Investment Commentary
Month to 30 November 2024

Yarra Australian Equities Fund

Gross returns as at 30 November 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	4.27	5.72	20.36	9.78	7.99	8.58	10.59
S&P/ASX 200 Accumulation Index†	3.79	5.47	23.42	9.54	8.27	9.08	9.44
Excess return (before fees)‡	0.49	0.25	-3.06	0.24	-0.27	-0.49	1.15

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 November 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	4.21	5.50	19.30	8.81	7.03	7.59	9.59
S&P/ASX 200 Accumulation Index†	3.79	5.47	23.42	9.54	8.27	9.08	9.44
Excess return (after fees)‡	0.42	0.03	-4.12	-0.73	-1.23	-1.49	0.16

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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 rose during the month of November as equity markets surged on the back of a Trump election victory.

The S&P/ASX 200 Accumulation Index returned 3.8% for the month taking its 12-month return to +23.4%. Comparatively, the S&P/ASX 300 Accumulation Index generated a 3.7% return, and globally, the MSCI World Index rose by 4.9%.

Financials (+7.0%) was the largest sector contributor with outperformance mainly stemming from the banking sub sector, with EPS upgrades after reporting season a feature alongisde very low bad debts. Commonwealth Bank (CBA, +11.1%) continued to rise with other contributors including National Australia Bank (NAB, +3.0%) and Westpac Banking Corporation (WBC, +6.4%).

Consumer Discretionary (+6.9%) also contributed to performance with Wesfarmers (WES, +6.8%) and Aristocrat Leisure (ALL, +10.8%) both performing well. Within Industrials (+5.8%) gains were primarily driven by Computershare (CPU, +20.9%) following a positive trading update which included EPS growth for FY25.

In the Information Technology sector (+10.5%), a number of companies performed well including Xero (XRO, +16.3%), WiseTech (WTC, +8.3%), Technology One (TNE, +24.4%) and Life360 (360, +15.2%). Both XRO and TNE rose on the back of strong results and EPS upgrades.

In contrast, Materials (-2.6%) was the worst performing sector during the month with BHP (BHP, -4.9%), Pilbara Minerals (PLS, -16.1%), Mineral Resources (MIN, -14.6%) and Newmont Corporation (NEM, -7.7%) all falling. Gold stocks were affected as the market initially reacted to Trump's win by pushing up bond yields and the USD. Additionally, resources continue to retrace some of their grains following the China stimulus rally in October. James Hardie (JHX, +15.0%) was an outlier in this sector rising strongly on the back of 2Q25 guidance which exceeded market expectations.

Portfolio review

Key Contributors

Block Inc (SQ2, overweight) – the payment technology company outperformed following a better-than-expected 3Q result and forward guidance, reflecting increased growth across its payments and financial services ecosystem into 2025. We maintain a positive outlook for SQ2 as we believe the improved distribution capabilities, combined with a focus on driving value in CashApp will accelerate gross profit growth in coming years.

Xero (XRO, overweight) – the SaaS provider of cloud accounting, payroll, and payment solutions outperformed market expectations following its impressive half-year results. The company reported a 25% increase in operating revenue, a 76% jump in net profit, and a 15% boost in average revenue per user. The gains were bolstered by disciplined cost management and improved free cash flow margins, highlighting Xero's more disciplined approach. Over the past year, the company has made notable progress in refining its product offerings and go-to-market strategy in the U.S., positioning itself for future growth.

QBE Insurance (QBE, overweight) – the global insurer outperformed following the release of its third-quarter trading update where the company reiterated guidance and demonstrated sound underlying trends. We continue to own the stock given its transition to a simpler and lower risk business model and believe its strong underlying momentum is not fully reflected in current its valuation of 11.1-times P/E for FY25 and 4.5% dividend yield.

Key Detractors

Commonwealth Bank (CBA, underweight) – CBA outperformed during the period following the release of its quarterly results which highlighted a 5% increase in unaudited cash net profit compared to the average of the prior half-year. We remain underweight the Australian banks reflecting our negative sector view. The elevated valuations of the Australian banking sector are not supported by the fundamental outlook, where we expect flat to deteriorating pre-provision profits through modest revenue growth and elevated expense growth.

Pexa (PXA, overweight) – the online property exchange platform underperformed during the period following speculation that the company was considering an acquisition. We believe the value of PXA's core Australian property exchange is not fully reflected in the current share price and we see material upside as the cash flow drag from investments in the international and digital growth segments is reduced.

