YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 30 November 2024

Yarra Emerging Leaders 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 Emerging Leaders Fund	3.76	7.69	21.82	6.16	8.06	10.58	11.15
Emerging Leaders Combined Benchmark†	3.51	6.85	22.44	3.53	7.51	9.88	7.32
Excess return (before fees)‡	0.25	0.84	-0.62	2.63	0.54	0.69	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 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 Emerging Leaders Fund	3.66	7.35	20.31	4.85	6.72	9.21	9.84
Emerging Leaders Combined Benchmark†	3.51	6.85	22.44	3.53	7.51	9.88	7.32
Excess return (after fees)‡	0.14	0.51	-2.13	1.32	-0.79	-0.67	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 rose during the month of November.

The Emerging Leaders Benchmark returned 3.5% for the month, taking its 12-month return to +22.4%. Comparatively, the S&P/ASX 300 Accumulation Index generated a 3.7% return, and globally, the MSCI World Index rose by 4.9%.

Financials (+7.8%) was the largest sector contributor during the month. Block (SQ2, +23.8%), HMC Capital (HMC, +21.2%), HUB24 (HUB, +9.1%) and Netwealth Group (NWL, +11.2%) contributed to performance.

Health Care also contributed strongly (+13.9%), with Pro Medicus (PME, +29.3%) outperforming following the announcement of a 10-year contract with Trinity Health.

In contrast, Materials (-3.5%) declined with Resolute Mining (RSG, -47.7%), Lynas Rare Earths (LYC, -9.5%), Bellevue Gold (BLG, -21.2%) and West African Resources (WAF, -17.4%) all falling.

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.

Pinnacle Investment Management (PNI, overweight) – the fund manager outperformed during the period following its announcement of a $400 million equity raising and acquisitions. The proceeds are earmarked for acquiring strategic stakes in two high-quality international asset management firms, further enhancing its global growth ambitions and diversifying its portfolio. We are seeing an acceleration in revenue growth with material longer term growth potential as market conditions normalise from depressed levels, inflows reaccelerate across the diverse range of products and from international distribution, performance fees increase from depressed levels and new products and businesses mature.

Netwealth (NWL, overweight) – the leading independent wealth management platform outperformed despite no company specific news. 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

Pro Medicus (PME, underweight) – the health imaging company outperformed during the period driven by multiple contract wins. PME is a highly attractive global leader however, we believe this is more than captured within the high valuation metrics with some of the risks to future earnings growth constrained by the current high levels of market share and cost reinvestment.

Bellevue Gold (BGL, overweight) – the gold producer underperformed during the month as the gold price declined by 4%, closing at US$2,638/oz. We retain our positive view on the company and remain attracted to the high-grade Bellevue Gold Mine, and upside to reserves and future production from further exploration.

Evolution Mining (EVN, overweight) – the gold and copper producer underperformed during the month as gold prices declined by 4%, and copper prices fell by 5.2%. We remain attracted to EVN's long-life assets, and meaningful leverage to copper production at the Ernest Henry and Northparkes mines.

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 Financials, Communication Services and Materials Sectors, and are underweight Consumer Discretionary, Energy and Consumer Staples.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	11.09	7.25	3.85
Consumer Discretionary	3.63	10.79	-7.16
Consumer Staples	0.44	3.53	-3.09
Energy	0.00	5.17	-5.17
Financials	20.12	14.50	5.62
Health Care	8.96	8.38	0.58
Industrials	16.24	13.88	2.35
Information Technology	5.13	7.15	-2.02
Materials	21.46	19.07	2.39
Real Estate	7.98	9.19	-1.22
Utilities	0.00	1.07	-1.07

Top 3 holdings

	Portfolio %	Benchmark %	Active %
CAR Group	6.50	2.48	4.02
Evolution Mining	5.19	1.59	3.60
Block	4.89	0.93	3.96

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
CAR Group	6.50	2.48	4.02
Block	4.89	0.93	3.96
Reliance Worldwide	4.61	0.68	3.93
Underweights			
Pro Medicus	0.00	2.17	-2.17
REA Group	0.00	2.05	-2.05
JB Hi-Fi	0.00	1.57	-1.57

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	18.29	-2.46	1.70	5.61
Distribution return	2.02	7.31	5.03	3.60

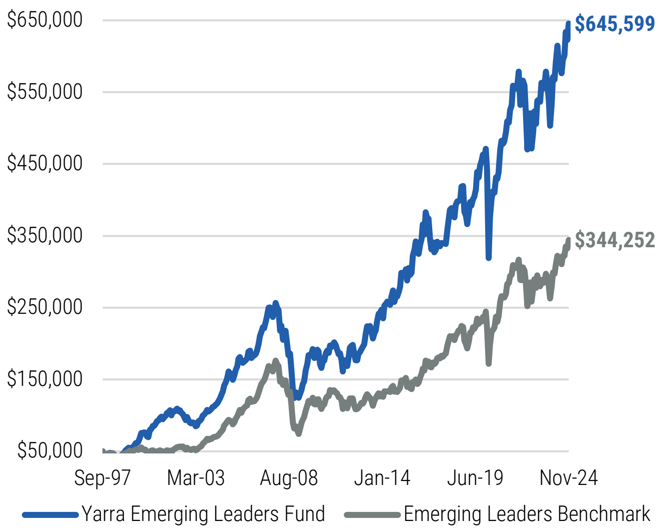
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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$103.3 mn as at 30 November 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 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 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.

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