YARRA
CAPITAL MANAGEMENT

Investment Commentary
Quarter to 31 December 2024

Yarra Australian Equities Fund

Gross returns as at 31 December 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	-3.34	-1.55	8.94	7.59	7.43	8.07	10.43
S&P/ASX 200 Accumulation Index†	-3.15	-0.80	11.44	7.41	8.05	8.51	9.29
Excess return (before fees)‡	-0.19	-0.75	-2.51	0.19	-0.62	-0.43	1.14

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 31 December 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	-3.40	-1.74	7.99	6.64	6.48	7.09	9.43
S&P/ASX 200 Accumulation Index†	-3.15	-0.80	11.44	7.41	8.05	8.51	9.29
Excess return (after fees)‡	-0.25	-0.95	-3.45	-0.76	-1.57	-1.42	0.14

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 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 weakened during the fourth quarter of 2024.

The S&P/ASX 200 Accumulation Index returned -0.8% for the quarter taking its 12-month return to +11.4%. In comparison, the broader S&P/ASX 300 returned -0.8% for the period. By contrast, on a global scale, the MSCI World Index generated a +1.9% return.

Financials (+5.9%) was the best performing sector during the period, with Commonwealth Bank (CBA, +13.2%), Westpac (WBC, +4.3%) and National Australia Bank (NAB, +1.5%) all contributing to performance.

Industrials (+3.2%) also performed well during the quarter. Computershare (CPU, 34.3%) rose in line with higher US interest rate expectations. Healthcare (+2.0%) also contributed, driven largely by Pro Medicus (PME, +40.3%) which charged ahead following the announcement of numerous contract wins during the period.

Conversely, Materials (-13.2%) was the worst performing sector during the period. BHP (BHP, -13.9%), Fortescue (FMG, -11.8%), Rio Tinto (RIO, -9.0%) and Mineral Resources (MIN, -34.2%) all fell as weaker China growth and lower prices for iron ore, steel and lithium drove a fall in forecast earnings.

Real Estate (-5.9%) also detracted with falls across the sector as the outlook for interest rate cuts weakened. The majority of stocks in this sector fell, including Goodman Group (GMG, -3.3%), Scentre Group (SCG, -6.0%), Mirvac Group (MGR, -10.7%), GPT Group (GPT, -9.9%) and Stockland (SGP, -6.9%).

Portfolio review

Key Contributors

Block Inc (SQ2, overweight) – the payment technology company outperformed following a better-than-expected 3Q24 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 its 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 10.9-times P/E for FY25 and 4.8% dividend yield.

Key Detractors

Iluka (ILU, overweight) – the mineral sands producer was an underperformer during the period driven by broader weakness in the industrial minerals market, particularly in zircon and titanium feedstocks. We remain constructive on the mineral sands market in CY25 despite a seasonally slow 4QCY24 given effects of EU anti-dumping tariffs, China stimulus and US rate cuts.

Reliance Worldwide (RWC, overweight) – the plumbing company underperformed during the period following its trading update, which was broadly in line with expectations, aside from some continued softness in EMEA. RWC is focused on market growth via innovation, channel expansion and M&A. In our view this thesis is supported by the valuation and evidence that execution is delivering gains.

Commonwealth Bank of Australia (CBA, underweight) – Australia's largest bank 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.

Market outlook

After a positive start to the month of December, equity markets retraced towards the close of the month with the ASX200 returning -3.2% in the month and returning +11.4% during the year. As we flagged in our December outlook, the combination of better US dataflow and the combination of Trump's policies suggests to us that the Federal Reserve (Fed) will now be cutting interest rates by 50-75bps less than they otherwise might have under a status quo scenario and a repricing of US interest rate expectations were likely. This clearly occurred at the Fed December meeting, with Chairman Powell delivering a relatively hawkish rate cut. Higher bond yields clearly created a strong downdraft for growth focused equities in the month.

On balance, we continue to see US President elect Donald 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's also possible that a return to trade war mentality not only increases global economic uncertainty and delays investment and employment opportunities, but could also result in a higher terminal rate for monetary policy.

The implications for Australia remain 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, Australian economic growth continues to operate near stall speed. GDP increased just 0.3% (q/q) and 0.8% (y/y) in 3Q24, marking the weakest annual rate of economic growth in over 32 years, excluding COVID. While the Reserve Bank of Australia (RBA) remains of the view that inflation is too high, there has been a clear shift in the RBA's communication in December to acknowledge that economic growth and wages growth has been more subdued than expected and that the outlook for future inflation continues to improve.

From our perspective, there is little evidence of a material acceleration in economic activity post the tax cuts and we expect that consumption is likely to undershoot the RBA's projections. Add the policy decision to rapidly slow population growth from 1 January 2025, the risk to economic growth projections is 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 to enable a modest easing cycle through 2025. 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 through the year.

Higher global uncertainty, higher bond yields, potentially higher inflation and lower economic growth expectations typically work against equities. Last month we flagged a more cautious approach to risk assets and that, on balance, we are likely entering a more volatile macro landscape. We continue to favour more active security selection investment strategies over broad-based market exposure, particularly during the initial months of the new US administration.

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	6.53	3.70	2.83
Consumer Discretionary	6.59	7.73	-1.13
Consumer Staples	2.07	3.76	-1.70
Energy	4.84	3.98	0.86
Financials	25.00	33.71	-8.72
Health Care	8.97	9.76	-0.79
Industrials	8.78	7.20	1.58
Information Technology	5.26	3.24	2.02
Materials	22.52	18.72	3.79
Real Estate	1.83	6.76	-4.93
Utilities	5.11	1.43	3.69

Top 5 holdings

	Portfolio %	Benchmark %	Active %
BHP Group	9.88	8.26	1.62
Commonwealth Bank of Australia	7.74	10.55	-2.81
Westpac Banking	6.00	4.57	1.42
Woodside Energy	4.84	1.92	2.92
Transurban	4.33	1.71	2.62

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Block Inc	3.28	0.27	3.01
ResMed	3.88	0.90	2.98
Woodside Energy	4.84	1.92	2.92
Underweights			
National Australia Bank	0.00	4.69	-4.69
Wesfarmers	0.00	3.34	-3.34
Macquarie Group	0.00	3.23	-3.23

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	4.90	0.18	-3.55	-1.80
Distribution return	3.08	6.47	10.03	8.89

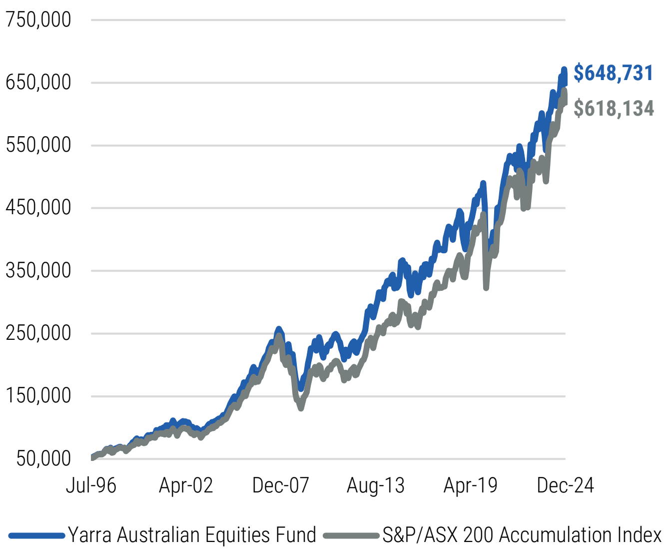
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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$109.6 mn as at 31 December 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 December 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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