Product Assessment

Report as at 27 Feb 2024

APPROVED

Yarra Ex-20 Australian Equities Fund

Rating issued on 27 Feb 2024 | APIR: JBW0052AU

Investment objective

To outperform the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index (after fees) over rolling three-year periods. However, Yarra informally seeks to outperform the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index by 3% p.a. to 4% p.a. (before fees) over the same timeframe.

Manager	Yarra Capital Management Group
Distributor	Yarra Capital Management Group
Sector	Australian Shares \ Mid Cap Companies
Investment Style	Neutral
RI Classification	Aware
Absolute Risk	High
Relative Risk	Active - Benchmark Unaware
Investment Timeframe	7+ Years
Benchmark	S&P/ASX MidCap 50
Min Investment Amount	$50,000
Redemption Frequency	Daily
Income Distribution	Half Yearly
Fund Size (31 Jan 2024)	$35.94M
Management Cost	0.90% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	0.15 % / 0.15 %
Inception Date	26 Aug 2018

Fund facts

- Excludes S&P/ASX 20 stocks
- Typically holds between 15 and 35 securities
- Portfolio turnover typically averages 30% p.a. to 50% p.a. over a market cycle

Viewpoint

The Fund, managed by Melbourne-based Yarra Capital Management (Yarra), provides investors with a style-neutral, concentrated and benchmark-unaware exposure to the mid-cap segment of the Australian equities market.
Zenith remains supportive of the investment process and believes the investment team has the required experience to manage the Fund. Although we are encouraged by Fund's asset growth over the past 12 months, we believe sustained growth would further reduce longevity risk.

Yarra was established in 2017 following the management buyout of Goldman Sachs Asset Management's Australian-focused investment capabilities, backed by private equity group TA Associates. Yarra's senior management owns 40% of the equity in the firm, with TA Associates owning 40% and Nikko Asset Management owning 20%.

Head of Australian Equities Dion Hershan is ultimately responsible for the management of the Fund, with support provided from Deputy Portfolio Manager Edward Waller. Primarily based in Melbourne, the Australian equities team comprises 14 members, led by Hershan, who is directly supported by Katie Hudson. Zenith believes Hershan and Hudson have the requisite experience to manage the investment team. All members of the investment team have research responsibilities that are divided across sector lines. Zenith believes the investment team is sufficiently resourced and experienced to manage the Fund.

Yarra's investment process is premised on the belief that equity markets are inefficient and that asset prices do not always reflect their intrinsic value. To exploit these market inefficiencies, Yarra seeks to develop unique insights and adopts a longer-term investment horizon. Zenith believes Yarra's investment process is well structured.

The portfolio construction process aims to produce a portfolio of securities with payoffs spread across multiple time horizons to improve diversification. Stocks are categorised based on Yarra's assessment of risk characteristics and expected payoffs. Zenith is comfortable with Yarra's portfolio construction approach and believes it ensures a connection between the output of its security selection process and the resultant weight of the stock in the Fund.

Fund analysis

Fund characteristics

Constraint	Value
Number of Stocks	15 to 35
Market Capitalisation	Min: $A 500 million (Typically)
Cash	Max: 10% (Typically less than 2%)
Tracking Error	Max: 6% p.a. (Soft limit)

Investment objective and philosophy

The Fund's investment objective is to outperform the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index (after fees) over rolling three-year periods. However, Yarra informally seeks to outperform the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index by 3% p.a. to 4% p.a. (before fees) over the same timeframe.

Yarra's investment process is premised on the belief that equity markets are inefficient and that asset prices do not always reflect their intrinsic value. To exploit these market inefficiencies, Yarra seeks to develop unique insights and adopts a longer-term investment horizon.

Yarra believes the Australian market is extremely narrow, with little differentiation between value and growth securities. As such, Yarra seeks to be opportunistic, preferring to have the ability to oscillate between value and growth securities.

Portfolio applications

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer term with some income. However, this higher growth is also often associated with higher volatility and, as such, it is recommended that investors adopt a longer time frame when investing in equities.

For investors seeking to achieve a well-blended exposure to Australian equities, Zenith suggests Australian mid-cap funds are best used in combination with large capitalisation and small/micro capitalisation Australian equities funds. However, we note that this strategy typically has a significant allocation to large-cap securities (between S&P/ASX 20 and S&P/ASX 50), unlike many mid-cap peers that only invest in securities outside the S&P/ASX 50.

