Yarra Growth Fund

Net returns as at 30 September 2024

	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.
Total Fund return (net)	1.04	4.32	3.34	19.21	5.49	6.64	7.59	7.06
Fund growth return (net)	1.04	4.32	2.69	17.79	3.23	3.22	2.12	1.86
Fund distribution return (net)	0.00	0.00	0.66	1.42	2.26	3.42	5.47	5.20
Benchmark*	1.00	4.21	4.10	19.19	7.59	8.37	9.35	8.33

Source: YFML, Citi. Total Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund minus Fund growth return. Past performance is not an indicator of future performance. Inception date: February 1996.
* The Fund's benchmark is a composite index constructed using the applicable asset class index, weighted according to the Fund's benchmark asset allocation of: 15% of Bloomberg AusBond Composite 0+ YR Index for Australian fixed interest, 30% of S&P/ ASX 200 Accumulation Index for Australian shares, 50% of MSCI All Countries World Index Net Total Return AUD Index (unhedged) for overseas shares, 0% of S&P/ASX 300 Australian Real Estate Investment Trusts (A-REITs) Accumulation Index for property securities (effective 16 December 2013. Prior to this was the S&P/ASX 200 A-REITs Accumulation Index), and 5% of Bloomberg AusBond Bank Bill Index for Cash.

Portfolio review

The Fund returned 4.32% for the quarter, outperforming its composite benchmark return of 4.21% by 11 basis points (bps).

Australian Equities

The Fund's allocation to Australian equities matched the overall market performance for the quarter, with the S&P/ASX 200 Accumulation Index returning 7.79% for the period. The Fund's investments in Australian equities are in the Yarra Australian Equities Fund and the Tyndall Australian Share Wholesale Fund, both of which aligned with the index's performance for the quarter.

Australian equities started the quarter strongly, posting a return of 4.19% in July. However, August saw a more modest performance, with a return of only 0.47% after recovering from a notable 6% decline in the first week, driven by a global Japanese Yen carry-trade sell-off. In September, the market rebounded, gaining 2.97% following stimulus announcements from China and the start of an easing cycle by the US Federal Reserve.

Sector returns were largely positive for the quarter, led by Information Technology (16.1%), Real Estate (+14.4%), Materials (+10.2%), Consumer Discretionary (+10.5%), and Industrials (+10.4%). With Financials (+8.3%) and Communication Services (+8.0%) also outperforming the broader market. In contrast, Consumer Staples (+2.3%), Healthcare (+0.3%), and Utilities (-1.2%) underperformed the broader market, while Energy (-6.2%) was the worst-performing sector for the quarter.

Key contributors to performance from the Australian equities allocation included Reliance Worldwide (RWC), which outperformed on expectations of improving sales growth and operating leverage as the macro environment becomes more favorable for remodeling housing activity. JB Hi-Fi (JBH) also outperformed following the release of its FY24 results, which showcased improved operating momentum in 4Q24. The company's resilience in sales offset cost pressures across both JB Hi-Fi Australia and The Good Guys. Additionally, it declared an 80-cent special dividend and reported a strong start to FY25, leading to upgrades in consensus estimates.

Notable detractors included Tabcorp (TAH), which underperformed after its FY24 results disappointed. The company rebased expectations under new management, removing its strategic market share targets, forward guidance for opex reductions 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 and digital channels over the period.

Woodside Energy (WDS) also struggled due to a 10.1% drop in Brent Crude Oil prices, raising concerns about the sustainability of its 80% dividend payout ratio following its planned acquisition of Tellurian Energy. Despite this, the manager remains optimistic about Woodside's strong growth profile from new projects, which are expected to increase production by over 30% in the next two years and deliver double-digit free cash flow yields.

Global Equities

The Fund's Global Equities allocation outperformed over the quarter. The MSCI AC World Index, measured in AUD (unhedged), recorded a gain of approximately 2.6%.

The Fund's Global Equities allocation primarily invests in the Yarra Global Share Fund, with a smaller portion in the Yarra Global Small Companies Fund. Both funds outperformed the index during the quarter.

In terms of investment styles, 'Value' (+5.5%) significantly outperformed 'Growth' (+0.2%) and 'Quality' (-0.2%) over the quarter. Emerging Markets (+4.8%) made a strong advance over the last two weeks, driven by a surge in Chinese equities. The MSCI China Index was down approximately 7% for the quarter by September 12th, but then surged 17% over the last two weeks to end the quarter with a gain of more than 9%. The sharp turnaround was fueled by economic stimulus measures announced by the Chinese government aimed at bolstering their struggling housing market and domestic demand. Investor sentiment was further lifted by expectations of additional fiscal stimulus measures on the horizon.

Small Caps, as measured by the MSCI World Small Cap Index, advanced 5.4% over the quarter, while Mega Caps, tracked by the S&P Global 100 Index, declined 1.2%. Among the 'Magnificent 7', Tesla was an outlier with a return of +27.3%, while Meta Platforms (+9.4%) and Apple (+6.6%) also outperformed. The rest, however, disappointed with Alphabet (-12.2%) the largest underperformer. The quarter's top performing sectors were Real Estate, Utilities, Financials and Industrials, while the Energy and Information Technology sectors posted negative returns.

