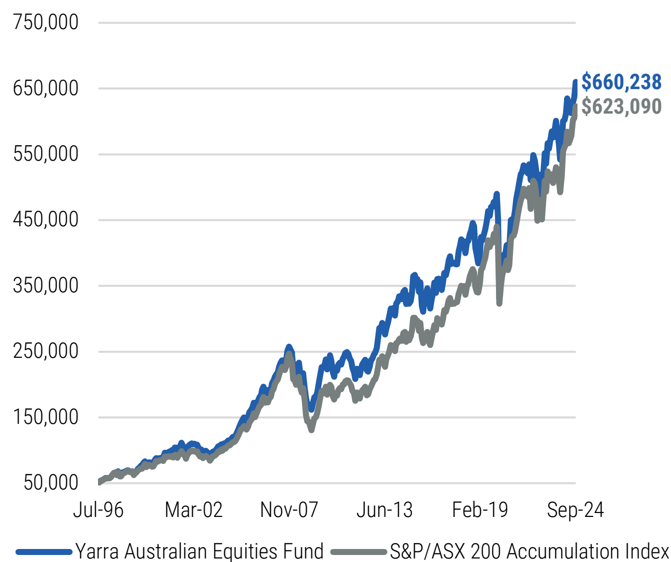
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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$124.9 mn as at 30 September 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 September 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.

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