Alternatively, mid-cap funds can be used by investors seeking a lower volatility exposure to ex-20 Australian shares in absolute terms, versus a more volatile dedicated small companies fund. Zenith believes mid-cap funds are most appropriate for investors with an investment time horizon of at least seven years.

The Fund's portfolio turnover is expected to average 30% p.a. to 50% p.a. over a market cycle, which Zenith considers to be low to moderate. Yarra has indicated that approximately 40% of the expected turnover is attributed to resizing existing positions and approximately 60% is due to complete sales and new additions. Given this expected level of turnover, a sizeable proportion of the Fund's returns are expected to be delivered via capital appreciation in the unit price, rather than through the realisation of capital gains in income distributions. In addition, realised capital gains are likely to be eligible for the capital gains tax discount. As such, holding all else equal, the Fund may be more appealing to investors who are high marginal tax rate payers as it will result in superior after-tax return outcomes.

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Aware
Has Responsible Investment Policy	Yes
Negative screens**	**Full/Partial**
Armaments	Full
Fossil fuels	Partial
Adult Entertainment	Full
Tobacco	Partial
Human rights abuse	Full
Other Measures	Conflict Zone investing (Full), Detention or Incarceration (Full), Drift net or trawl fishing (Full), Palm Oil (Full), Predatory Lending (Full), Thermal Coal (Partial)
PRI Status	
PRI Signatory	Yes

*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact

***Data has been supplied by third parties. While such information is believed to be accurate, we do not accept responsibility for any inaccuracy in such data.*

Absolute performance

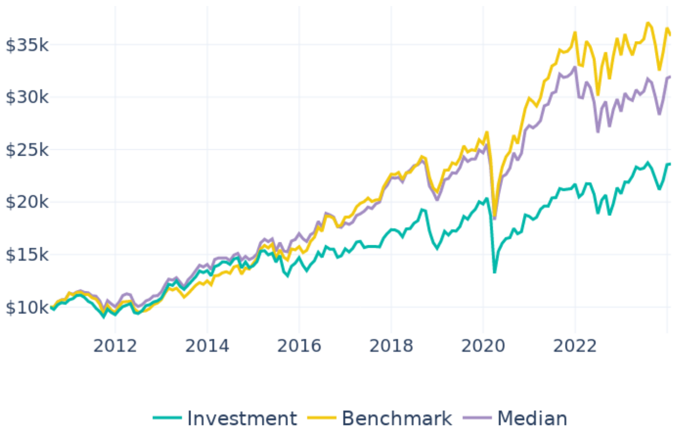
Performance as at 31 Jan 2024

Monthly performance history (%, net of fees)

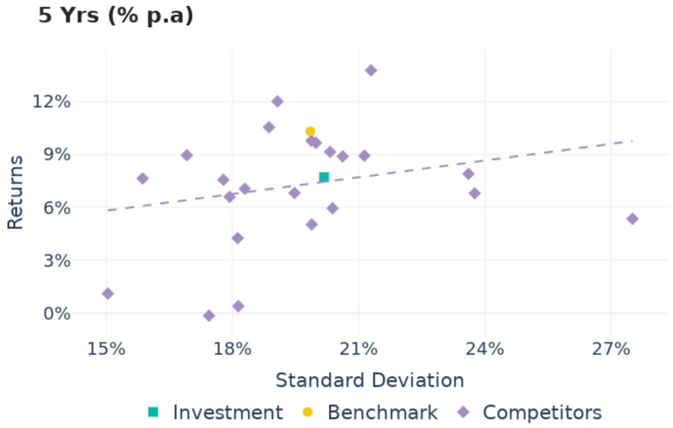
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	0.30%												0.30%	-2.17%
2023	5.40%	-0.12%	2.66%	3.86%	-0.87%	0.43%	2.18%	-2.29%	-4.25%	-4.65%	4.15%	6.86%	13.35%	7.76%
2022	-5.67%	1.44%	4.66%	-0.10%	-4.57%	-8.94%	6.95%	2.36%	-9.30%	5.97%	7.58%	-2.74%	-4.28%	-6.25%
2021	-1.56%	1.10%	4.07%	1.66%	-0.10%	4.02%	0.13%	4.24%	-0.52%	0.36%	0.13%	2.08%	16.52%	21.29%
2020	2.96%	-8.29%	-29.32%	15.67%	5.10%	2.77%	0.54%	5.33%	-2.92%	1.17%	9.25%	-0.70%	-5.93%	16.96%

