Yarra Emerging Leaders 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 Emerging Leaders Fund	5.53	10.31	18.38	5.60	8.41	10.69	11.14
Emerging Leaders Combined Benchmark†	4.06	8.02	18.79	2.99	7.46	9.56	7.26
Excess return (before fees)‡	1.47	2.29	-0.40	2.61	0.96	1.14	3.88

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 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 Emerging Leaders Fund	5.43	9.96	16.92	4.30	7.08	9.32	9.83
Emerging Leaders Combined Benchmark†	4.06	8.02	18.79	2.99	7.46	9.56	7.26
Excess return (after fees)‡	1.36	1.94	-1.87	1.31	-0.38	-0.23	2.57

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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 moved higher during the third quarter of 2024.

The Emerging Leaders Benchmark returned +8.0% for the quarter, taking its 12-month return to +18.8%. By comparison, the broader S&P/ASX 300 Accumulation Index rose 7.8% for the period. Globally, the MSCI World Index returned +6.0%.

Materials (+10.8%) was the best 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 Evolution Mining (EVN, +34.2%), Lynas Rare Earth (LYC, +35.2%) and Sandfire Resources (SFR, +24.2%) all contributing strongly to performance.

Real Estate (+16.9%) was also a strongly performing sector during the period, as lower than expected CPI results during the quarter reduced the likelihood of future rate hikes, with Charter Hall Group (CHC, +42.8%), Vicinity Centres (VCX, +22.7%) and Lendlease Group (LLC, +33.2%) all outperforming.

In contrast, Energy (-6.5%) was the worst performing sector as global oil prices fell during the quarter. Beach Energy (BPT, -17.1%), Boss Energy (BOE, -20.3%) and Ampol (ALD, -3.6%) 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.

Evolution Mining (EVN, overweight) – the gold miner contributed to performance during the period following the release of its FY24 results. The company reported strong production growth, higher realized prices and lower costs with EBITDA increasing by 67%. 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.

Pinnacle Investment Management (PNI, overweight) – the fund manager outperformed during the period following the release of its FY24 results. Pinnacle reported an 18.1% increase in profit with affiliate revenues (including performance fees) growing by 30%. We are seeing an acceleration in revenue growth with material longer term growth potential as inflows reaccelerate across the diverse range of products including from international distribution, performance fees increase from depressed levels and new products mature. Furthermore, margin expansion will be supported by the high fixed cost nature of funds management businesses and new manager formation both organically and via acquisitions will create additional shareholder value.

Key Detractors

Megaport (MP1, overweight) – the software technology company underperformed after the release of its FY24 result. Megaport's result was largely in line for FY24; however, FY25 revenue and earnings guidance was below consensus expectations. We continue to hold the modest position as we believe customer volume trends will improve in the medium to long term as market conditions and execution improves. Furthermore, we would highlight that low customer churn, margin expansion and lower capex have supported a transition to free cashflow positive in CY24 with significant cashflow potential longer term.

Kelsian (KLS, overweight) – the bus and tourism provider underperformed after the FY24 result. While operating earnings for FY24 and FY25 were in line with consensus expectations; there were earnings downgrades reflecting higher than expected capital expenditure. While this has a negative impact on short term earnings; we believe long term it will be accretive to earnings as the capital expenditure will have strategic benefits to the business. We believe the Australian bus business will continue to generate earnings growth going forward given the defensive nature of existing contacts with cost pass through, extra charter work and improved staff availability. The US bus business has a strong demand outlook from new and existing customers with pricing increases to offset cost inflation.

Lifestyle Communities (LIC, overweight) – the land lease community provider underperformed during the period driven by a trading update in which the company withdrew its forward-looking guidance due to the difficulty in quantifying the impact of uncertainty caused by recent media coverage.

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 Communication Services, Financials and Health Care sectors, and are underweight Consumer Discretionary, Energy and Consumer Staples.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	10.69	6.71	3.98
Consumer Discretionary	4.83	11.63	-6.80
Consumer Staples	0.45	3.94	-3.50
Energy	0.00	5.85	-5.85
Financials	16.71	12.86	3.85
Health Care	9.78	7.49	2.29
Industrials	15.93	14.24	1.69
Information Technology	5.46	6.79	-1.33
Materials	20.15	19.59	0.56
Real Estate	9.34	9.73	-0.39
Utilities	0.00	1.17	-1.17

Top 3 holdings

	Portfolio %	Benchmark %	Active %
CAR Group	5.99	2.30	3.68
Evolution Mining	5.27	1.50	3.76
Reliance Worldwide	5.06	0.75	4.30

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Reliance Worldwide	5.06	0.75	4.30
Evolution Mining	5.27	1.50	3.76
CAR Group	5.99	2.30	3.68
Underweights			
REA Group	0.00	1.69	-1.69
Pro Medicus	0.00	1.58	-1.58
Orica	0.00	1.47	-1.47

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	14.96	-2.97	2.03	5.72
Distribution return	1.96	7.27	5.04	3.60

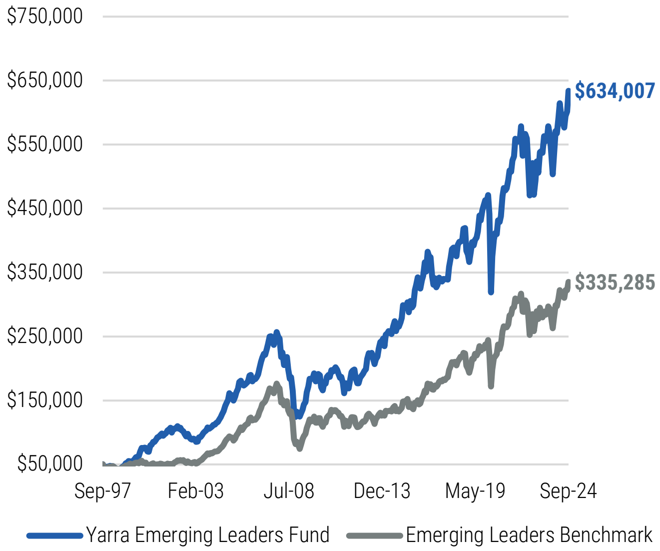
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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$101.1 mn as at 30 September 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 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 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

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com