Yarra Growth Fund

Net returns as at 31 December 2024

	1 month %	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.
Total Fund return (net)	0.36	6.11	10.69	21.99	6.74	7.60	7.68	7.21
Fund growth return (net)	-0.05	5.68	10.24	20.72	4.41	4.20	2.23	2.04
Fund distribution return (net)	0.41	0.43	0.45	1.27	2.33	3.40	5.45	5.18
Benchmark*	0.51	5.16	9.59	18.60	8.18	9.17	9.31	8.44

Source: YFML, Citi. Total Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund minus Fund growth return. Past performance is not an indicator of future performance. Inception date: February 1996.
* The Fund's benchmark is a composite index constructed using the applicable asset class index, weighted according to the Fund's benchmark asset allocation of: 15% of Bloomberg AusBond Composite 0+ YR Index for Australian fixed interest, 30% of S&P/ ASX 200 Accumulation Index for Australian shares, 50% of MSCI All Countries World Index Net Total Return AUD Index (unhedged) for overseas shares, 0% of S&P/ASX 300 Australian Real Estate Investment Trusts (A-REITs) Accumulation Index for property securities (effective 16 December 2013. Prior to this was the S&P/ASX 200 A-REITs Accumulation Index), and 5% of Bloomberg AusBond Bank Bill Index for Cash.

Portfolio review

The Fund returned 6.11% for the quarter, outperforming its composite benchmark return of 5.16% by 95 basis points (bps).

Australian Equities

The Fund's Australian Equities allocation outperformed over the quarter. The Fund's investments in Australian equities are primarily in the Yarra Australian Equities Fund with a smaller proportion in the Yarra ex-20 Australian Equities Fund. Both funds underperformed the index during the quarter.

The S&P/ASX 200 Accumulation Index fell -0.80% over the quarter. The Index fell in October (-1.31%), rose in November (+3.79%) and fell again in December (-3.15%). The fall in October reversed five consecutive months of gains as the Materials sector declined while Banks gained. Equity markets surged in November on the back of a Trump election victory as sharemarkets were buoyant in anticipation of corporate tax cuts. However, in December reduced expectations of Federal Reserve interest rate cuts and a resulting 40 bps spike in bond yields reversed gains from the prior month.

Sector returns were mixed during the quarter with Financials (+5.92%), Industrials (+3.33%), Communication Services (+2.16%), Consumer Discretionary (+2.13%), Health Care (+1.88%), Utilities (+1.57%) and Information Technology (+0.93%) posting positive returns. At the other end of the spectrum, Materials (-11.87%), Real Estate (-6.23%), Energy (-5.44%) and Consumer Staples (-5.40%) all declined.

Key contributors to performance from the Australian equities allocation include Block Inc, which outperformed following a better-than-expected 3Q24 result and forward guidance reflecting increased growth across its payments and financial services ecosystem into 2025. Xero outperformed market expectations following its impressive half-year results. QBE Insurance outperformed following the release of its third quarter trading update in which the company reiterated guidance and demonstrated sound underlying trends.

Notable detractors included Iluka which underperformed 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 the impacts of EU anti-dumping tariffs, China stimulus and US rate cuts.

Reliance Worldwide (RWC) 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 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.

Global Equities

The Fund's Global Equities allocation outperformed over the quarter. The MSCI AC World Index, measured in AUD (unhedged), recorded a gain of approximately 1.93%.

The Fund's Global Equities allocation primarily invests in the Yarra Global Share Fund, with a smaller portion in the Yarra Global Small Companies Fund. The Yarra Global Share Fund outperformed the index during the quarter while the Yarra Global Small Companies Fund underperformed the index during the quarter.

In terms of style, "Growth" dominated with a return of +15.05%

over the quarter, followed by "Value" (+6.95%). Developed markets (+12.22%) outperformed Emerging markets (+3.27%) by a large margin. Taiwan (+15.84%), the USA (+15.17%) and China (+12.51%) were the leading major equity market outperformers, while Brazil (-9.53%), South Korea (-9.42%) and the Netherlands (-1.81%) were the key underperformers.