**S&P/ASX MidCap 50*

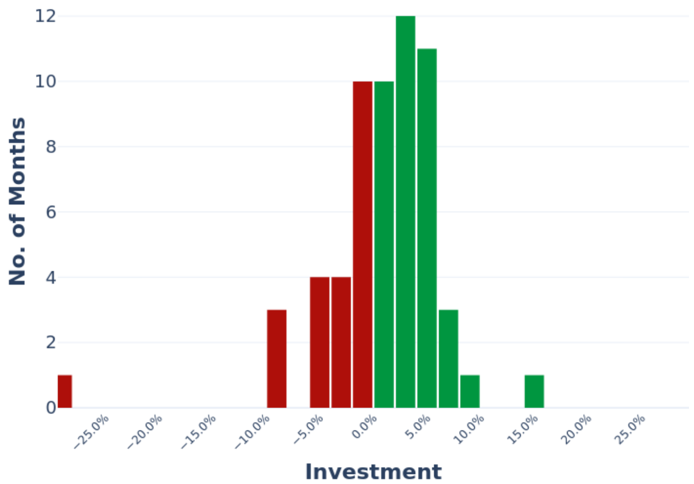
Growth of $10,000



Risk / return



Monthly histogram



Minimum and maximum returns (% p.a.)

Absolute performance analysis

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	**7.86%**	**8.81%**	**7.72%**	**6.17%**	**6.58%**
Income	1.27%	2.17%	2.18%	2.58%	2.65%
Growth	6.59%	6.64%	5.54%	3.59%	3.93%
Benchmark	**-0.52%**	**6.62%**	**10.32%**	**11.44%**	**9.91%**
Median	**5.25%**	**5.70%**	**8.74%**	**8.94%**	**8.99%**
Cash	**3.96%**	**1.82%**	**1.43%**	**1.79%**	**2.36%**

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	5 Yrs	Inception
Fund Ranking	9 / 24	2 / 23	10 / 21	10 / 10
Quartile	2nd	1st	2nd	4th

Absolute risk

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Standard Deviation (% p.a.)					
Investment	11.46%	14.15%	20.18%	17.27%	16.09%
Benchmark	14.19%	16.42%	19.85%	16.42%	15.61%
Median	12.46%	15.30%	18.37%	15.38%	14.77%
Downside Deviation (% p.a.)					
Investment	6.76%	9.54%	15.62%	12.98%	11.83%
Benchmark	9.61%	11.09%	14.13%	11.22%	10.58%
Median	7.58%	10.66%	13.41%	10.75%	10.08%

Absolute risk/return ratios

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Sharpe Ratio (p.a.)					
Investment	0.34	0.49	0.31	0.25	0.26
Benchmark	-0.32	0.29	0.45	0.59	0.48
Median	0.10	0.25	0.40	0.47	0.45
Sortino Ratio (p.a.)					
Investment	0.58	0.73	0.40	0.34	0.36
Benchmark	-0.47	0.43	0.63	0.86	0.71
Median	0.17	0.36	0.54	0.67	0.66

For consistency purposes, Zenith benchmarks all products categorised within our Australian Shares - Mid Cap Companies sub-asset class against the S&P/ASX Midcap 50 Index. Accordingly, all performance and risk measurements are calculated with Zenith's assigned index. However, Yarra benchmarks the Fund against the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index.

Investors should note that, prior to June 2018, the Fund was managed as a concentrated Australian equities strategy (inclusive of S&P/ASX 20 securities) under the GSAM branding (APIR: JBW0052AU). Zenith notes that the strategy was managed by the same investment professionals.

All commentary below is as at 31 January 2024.

The Fund's investment objective is to outperform the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index (after fees) over rolling three-year periods. However, Yarra informally seeks to outperform the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index by 3% p.a. to 4% p.a. (before fees) over the same timeframe.

The Fund has underperformed Zenith's assigned benchmark over the medium to long term. However, the Fund has exhibited strong outperformance over the most recent one and three-year periods.

The Fund's risk (as measured by Standard Deviation) has been lower than that of Zenith's assigned benchmark over the most recent one and three-year periods.

