Yarra Ex-20 Australian Equities Fund

Gross returns as at 30 November 2024

	From 25 June 2018^	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.*
Yarra Ex-20 Australian Equities Fund	7.52	5.27	7.23	25.00	9.66	7.36	8.22	8.46
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index#	7.50	4.26	6.89	23.83	6.06	6.47	N/A	N/A
Excess return (before fees)‡	0.02	1.01	0.34	1.17	3.60	0.89	N/A	N/A

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

	From 25 June 2018^	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.*
Yarra Ex-20 Australian Equities Fund	6.55	5.19	6.99	23.89	8.68	6.40	7.09	7.25
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index#	7.50	4.26	6.89	23.83	6.06	6.47	N/A	N/A
Excess return (after fees)‡	-0.95	0.93	0.10	0.05	2.62	-0.07	N/A	N/A

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 prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.

^ **Effective 25 June 2018 the Fund's investment strategy, name and benchmark was changed. Performance prior to 25 July 2018 is provided here for consistency purposes only – the historical performance data shown relates to the previous strategy and should not be used to assess past or future performance of the Fund. Performance data relating to the previous strategy is available upon request. 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 prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.

* Inception date Yarra Ex-20 Australian Equities Fund: August 2010.

The benchmark for the Yarra Ex-20 Australian Equities Fund has been amended since the Fund's inception. Effective 25 July 2018, the benchmark is the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index, replacing the S&P/ASX 300 Accumulation Index.

‡ Excess return: The difference between the Fund's return and the benchmark return.

Market review

Australian Ex-20 equities market was positive for the month of November, as equity markets surged on the back of a Trump election victory.

The S&P/ASX 300 Ex-20 Accumulation Index returned 4.3% for the month, taking its 12-month return to +23.8%. In comparison, the broader ASX300 returned 3.7% for the period. On a global scale, the MSCI World Index also generated a 4.9% return.

Financials (+8.2%) was largest sector contributor with Insurance Australia Group (IAG, +13.7%) and Suncorp (SUN, +9.9%) contributing. Other strong performers included Block (SQ2, +23.8%) and HMC Capital (HMC, +21.2%).

Industrials (+7.0%) was also a strong contributor with Computershare (CPU, +20.9%) performing well following a positive trading update which included EPS growth for FY25. Health Care (+8.8%) also outperformed driven largely by Pro Medicus (PME, +29.3%), Sigma Healthcare (SIG, +47.4%) and Telix Pharmaceuticals (TLX, +18.2%).

In contrast, Materials (-3.2%) detracted during the month with Pilbara Minerals (PLS, -16.1%), Mineral Resources (MIN, -14.6%), Resolute Mining (RSG, -47.0%) and Newmont Corporation (NEM, -7.7%) all falling with underwhelming upgrades since the stimulus announcements from China in early October falling short of market expectations.

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.

Origin Energy (ORG, overweight) – the gas and electricity retailer outperformed during the period following the release of its quarterly results. The company's LNG production increased by 5% from the previous quarter and 11% year-on-year. We anticipate ORG's strong cashflow generation will be more highly valued as ORG proves out its ability to effectively participate in Australia's energy transition and the value in its Octopus holding continues to grow over time.

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

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.

Computershare (CPU, underweight) – the Australian stock transfer company delivered strong performance during the period, buoyed by its FY25 trading update. Computershare reaffirmed its FY25 EPS growth guidance of 7.5%, driven largely by an anticipated increase in average balances, primarily within Corporate Trust. With the company trading at 16.5-times P/E and a dividend yield of 3.4% for FY25, we believe better opportunities can be found elsewhere.

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.

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 Communication Services, Utilities and Materials sectors and underweight Real Estate, Industrials and Energy.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	13.68	5.17	8.51
Consumer Discretionary	8.97	7.18	1.79
Consumer Staples	3.35	2.98	0.38
Energy	0.00	3.00	-3.00
Financials	13.61	15.12	-1.51
Health Care	9.36	11.14	-1.78
Industrials	6.74	14.00	-7.25
Information Technology	9.10	8.87	0.23
Materials	20.17	18.37	1.80
Real Estate	2.49	10.77	-8.28
Utilities	9.02	3.40	5.62

Top 3 holdings

	Portfolio %	Benchmark %	Active %
ResMed	6.04	2.23	3.82
Northern Star	5.29	1.97	3.33
Origin Energy	5.28	1.83	3.45

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Block	4.61	0.57	4.03
ResMed	6.04	2.23	3.82
CAR Group	5.27	1.53	3.74
Underweights			
Brambles	0.00	2.59	-2.59
Suncorp Group	0.00	2.45	-2.45
WiseTech Global	0.00	2.35	-2.35

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	22.18	6.60	4.42	4.54
Distribution return	1.70	2.08	1.98	2.55

The Growth Return is measured by the movement in the Fund's unit price, 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 Australian Securities Exchange listed securities excluding the largest 20 by market capitalisation (as defined by the S&P/ASX 20 Index). In doing so, the aim is to outperform the S&P/ASX 300 ex S&P/ASX 20 Accumulation Index over rolling 3-year periods.
Recommended investment time frame	5 - 7 + years
Fund inception	August 2010
Fund size	A$72.2 mn as at 30 November 2024
APIR code	JBW0052AU
Estimated management cost	0.90% p.a
Buy/sell spread	+/- 0.15%
Platform availability	BT Panorama Hub24 Praemium

Applications and contacts

Investment into the Yarra Ex-20 Australian Equities Fund can be made by Australian resident investors only.

Website www.yarracm.com

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