Small Caps, as measured by the MSCI World Small Cap Index, advanced +9.16% over the quarter, while Mega Caps, tracked by the S&P Global 100 Index, rose +2.20%. The key individual drivers of the benchmark's strong performance over the quarter were mega cap "growth" names like Apple (+20.5%), Nvidia (+23.9%), Amazon (+31.9%), Alphabet (+28.0%), Tesla (+72.9%) and Broadcom (+50.8%).

Key contributors over the quarter included Netflix which outperformed due to continued subscriber growth and popular new content releases. The company's ability to consistently deliver engaging content helped it maintain its leading position in the streaming market, and we anticipate management will continue to deliver gains in 2025. Broadcom outperformed the market significantly after posting strong results in the final quarter. There was a large increase in demand for its AI solutions. Revenue was up 51% year-over-year, with a 220% rise in AI revenue. Interactive Brokers shares surged due to strong quarterly earnings announced in October and increased trading volumes post the US election.

Notable detractors included Elevance Health Inc., which fell sharply after belatedly succumbing to margin pressure noted by Medicaid peers earlier in the year. Both Tesla Inc. and Apple Inc. performed well, and given the Fund's zero weighting in both of these MAG7 stocks they were among the largest detractors. Danaher Corporation also underperformed despite having been something of a safe haven within the Life Sciences Tools industry. Although management confirmed a steady recovery in Bioprocessing, their comments of a more gradual-than-expected recovery in demand from China and for lab equipment unnerved investors.

Australian Fixed Interest

The Fund's Australian fixed interest allocation, which is invested in the Yarra Australian Bond Fund, outperformed its benchmark over the quarter. The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned -0.26%.

The Fund maintained an overweight duration position during the quarter, which detracted from performance as bond yields rose significantly. The yield on the 3-year government bond increased by 28 bps, while the 10-year yield rose by 39 bps. Much of this movement was driven by the US election outcome, with the Trump administration win and a Republican clean sweep seen as potentially inflationary and beneficial for the US economy, which led Australian bond yields to follow suit. The Reserve Bank of Australia (RBA) notably shifted its tone in December, indicating that rate cuts could occur in 2025 if economic data aligns with the Bank's expectations.

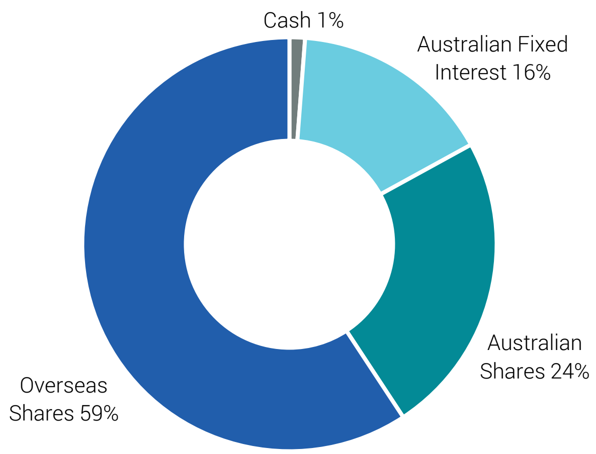
The Fund maintained a bias towards a steepening yield curve, which contributed to outperformance, offsetting some underperformance in duration as the 3-10 year yield curve steepened by 11 bps during the quarter. We expect further steepening when the RBA begins its rate cut cycle.

The Fund remained overweight in shorter-maturity credit and semi-government bonds, particularly longer maturities, while underweighting Commonwealth government bonds. This positioning also significantly contributed to performance as swap spreads compressed.

Strategic Asset Allocation

Asset Class	Target Allocation (%)	Range (%)
Australian Shares	30	20-45
International Shares (unhedged)	50	35-65
Property Securities	0	0-10
Total growth assets	**80**	**70-95**
Australian Fixed Interest	15	5-25
Cash	5	0-20
Total income assets	**20**	**5-30**