The Fund's Sharpe Ratio has been less than the benchmark since inception, which indicates that investors have been insufficiently compensated for its risk.

Yarra does not target a specific level of income, with distributions made semi-annually where possible.

Relative performance

Excess returns

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Excess Return	8.39%	2.18%	-2.60%	-5.27%	-3.33%
Monthly Excess (All Mkts)	50.00%	50.00%	46.67%	40.00%	43.83%
Monthly Excess (Up Mkts)	20.00%	30.00%	27.78%	31.58%	34.95%
Monthly Excess (Down Mkts)	71.43%	75.00%	75.00%	54.55%	59.32%

Capture ratios (% p.a.)

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Downside Capture	45.13%	65.94%	83.82%	98.61%	94.43%
Upside Capture	82.16%	81.03%	80.71%	80.98%	84.09%

Tracking error (% p.a.)

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	7.17%	6.60%	7.15%	6.45%	6.42%
Median	3.91%	3.86%	4.24%	4.01%	3.96%

Information ratio

Instrument	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Investment	1.17	0.33	-0.36	-0.82	-0.52
Median	1.48	-0.24	-0.37	-0.62	-0.23

Beta statistics

Statistic	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
Beta	0.70	0.79	0.95	0.98	0.95
R-Squared	0.75	0.84	0.88	0.86	0.84
Correlation	0.86	0.92	0.94	0.93	0.92

All commentary below is as at 31 January 2024.

Zenith seeks to identify strategies that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill. In addition, we view a strategy's ability to produce stronger upside capture ratios relative to downside capture ratios as an attractive feature.

The Fund has not achieved either of these outcomes since inception. In addition, we note that the Fund has achieved a stronger level of outperformance consistency in declining markets, which we believe is consistent with the investment process' focus on quality.

Drawdown analysis (since inception)

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.

All commentary below is as at 31 January 2024.

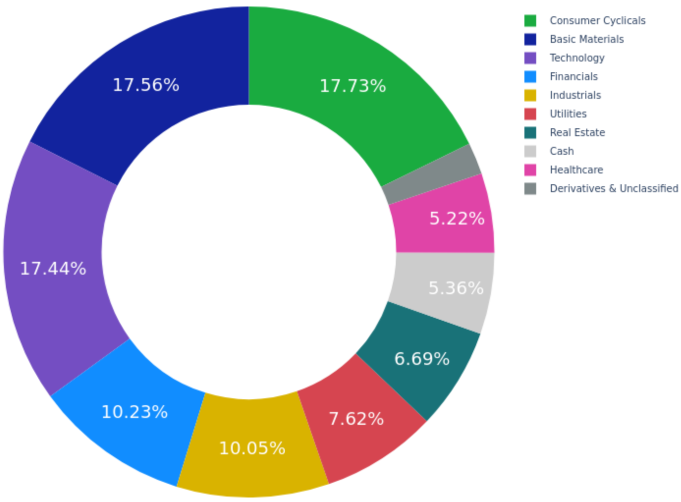
Historically, the Fund has generally exhibited drawdowns more pronounced than the benchmark. However, more recently, the Fund has demonstrated a propensity to protect investor capital relative to the benchmark.

Product Exposures

Holdings as at 31 Dec 2023

Stock	Weight	Country	Sector	Active Exposure
Carsales.Com	5.37%	Australia	Technology	4.86%
ResMed	5.22%	USA	Healthcare	4.66%
Origin Energy	4.92%	Australia	Utilities	4.29%
Northern Star Resources	4.56%	Australia	Basic Materials	3.88%
QBE Insurance Group	4.54%	Australia	Financials	3.59%
Worleyparsons	4.39%	Australia	Industrials	4.11%
Reliance Worldwide	4.37%	Australia	Consumer Cyclicals	4.21%
Nextdc	4.05%	Australia	Technology	3.74%
Xero	3.94%	New Zealand	Technology	3.26%
Insurance Australia Group	3.77%	Australia	Financials	3.18%
Total	45.13%			

Equity sector exposure



Equity country exposure

Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

Key person risk: Zenith considers key person risk to be high at Yarra and believes the departure of Hershan would be a material loss, triggering an immediate review of our rating on the Fund. However, we highlight Hershan's meaningful equity stake in Yarra, which Zenith believes aligns him to the ongoing success of this Fund and broader business.