BHP (BHP, overweight) – the diversified miner underperformed during November as copper prices declined by 5.2% to close at US$4.03/lb, and iron ore prices remained relatively flat, closing at US$104/t at month end. We are attracted to BHP's diversified commodity exposure across iron ore (low on cost curve) and copper (future facing commodity supported by constrained industry supply dynamics). While we have concerns on the long-term outlook for iron ore due to excess supply, we favour copper as a commodity and note >25% of BHP's revenues are now derived from copper.

Market outlook

Equity markets have continued to push higher in December as financial markets remain positive on the implications of the US election and the prospect of ongoing easing by the Federal Reserve (Fed).

On balance, we view President Trump's policies as a net negative for global and 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 that we estimate will arise 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 facilitate a return to rising inflation expectations and a higher terminal rate for monetary policy. Clearly it is too early to conclude which of those outcomes is more likely, however, our bias is that further policy easing will be needed outside of the US and that 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 countercyclical fiscal policy has led to some green shoots in their data set and they may well feel emboldened to act more decisively on fiscal policy post the US election.

Locally, Australia continues to operate near stall speed economic growth. GDP increased just 0.3% (q/q) and 0.8% (y/y) in 3Q24, marking the weakest annual rate of growth in over 32 years excluding the COVID period. The Reserve Bank of Australia (RBA) remains of the view that inflation is too high and that 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. Adding in the policy decision to rapidly slow population growth from 1 January 2025, 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's projections, and we believe the RBA will recognise that wage and inflation pressures have eased sufficiently by the end of 2024. As such, the RBA will likely commence an easing cycle in Australia from February 2025 and we expect the RBA will ease 25bps per quarter over the year.

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 that valuations were already stretched prior to the election, we remain 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 the Materials, Utilities and Communication Services sectors, and are underweight Financials, Real Estate and Consumer Staples.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	6.94	3.75	3.19
Consumer Discretionary	6.31	7.54	-1.23
Consumer Staples	1.87	3.63	-1.75
Energy	4.70	3.82	0.88
Financials	25.18	34.13	-8.95
Health Care	8.89	9.58	-0.69
Industrials	9.13	7.00	2.13
Information Technology	5.38	3.28	2.10
Materials	23.59	19.09	4.50
Real Estate	2.15	6.79	-4.64
Utilities	5.05	1.39	3.66

Top 5 holdings

	Portfolio %	Benchmark %	Active %
BHP Group	9.89	8.21	1.68
Commonwealth Bank of Australia	7.81	10.59	-2.77
Westpac Banking	6.04	4.60	1.44
Woodside Energy	4.70	1.86	2.85
Transurban	4.04	1.58	2.45

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
ResMed	3.95	0.91	3.05
Block	3.14	0.23	2.91
Woodside Energy	4.70	1.86	2.85
Underweights			
National Australia Bank	0.00	4.81	-4.81
Macquarie Group	0.00	3.27	-3.27
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	15.12	1.92	-3.22	-1.46
Distribution return	4.18	6.89	10.25	9.04

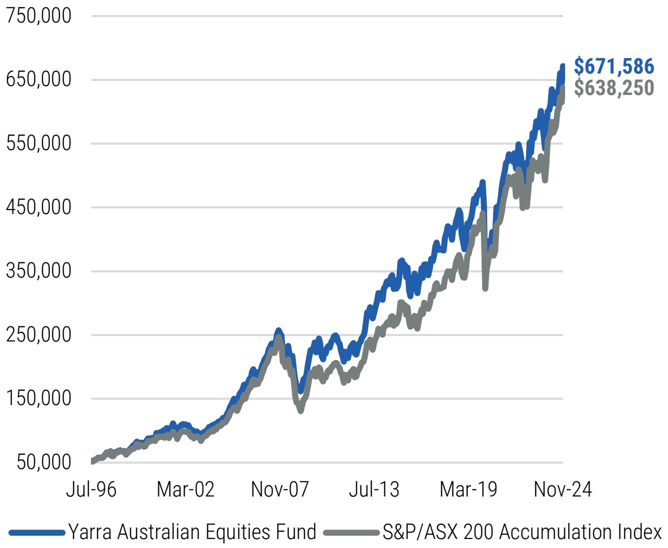
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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$127.3 mn as at 30 November 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 November 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.

Website www.yarracm.com

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