Key contributors to performance over the quarter included Haleon, a British multinational consumer healthcare company, which delivered strong results showcasing quality growth and robust cash generation. TransUnion, an American consumer credit reporting agency, also outperformed after announcing impressive results and is expected to benefit from an uptick in mortgage inquiries now that interest rates have begun to decline.

Notable detractors included Synopsys, Inc., which underperformed alongside the broader semiconductor sector. Despite solid quarterly results in August, its peer Cadence Design Systems lowered its full-year outlook. Amazon.com Inc. also struggled, as investor concerns grew about the upcoming AI capital expenditure cycle. Additionally, Amazon's retail customers are trading down, resulting in lower-than-expected Q3 guidance. However, the manager remains confident in Amazon Web Services growth potential amid the ongoing shift to cloud solutions.

Australian Fixed Interest

The Fund's Australian fixed interest allocation, which is invested in the Yarra Australian Bond Fund, outperformed over the quarter. The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned +3.0%.

The Fund maintained an overweight duration position throughout the quarter, which significantly contributed to its performance. Despite volatility in bond yields, they ended the quarter lower, as economic data points to a slowing global economy, and inflation cooling. The Federal Reserve began its rate cut cycle in September with a 50bp cut, in fear of a further deterioration of the labour market. These themes are likely to occur in Australia too, albeit later as the RBA waits for further data to confirm that inflation will return to target sustainably.

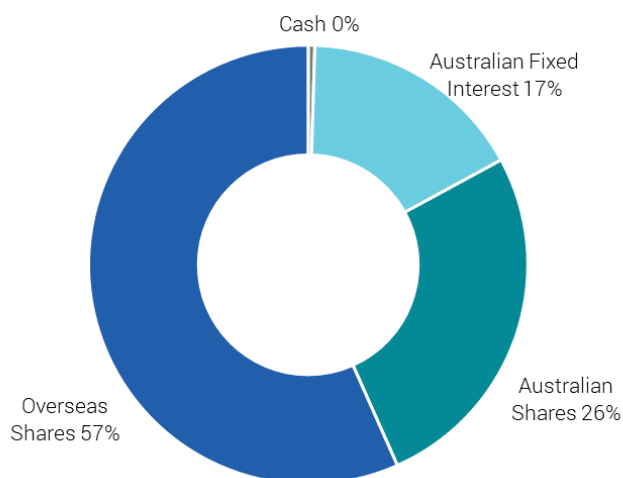
The Fund has favored a steepening yield curve, which significantly contributed to its outperformance. Over the quarter the 3-10 year yield curve steepened by nearly 20 bps. We anticipate further steepening when the RBA initiates its rate cut cycle.

In sector terms the fund has maintained an overweight to shorter maturity credit and supranational issuers, while being underweight semi-government and commonwealth government bonds. This strategy resulted in a modest contribution to performance over the quarter, as credit spreads compressed.

Strategic Asset Allocation

Asset Class	Target Allocation (%)	Range (%)
Australian Shares	30	20-45
International Shares (unhedged)	50	35-65
Property Securities	0	0-10
Total growth assets	80	70-95
Australian Fixed Interest	15	5-25
Cash	5	0-20
Total income assets	20	5-30

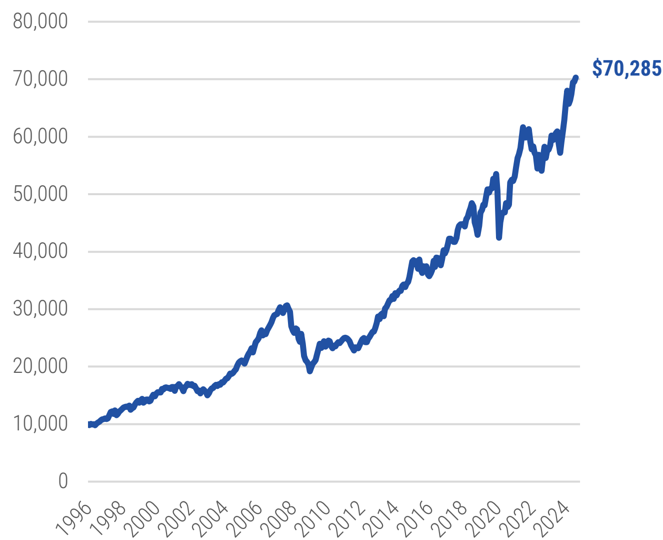
Asset Allocation at Quarter End



Source: YFM, Citi

Performance Graph

Value of $10,000 invested in the Yarra Growth Fund since inception:



Source: Citi & YFM. Past performance is not an indicator of future performance.

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%.

Fund Objective

The Fund aims to provide a modest level of capital growth and income over the medium to long-term, with total returns (before taxes, fees and expenses) above the Fund's benchmark over rolling five-year periods.

Key Facts	
Responsible Entity Yarra Funds Management Limited	**Management Cost** 1.15% p.a.
APIR Code SUN0021AU	**Buy/Sell Spread** 0.15%/0.15%
Fund Size A$73 mn as at 30 September 2024	**Distribution Frequency** Half Yearly
Minimum Investment AUD 2,000	

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