Longevity risk: Managed funds that fail to grow funds under management (FUM) to a scalable level run the risk of being unviable to maintain over the longer term and could be wound up. The risks associated with a fund wind up are principally that of timing, forcing a crystallisation of tax consequences to investors, which may be unsuitable (particularly if purchasing on margin). As at 31 January 2024, FUM in the Fund was approximately $A 36 million.

Focus risk: Given that Hershan has portfolio management responsibilities for multiple strategies, Zenith believes his focus on this Fund may be diluted. As such, we will closely monitor for any impact this may have on excess return generation.

Capacity risk: Zenith believes that high levels of funds under management (FUM) can inhibit a manager's ability to trade portfolio positions effectively and therefore limit outperformance potential. Yarra has advised that it would close the strategy to new investors if strategy FUM reached $A 3.6 billion. As at 31 January 2024, Yarra managed $A 1.8 billion in the strategy. As such, Zenith does not consider capacity to be an issue. However, we will continue to monitor Yarra's level of FUM and corresponding excess return generation closely to ensure that increasing levels of FUM do not begin to negatively impact performance.

Business risk: Business risk is generally higher for independent investment firms. Given the majority of the firm's FUM is sourced from institutional mandates, large redemptions can present the risk of losing considerable FUM and profitability. However, Zenith acknowledges there is diversification among Yarra's institutional mandates, which somewhat mitigates this risk.

Security/asset selection

The Fund's investment universe typically includes securities listed on the S&P/ASX 300 Index (ex-20). The initial universe is reduced to a more manageable size through the application of a liquidity filter, which removes securities that, based on average daily turnover and position size in the portfolio, would take more than 30 days to liquidate from the portfolio. It is anticipated that the liquidity filter will remove those securities with a market capitalisation of less than $A 500 million, resulting in an investment universe of approximately 280 securities.

Unlike many peers, Yarra does not apply further quantitative screens designed to highlight companies that rank favourably based on standard financial ratios. Analysts are responsible for the coverage of all companies within their respective sectors, with companies being placed into the following categories:

- *High Impact* – Securities held in Yarra's portfolios or representing a significant portion of the benchmark index.
- *High Interest* – Stocks that have the potential to be included in the portfolio.
- *Watch List* – Securities that are not an immediate priority, however, are monitored and have the potential to be included in the portfolio.

Securities will be placed in the 'High Interest' and 'Watch List' categories if analysts believe they can identify unique company insights that would provide Yarra with a differentiated view relative to the market. Insights are developed through company, value chain, and broader industry analyses. Throughout this process, Hershan and Hudson provide close oversight to ensure that analysts utilise their time efficiently. Yarra's investment team is expected to conduct approximately 1,600 company meetings per year.The team will also engage with brokers to understand the market's expectations for specific industries and companies.

The investment team places a strong emphasis on seeking out investment ideas that have not yet been identified by the market. Analysts will actively engage with company management, competitors, suppliers and customers to gain a heightened understanding of the factors impacting the market.

Idea generation and individual analyst research agendas are driven by Hershan and Hudson, who meet analysts at least weekly to discuss their upcoming agenda. Zenith believes that by actively seeking investment opportunities that are yet to be recognised by the market, the Fund is well-positioned to capitalise on changing market dynamics.

Zenith views the active engagement of analysts with a variety of industry participants favourably and believes this approach provides analysts with a deeper understanding of industry dynamics.

When developing a company's valuation, analysts will consider a range of valuation methodologies including discounted cash flow analysis, free cash flow yields, price/earnings ratio, and other industry-specific valuation methods. Analysts apply a discounted cash flow model across all industries, with further valuation methodologies determined based on the industry in which a company operates.

Yarra also incorporates environmental, social and governance (ESG) considerations into its research effort. The identification of ESG issues can be reflected in a company's valuation, and where ESG issues are deemed to be significant, can preclude the company from potential investment.

The output of the research process is a one-page investment thesis articulating the valuation, risks and catalysts of a company. This analysis facilitates a peer-review process occurring during the morning and portfolio meetings. An important and differentiating aspect of the research output is the categorisation of securities into different payoff horizons (internally referred to as phases):

- Phase 1: High degree of visibility around earnings and key events - expected payoff in six to twelve months.
- Phase 2: Supportive industry and company trends, however no definitive near-term catalysts - expected payoff in one to three years.
- Phase 3: Clear value opportunity, however no insight or certainty in near-term financials - expected payoff uncertain.

