Yarra Emerging Leaders 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 Emerging Leaders Fund	-5.08	-3.14	7.88	2.97	7.09	9.73	10.90
Emerging Leaders Combined Benchmark†	-3.42	-0.84	10.46	1.40	6.96	9.27	7.15
Excess return (before fees)‡	-1.66	-2.30	-2.58	1.57	0.14	0.46	3.74

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 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 Emerging Leaders Fund	-5.18	-3.44	6.55	1.70	5.77	8.37	9.60
Emerging Leaders Combined Benchmark†	-3.42	-0.84	10.46	1.40	6.96	9.27	7.15
Excess return (after fees)‡	-1.76	-2.61	-3.91	0.30	-1.19	-0.89	2.44

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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 weakened marginally during the final quarter of 2024.

The Emerging Leaders Benchmark returned -0.8% for the quarter, taking its 12-month return to +10.5%. 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 (+10.1%) was the best performing sector during the quarter, with Pinnacle Investment Management (PNI, +26.6%) and Netwealth (NWL, +15.6%) performing well. Pinnacle outperformed following the announcement it had acquired stakes in VSS holdings and Pacific Asset Management, and Netwealth rose following an increase in net fund flows during the quarter. Insignia Financial (IFL, +35.0%) and HMC Capital (HMC, +20.2%) also contributed.

Healthcare (+15.1%) rose on the back of Pro Medicus (PME, +40.3%), Sigma Healthcare (SIG, +82.5%) and Mesoblast (MSB, +65.0%). Pro Medicus rose following the announcement of numerous contracts during the quarter, while Sigma Healthcare rallied following the approval of its merger with Chemist Warehouse. Mesoblast rose on news that the US Food and Drug Administration (FDA) has approved its Ryoncil product as the first mesenchymal stromal cell (MSC) therapy in the United States.

Conversely, Materials (-4.7%) and Real Estate (-7.8%) detracted from performance. Within Materials, Bellevue Gold (BGL, -14.8%) and Lynas Rare Earths (LYC, -19.8%) both fell. Arcadium Lithium (LTM, +93.4%) defied the trend, rising on the announcement of its planned acquisition by Rio Tinto.

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.

Pinnacle Investment Management (PNI, overweight) – the global diversified funds management group outperformed during the period after announcing 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

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 impacts of EU anti-dumping tariffs, China stimulus and US interest rate cuts.

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

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.

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 Financials, Communication Services and Industrials sectors, and are underweight Consumer Discretionary, Energy and Consumer Staples.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	9.72	4.79	4.93
Consumer Discretionary	3.65	11.11	-7.46
Consumer Staples	0.00	3.66	-3.66
Energy	0.00	5.50	-5.50
Financials	19.87	14.72	5.16
Health Care	9.35	8.90	0.45
Industrials	16.45	13.99	2.46
Information Technology	5.03	7.22	-2.19
Materials	20.99	18.82	2.16
Real Estate	9.91	10.13	-0.22
Utilities	0.00	1.15	-1.15

Top 3 holdings

	Portfolio %	Benchmark %	Active %
Block Inc	5.26	1.11	4.15
Evolution Mining	5.20	1.61	3.60
CAR Group	5.01	0.00	5.01

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
CAR Group	5.01	0.00	5.01
Block Inc	5.26	1.11	4.15
Reliance Worldwide	4.47	0.66	3.81
Underweights			
Pro Medicus	0.00	2.28	-2.28
REA Group	0.00	2.02	-2.02
JB Hi-Fi	0.00	1.70	-1.70

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	5.09	-5.37	0.83	4.84
Distribution return	1.46	7.06	4.94	3.53

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$98.5 mn as at 31 December 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 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 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.

Website www.yarracm.com

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