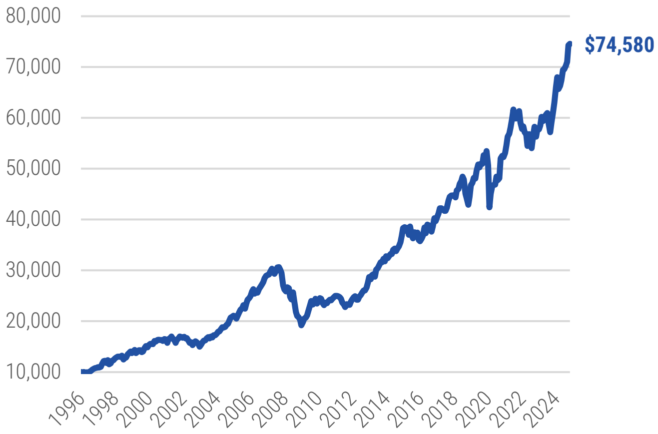
Asset Allocation at Quarter End



Source: YFM, Citi.

Performance Graph

Value of $10,000 invested in the Yarra Growth Fund since inception:



Source: Citi & YFM. Past performance is not an indicator of future performance.

Market Outlook

Stronger US data and Trump's policies led the market to reassess the extent of US monetary easing. As a result, the Fed is now expected to cut interest rates by 50-75 bps less than previously anticipated, leading to a repricing of US interest rate expectations. At the Fed's December meeting, Chair Powell adopted a relatively hawkish stance on rate cuts. Consequently, rising bond yields posed a strong headwind for growth-focused equities towards the end of the quarter.

Overall, we continue to view President Trump's policies as a net negative for both global and US growth. However, he has inherited an economy that is growing with strong momentum and benefiting from the support of looser financial conditions. It is possible that the benefits from easing bank regulation, encouraging more energy investment, and potentially lower oil prices could offset the 0.5% reduction in US economic growth that we estimate from Trump's 60/10 tariff proposal. That said, it is also likely that a return to a trade war mentality will not only heighten global economic uncertainty, delay investment and employment opportunities, but also lead to a higher terminal rate for monetary policy.

The implications for Australia remain unclear, but our view is that US-imposed tariffs on China will likely be met with reciprocal tariffs on the US, along with greater domestic stimulus for housing and infrastructure projects in China. In short, it is possible that Australia's trade interests will be less affected than many currently anticipate. Indeed, China's growing appetite for counter-cyclical fiscal policy has already shown some positive signs in their data, and they may feel more confident in taking decisive action on fiscal policy following the US election.

Locally, Australia continues to experience near-stall-speed economic growth. GDP grew by just 0.3% quarter-on-quarter and 0.8% year-on-year in Q3, marking the weakest annual economic growth rate in over 32 years, excluding the impact of COVID. While the Reserve Bank of Australia (RBA) maintains that inflation is still too high, there has been a noticeable shift in its December communication, acknowledging that economic growth and wage growth have been more subdued than expected, and the outlook for future inflation is improving.

From our perspective, there is little evidence of a significant acceleration in economic activity following the tax cuts, and consumption is likely to fall short of the RBA's projections. Furthermore, with the policy decision to sharply slow population growth from January 2025, the risks to economic growth projections are skewed to the downside unless there is policy easing. Recent inflation data has come in slightly below the RBA's forecasts, and we believe the RBA will recognise that wage and inflation pressures have eased enough to allow for a modest easing cycle throughout 2025. As a result, we expect the RBA to initiate an easing cycle in February, likely reducing rates by 25 basis points per quarter in 2025.

Increasing global uncertainty, higher bond yields, potentially higher inflation, and lower economic growth expectations generally work against equities. Last month, we highlighted a more cautious approach to risk assets, noting that we are entering a more volatile macroeconomic environment. We continue to favour more active security selection strategies over broad market exposure, particularly in the initial months of the new US administration.

Fund Objective

The Fund aims to provide a modest level of capital growth and income over the medium to long-term, with total returns (before taxes, fees and expenses) above the Fund's benchmark over rolling five-year periods.

Key Facts	
Responsible Entity Yarra Funds Management Limited	**Management Cost** 1.15% p.a.
APIR Code SUN0021AU	**Buy/Sell Spread** 0.15%/0.15%
Fund Size A$74 mn as at 31 December 2024	**Distribution Frequency** Half Yearly
Minimum Investment AUD 2,000	

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