The segregation of the investment universe based on expected payoff horizons enables the team to consider mispricing opportunities across varying investment timeframes, to assist in capturing the inefficiencies created by the short-term focus of many market participants.

Overall, Zenith believes Yarra's standardised approach to security analysis is intuitive and results in a consistent and detailed framework to identify ideas.

Responsible investment approach

Yarra has an established Responsible Investment Policy, last updated in 2020, that guides its investment decisions.

In November 2022, Yarra appointed Erin Kuo to the role of Chief Sustainability Officer. Kuo has over 15 years' experience within sustainability investing and works closely with Yarra's investment teams to support ESG integration into investment processes. Zenith views Kuo's appointment and experience positively.

Further to the Fund's environmental, social and governance (ESG) exclusions, Yarra takes an active approach to ESG issues. ESG is evaluated as part of the team's fundamental analysis process, with analysts including an ESG score in each company's written assessment. Implications of material ESG issues are included in the valuation of each company, typically through added operating expenses or an increase in a company's weighted average cost of capital. Where ESG issues are deemed to be significant, they may preclude a company from investment.

Zenith believes that this qualitative analysis of a company's operations is crucial on a forward basis, given that a company's performance with regards to ESG considerations is increasingly being reflected in its share price. Overall, Zenith is comfortable with Yarra's approach to ESG.

Zenith has assigned the Fund a responsible investment classification of Aware.

Portfolio construction

In constructing the portfolio, Hershan seeks to create a balance across investment styles (value and growth) and investment timeframes, believing that stock-specific insights drive investment outcomes and should be capable of delivering outperformance across the full market cycle.

Portfolio construction and position sizing are driven by Hershan and Waller, who draw on the fundamental research process conducted by the analysts, with Hershan having ultimate authority.

Yarra places a significant emphasis on risk and, as a result, Hershan seeks to diversify the portfolio such that no single factor dominates the investment outcome. Particular emphasis is given to liquidity, the nature of the insight, portfolio interaction and management quality.

Stocks are categorised based on Yarra's assessment of risk characteristics and expected payoff. A stock's risk is defined as low, medium or high, with expected payoff categories of 10%, 20% or 30%. The lowest active weight is between 0% and 2% for a security with low risk and low payoff, or high risk and high payoff. The largest active position of greater than 4% is for companies assessed as having high payoff with low risk.

Zenith has reviewed Yarra's target weighting guidelines and, whilst noting that it is not used as a direct method for determining security weights, we believe it provides a strong link to the security selection process.

The resultant portfolio is relatively concentrated and benchmark unaware, typically consisting of between 15 and 35 securities. While the Fund has a formal maximum cash limit of 10%, Yarra endeavours to remain close to fully invested, with cash averaging approximately 5% over the past five years. Zenith believes actively-managed funds should be fully invested and that allocations to cash should be maintained at a minimum.

Positions will be exited in the following circumstances:

- The investment thesis is invalidated
- The position becomes overvalued
- A better relative value opportunity is identified

Although the Fund does not allow stocks to be purchased in the S&P/ASX 20, it does allow stocks that move into the S&P/ASX 20 to be held for up to 12 months, after which they must be exited. Yarra allows 12 months to exit positions, for the purposes of minimising capital gains tax. Zenith views this positively, believing it ensures the Fund remains a true mid-cap exposure, whilst retaining flexibility of disposal.

Portfolio turnover is expected to average 30% p.a. to 50% p.a. over a market cycle, which Zenith considers to be low to moderate.

Zenith is comfortable with Yarra's portfolio construction approach and believes it ensures a connection between the output of its security selection process and the resultant weight of the stock in the Fund.

Risk management

Consistent with its emphasis on understanding and managing the risks of the portfolio, Yarra has implemented a strict risk management framework throughout the investment process.

At the portfolio construction level, risk is managed by restricting the maximum investment in high-risk securities. Yarra does not apply fixed constraints at the stock and sector level, believing that such restrictions are ineffective in accounting for the differing risk profiles of various investments. However, Yarra closely monitors stock and sector correlations to ensure that correlations between single stocks/sectors or groups of stocks/sectors do not account for more than 15% of the overall risk. In monitoring the risks at the portfolio level, Hershan will primarily consider the Tracking Error of the Fund, which is expected to be maintained below 6% p.a.

