Yarra Ex-20 Australian Equities Fund

Gross returns as at 31 December 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	6.67	-4.46	-1.50	11.66	7.23	6.59	7.58	8.06
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index#	6.75	-3.87	-1.25	11.68	3.80	6.09	N/A	N/A
Excess return (before fees)‡	-0.08	-0.60	-0.25	-0.02	3.43	0.50	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 31 December 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	5.70	-4.54	-1.72	10.66	6.28	5.64	6.47	6.86
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index#	6.75	-3.87	-1.25	11.68	3.80	6.09	N/A	N/A
Excess return (after fees)‡	-1.05	-0.67	-0.48	-1.02	2.47	-0.45	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

The Australian Ex-20 equities market weakened during the final quarter of 2024.

The S&P/ASX 300 Ex-20 Accumulation Index fell -1.3% for the quarter, taking its 12-month return to +11.7%. By comparison, the broader S&P/ASX 300 returned -0.8% for the period. In contrast, on a global scale, the MSCI World Index generated a +1.9% return.

Financials (+8.7%) rose as Insurance Australia Group (IAG, +14.9%) outperformed after announcing a partnership deal with the Royal Automobile Club of Queensland.

Healthcare (+6.8%) climbed on the back of Pro Medicus (PME, +40.3%), Sigma Healthcare (SIG, +82.5%) and Mesoblast (MSB, 165.0%). 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 outperformed 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 (-9.6%) and Real Estate (-8.0%) were the worst performing sectors during the period. The majority of stocks within the Metals and Mining sub-sector fell with Bluescope Steel (BSL, -15.8%), Mineral Resources (MIN, -34.2%) and Pilbara Minerals (PLS, -33.0%) all declining. Weaker China growth and lower prices for iron ore, steel and lithium drove a fall in forecast EPS.

The Real Estate sector (-8.0%) also detracted, with underperformance across the sector as the outlook for interest rate cuts weakened. The majority of stocks in this sector fell, including Scentre Group (SCG, -6.0%), Mirvac Group (MGR, -10.7%), GPT Group (GPT, -9.9%) and Stockland (SGP, -6.9%).

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.

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.

Insurance Australia Group (IAG, overweight) – the general insurer outperformed during the period driven by strong financial results, strategic acquisitions, and favourable market conditions. The company reported an 11% increase in net earned premiums to $9.2 billion and a pre-tax insurance profit of $1.4 billion, alongside a $350 million share buyback plan. Adding to this, IAG acquired a 90% stake in RACQ's insurance arm for $855 million, boosting gross written premiums by $1.3 billion and strengthening its presence in Queensland.

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.

Computershare (CPU, underweight) – the global share registration and transfer agency outperformed during the period, buoyed by a strong FY25 trading update in which it reaffirmed its FY25 EPS growth guidance of 7.5%, driven largely by an anticipated increase in average balances, primarily within the Corporate Trust division. With the company trading at 16.7-times P/E and a dividend yield of 3.3% for FY25, we believe better opportunities can be found elsewhere.

NEXTDC (NXT, overweight) – the data centre owner and developer was a modest underperformer during the period with limited company specific news. We continue to favour NXT as the company has a unique combination of structural long-term earnings growth driven by the adoption of cloud and artificial intelligence capabilities, combined with infrastructure-like characteristics, solid returns on capital and backed by a tangible asset base.

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 suggested 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 is 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 counter cyclical 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 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 RBA 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 consumption is likely to undershoot the RBA's projections. Add the policy decision to rapidly slow population growth from 1 January 2025, then the risk to economic growth projections are skewed to the downside in the absence of policy easing. Recent inflation data has printed modestly below the RBA 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 in 2025.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	13.04	4.93	8.11
Consumer Discretionary	9.43	7.37	2.06
Consumer Staples	3.70	3.07	0.63
Energy	0.00	3.18	-3.18
Financials	13.49	15.35	-1.86
Health Care	9.44	11.29	-1.85
Industrials	6.12	14.32	-8.19
Information Technology	8.90	8.89	0.01
Materials	18.79	17.71	1.09
Real Estate	2.34	10.37	-8.02
Utilities	9.17	3.52	5.65

Top 3 holdings

	Portfolio %	Benchmark %	Active %
ResMed	5.96	2.22	3.74
Origin Energy	5.46	1.91	3.55
Xero	4.89	2.46	2.43

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Block Inc	4.85	0.67	4.17
ResMed	5.96	2.22	3.74
Origin Energy	5.46	1.91	3.55
Underweights			
Brambles	0.00	2.73	-2.73
Suncorp Group	0.00	2.46	-2.46
WiseTech Global	0.00	2.31	-2.31

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	8.96	4.27	3.74	4.04
Distribution return	1.70	2.01	1.90	2.43

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$75.2 mn as at 31 December 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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