Investment Commentary
Month to 31 October 2024

Yarra Emerging Leaders 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 Emerging Leaders Fund	-1.66	5.09	24.53	5.01	7.69	10.13	11.03
Emerging Leaders Combined Benchmark†	-0.81	3.20	25.61	2.24	7.37	9.26	7.20
Excess return (before fees)‡	-0.85	1.89	-1.08	2.77	0.31	0.87	3.83

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 management costs, meaning they do not reflect the deduction of any investment management fees and expenses 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 Emerging Leaders Fund	-1.76	4.76	22.99	3.72	6.36	8.77	9.73
Emerging Leaders Combined Benchmark†	-0.81	3.20	25.61	2.24	7.37	9.26	7.20
Excess return (after fees)‡	-0.95	1.56	-2.62	1.47	-1.01	-0.49	2.53

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* Inception date Yarra Emerging Leaders Fund: September 1997

† Comprising 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries Accumulation Index

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

Market review

The Australian mid and small cap market weakened during the month of October.

The Emerging Leaders Benchmark returned -0.8% for the month, taking its 12-month return to +25.6%. By comparison, the broader S&P/ASX 300 Accumulation Index fell 1.3% for the period. Globally, the MSCI World Index also recorded a -2.0% return.

Financials (+6.2%) was the strongest performing sector during the month. HMC Capital (HMC, +24.0%) outperformed following the completion of a fully underwritten institutional placement while other contributors included Insignia (IFL, +25.9%) and Netwealth Group (NWL, +11.4%).

Materials (+3.8%) was also a strongly performing sector during the period due to the gold contributors. Evolution Mining (EVN, +12.9%), Vault Minerals (VAU, +21.5%) and Regis Resources (RRL, +32.8%) all outperformed during the month following rising gold prices and strong Q1 results during the period.

In contrast, Consumer Discretionary (-8.4%) was the largest detracting sector. WEB Travel Group (WEB, -22.5%) underperformed following a trading update which prompted substantial downgrades in revenue and EBITDA forecasts. Flight Centre Travel Group (FLT, -28.5%) was also a notable underperformer following lower than expected growth in a Q1 trading update.

Portfolio review

Key Contributors

Evolution (EVN, overweight) – the gold producer outperformed following its Sep-24 quarter results which represents the second solid operational and financial result in succession. Furthermore, gold prices rose 10% across the month to close at US$2,778/oz. The company is well placed to generate strong cash flow in FY25. We remain attracted to EVN's long-life assets, and meaningful leverage to copper production at the Ernest Henry and Northparkes mines.

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.

Netwealth (NWL, overweight) – the leading independent wealth management platform outperformed after delivering a strong quarterly update, with gross inflows accelerating to 51% year-on-year growth, reaching $7 billion. NWL is set to continue delivering strong revenue growth for the foreseeable future, capturing an outsized level of funds under administration as Australia's wealth management industry fragments away from the historically dominant players. In our view, the company's multiple for FY25 does not capture its long-term growth opportunity, high incremental margins, conservative accounting, and strong cash flow generation.

Key Detractors

Flight Centre (FLT, overweight) – the travel agent underperformed during the period following the release of its operational review and trading update for FY25. FLT delivered a soft trading update that the company has attributed to airline ticket deflation as well as a soft macro environment. The Leisure and corporate division are set to benefit from pent-up demand in the longer-term; with the corporate division gaining significant market share. Furthermore, as group earnings improve, we believe there is additional value to be released from restructuring the balance sheet.

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.

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 Financials, Communication

Services and Industrials Sectors, and are underweight Consumer Discretionary, Energy and Consumer Staples.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	10.77	6.99	3.78
Consumer Discretionary	3.55	10.65	-7.11
Consumer Staples	0.45	3.75	-3.30
Energy	0.00	5.63	-5.63
Financials	18.53	13.82	4.71
Health Care	9.27	7.65	1.62
Industrials	15.93	13.81	2.12
Information Technology	5.24	6.87	-1.63
Materials	23.00	20.41	2.58
Real Estate	8.32	9.35	-1.03
Utilities	0.00	1.06	-1.06

Top 3 holdings

	Portfolio %	Benchmark %	Active %
CAR Group	6.15	2.38	3.76
Evolution Mining	6.06	1.74	4.31
Reliance Worldwide	4.57	0.68	3.88

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Evolution Mining	6.06	1.74	4.31
Reliance Worldwide	4.57	0.68	3.88
CAR Group	6.15	2.38	3.76
Underweights			
REA Group	0.00	1.96	-1.96
Pro Medicus	0.00	1.77	-1.77
JB Hi-Fi	0.00	1.50	-1.50

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	20.93	-3.51	1.35	5.19
Distribution return	2.06	7.23	5.01	3.58

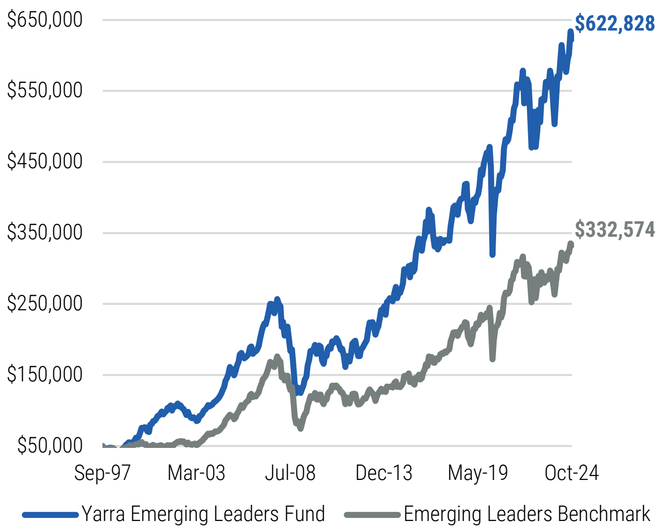
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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 small and medium sized Australian companies that are considered to possess strong capital growth potential. In doing so, the aim is to outperform the benchmark over rolling 3-year periods.	
Recommended investment time frame	5 - 7 + years	
Fund inception	September 1997	
Fund size	A$99.5 mn as at 31 October 2024	
APIR codes	JBW0010AU	
Estimated management cost	1.25% p.a.	
Buy/sell spread	+/- 0.20%	
Platform availability	Asgard Ausmaq BT Panorama BT SuperWrap Financial Index	Hub24 Macquarie Wrap Mason Stevens MLC Wrap OneVue

Investment performance comparison of $50,000

After fees, since inception of the Yarra Emerging Leaders Fund, September 1997 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 benchmark (comprising 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries 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.

Applications and contacts

Investment into the Yarra Emerging Leaders Fund can be made by Australian resident investors only.

Website www.yarracm.com

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