Yarra uses Axioma portfolio risk management to assess the portfolio's risk metrics. Whilst this highlights the Tracking Error of the portfolio, it decomposes each security's contribution to the active risk in the portfolio using different methodologies, thereby increasing Hershan's ability to identify unintended factor exposures and risks that could impact the portfolio. Risk software is typically run daily or when dictated by changing market conditions.

Zenith considers the risk management of the Fund to be well integrated at each stage of the investment process, ensuring that the analysts and Hershan are cognisant of the risks inherent in the Fund. However, investors should be aware that there is a significant reliance on management judgement and skill.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	0.97 % p.a.	1.22 % p.a.
Management Fees and Costs	0.90 % p.a.	0.93 % p.a.
Transaction Costs	0.07 % p.a.	0.06 % p.a.
Performance fees as at 30 Jun 2023	0.00 %	0.28 %
Performance fees description	N/A	
Management Cost	0.90 % p.a.	0.97 % p.a.
Buy / Sell spread	0.15 % / 0.15 %	0.21 % / 0.21 %

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average management cost is based on the average management cost of all flagship Australian Shares - Mid Cap Companies products surveyed by Zenith.

Overall, Zenith believes the Fund's fee structure is attractive relative to peers, given its stated objectives. However, we believe that investors have been insufficiently compensated by way of risk-adjusted performance given the fees paid over the past three years (ending 30 June 2023).

The fees mentioned above are reflective of the flagship version only. Fees may differ when the product is accessed through an alternate investment vehicle such as a platform.

About the fund manager

Organisation

Yarra Capital Management (Yarra) is a Melbourne-based boutique fund manager, offering a broad range of active strategies spanning Australian equities and fixed income.

Yarra was established in 2017 following the management buyout of Goldman Sachs Asset Management's Australian-focused investment capabilities and operating platform, backed by TA Associates, a global growth private equity firm with a long history of investing in funds management companies.

In April 2021, Yarra completed the acquisition of Nikko Asset Management's (Nikko AM) Australian business, with Nikko AM taking a 20% equity stake in the combined entity. This partnership enables Nikko AM's global business to gain access to Yarra's investment products, with Yarra assuming responsibility for the distribution of Nikko AM's global suite of products in the Australian market.

As at 31 January 2024, Yarra had approximately $A 21 billion in funds under management (FUM), including $A 16.3 billion in equities and $A 4.7 billion in fixed income.

As at 31 January 2024, Yarra managed $A 1.8 billion in the strategy, including $A 36 million in the Fund.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Dion Hershan	Head of Australian Equities	19	17	Melbourne, Australia
Edward Waller	Deputy Portfolio Manager	17	17	Melbourne, Australia

Yarra's equities investment team is led by Dion Hershan, Head of Australian Equities. Hershan is directly supported by Katie Hudson, who is Head of Australian Equities Research.

Hershan is ultimately responsible for the management of the Fund, with support provided by Deputy Portfolio Manager, Edward Waller.

Hershan is highly experienced in analysing and managing portfolios of Australian equities. Prior to co-founding Yarra, Hershan was Head of Australian Equities at GSAM. During his 10 years at GSAM, he was responsible for a number of Australian equities strategies. Previously, Hershan gained investment management experience at Citadel Investment Group and Fidelity Investments. Prior to his asset management career, Hershan worked at the Boston Consulting Group where he was responsible for financial and quantitative analysis. Zenith believes Hershan is a capable investor with the requisite experience to successfully manage the Fund.

Waller joined Yarra following the management buyout of GSAM, and has 17 years of industry experience.

Hershan and Waller are supported by Yarra's Australian equities team, which consists of a further 12 members. All members of the investment team have research responsibilities divided across sector lines. In addition, Zenith notes that the investment team has broader research coverage across the market cap spectrum.

The team also leverages the experience and expertise of Tim Toohey, Head of Macro and Strategy and Yarra's fixed income team, in order to gain a full understanding of factors that may impact company fundamentals. Zenith believes this resource is advantageous, given the insights it can provide on macroeconomic conditions.

Team interaction occurs frequently, with the investment team meeting on a daily basis to facilitate discussions regarding the broader economy as well as individual securities. Hershan and Hudson collaborate with the investment team throughout the research process, meeting with the analysts on a weekly basis. Portfolio meetings are held fortnightly, at which time stock attribution and overall risk exposures are discussed.

Yarra's remuneration structure comprises a base salary and performance bonus. Bonuses are discretionary in nature and are determined primarily following an assessment of fund performance, analyst stock calls and broader team contribution. Bonuses are paid in cash up to a predefined threshold, above which the balance is vested over three years to assist in staff retention. In addition, Zenith notes that the majority of the investment team holds equity in the business.

Zenith views the investment team's experience and stability favourably.

About the sector

Sector characteristics

The Zenith 'Australian Shares – Mid Cap Companies' sub-asset class consists of long-only strategies investing in the Australian equity market's mid capitalisation (mid-cap) spectrum. Companies that fall between the S&P/ASX 51 and S&P/ASX 100 are considered mid-cap companies. This is a relatively small, although quite competitive, sector of the investment landscape. In this sector, Zenith notes that there are large variations between strategies and their investment universes/mandates. Over the longer term, active management has historically demonstrated an ability to outperform a passive index in this sector.

Zenith benchmarks all funds in this sector against the S&P/ASX MidCap 50 Index. However, investors should be aware that strategies in this sector can have a varying allocation to the small companies universe i.e. ex-S&P/ASX 100 stocks. The S&P/ASX MidCap 50 Index is market-capitalisation weighted, resulting in those companies with the largest market capitalisations receiving the heaviest weighting.

The Australian equities asset class, as represented by the S&P/ASX 300 Index, is highly concentrated and narrow. As at 31 January 2024, the Financials and Materials sectors represented a significant portion of the S&P/ASX 300 Index, with the Financials sector accounting for approximately 29% and Materials approximately 24%. In addition, the top 10 stocks represented approximately 47% and the top 20 stocks represented approximately 62%.

The S&P/ASX MidCap 50 Index is less concentrated than the S&P/ASX 300 Index. As at 31 January 2024, the Industrials and Materials sectors represented 20% and 17% respectively in the S&P/ASX MidCap 50 Index, with the top 10 stocks totalling 33%.

Sector risks

Products within the ‘Australian Shares – Mid Cap Companies' sub-asset class are exposed to the following broad risks:

Market and economic risk: A sustained downturn across the Australian equity market is a risk to the absolute performance of funds in the sector. Additionally, changes in economic, social, technological or political conditions, as well as market sentiment, could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to a fund's prescribed investment timeframe.

Specific security risk: This is the risk associated with an individual security. The price of common shares in a company may be affected by unexpected changes in company operations such as changes in management or the loss of a significant customer.

Concentration risk: Many mid-cap strategies tend to be concentrated and high conviction, with relatively flexible risk management constraints. Performance may diverge from the index and competitors over the short term.

Liquidity risk: This is the risk that a security or asset cannot be traded promptly, due to insufficient trading volumes in the Australian equity market. When trading volumes are low, buyers/sellers can significantly impact the price of a security when entering or exiting a position.

Style bias risk: Australian equity managers employ different investment styles such as Growth, Value or Neutral (a combination of Value and Growth). Each style is conducive to certain market conditions. This risk can be significantly reduced by investors adhering to a fund’s prescribed investment timeframe.

Capacity risk: High levels of funds under management (FUM) can present additional challenges to an Australian equity manager. High FUM has the potential to restrict a manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (most common in smaller companies).

Regulatory risk: All investments carry the risk of being affected by changes to government policies, regulations and laws. Security prices in which funds may have exposure are also subject to certain risks arising from government intervention in the Australian equity market. Such regulation or intervention could adversely affect fund performance.

Administration and operations

Responsible Entity	Yarra Funds Management Limited

Zenith rating

Report certification

Date of issue: 27 Feb 2024

Role	Analyst	Title
Analyst	Tom Goodrich	Senior Investment Analyst
Sector Lead	Stephen Colwell	Senior Investment Analyst
Authoriser	Bronwen Moncrieff	Head of Research

Association & relationship

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Rating history

As At	Rating
27 Feb 2024	Approved
01 Mar 2023	Approved
24 Feb 2022	Approved
15 Mar 2021	Approved
25 Feb 2021	Approved
24 Feb 2020	Approved
17 Dec 2019	Not Rated - Screened Out

Last 5 years only displayed. Longer histories available on request.

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

Zenith has charged Yarra Capital Management Group a fee to produce this report.