YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 January 2025

Yarra Emerging Leaders Fund

Gross returns as at 31 January 2025

	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	6.54	4.94	15.53	8.07	7.89	10.14	11.12
Emerging Leaders Combined Benchmark†	5.07	5.05	16.81	6.31	7.17	9.57	7.33
Excess return (before fees)‡	1.47	-0.11	-1.28	1.76	0.72	0.57	3.80

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 January 2025

	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	6.43	4.61	14.10	6.74	6.56	8.78	9.81
Emerging Leaders Combined Benchmark†	5.07	5.05	16.81	6.31	7.17	9.57	7.33
Excess return (after fees)‡	1.36	-0.43	-2.71	0.43	-0.61	-0.79	2.49

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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 rose during the month of January.

The Emerging Leaders Benchmark returned +5.1% for the month, taking its 12-month return to +16.8%. Similarly, the broader S&P/ASX 300 Accumulation Index returned +4.5% for the period and, globally, the MSCI World Index returned +3.5%.

Materials (+7.3%) was the largest sector contributor, with Evolution Mining (EVN, +18.5%) and Genesis Minerals (GMD, +29.1%) both rising. Evolution Mining was supported by strong results and gold prices continuing to climb on the back of geopolitical uncertainty.

Health Care (+8.5%) was also higher, with Sigma Healthcare (SIG, +9.5%), Telix Pharmaceuticals (TLX, +19.2%) and Opthea Limited (OPT, +40.7%) all gaining.

Within Industrials (+5.0%), Reliance Worldwide (RWC, +8.4%) and Worley (WOR, +5.5%) both rallied strongly.

Information Technology (-0.9%) detracted slightly from sector performance. Life360 (360, +12.2%) was a positive contributor, while Nuix (NXL, -29.0%) and Weebit Nano (WBT, -36.9%) were lower.

Portfolio review

Key Contributors

Evolution Mining (EVN, overweight) – the gold and copper producer performed strongly during the period, supported by a robust second-quarter performance and favourable market conditions. EVN reported higher gold production, primarily driven by increased output from the Cowal mine in New South Wales. Additionally, the company benefited from an 8.9% increase in gold prices during the period. We remain attracted to EVN's long-life assets, and meaningful leverage to copper production at the Ernest Henry and Northparkes mines. Continued drilling success across the portfolio should result in further resource/reserve increases over time.

CAR Group (CAR, overweight) – the online vehicle classified company outperformed during the period following a soft Australian inflation print which raised the probability of an interest rate cut at the RBA's February meeting. As expected, CAR also re-affirmed FY25 guidance in mid-January. We are attracted to CAR which has strong growth potential across its key businesses of Australia (41% revenue), Trader Interactive (25% revenue) and Webmotors (17% revenue). CAR is seeing group margins sustained while re-investing in the business to drive future top line growth.

Pinnacle Investment Management (PNI, overweight) – the global diversified funds management group outperformed during the period despite limited company specific news. We are seeing an acceleration in revenue growth, with material longer term growth potential as market conditions normalise from depressed levels, inflows reaccelerate across its diverse range of products and from international distribution, performance fees increase from depressed levels and new products and businesses mature.

Key Detractors

Iluka Resources (ILU, overweight) – the mineral sands producer was an underperformer during the period following the release of its fourth-quarter update. The company reported an 8.9% decline in mineral sands revenue for the full year and its 2025 guidance painted a cautious near-term outlook, signalling flat production and sales alongside a 6% rise in costs. We remain constructive on the mineral sands market in CY25 despite a seasonally slow 4Q24 given the effects of EU anti-dumping tariffs, the potential for stimulus in China and possible US rate cuts.

Telix Pharmaceuticals (TLX, underweight) – the radiopharmaceutical company outperformed during the period following the completion of the RLS acquisition and an upgrade to guidance on Illuccix revenues. We remain underweight due to concerns around valuation and the outlook for TLX's therapeutic pipeline.

NEXTDC (NXT, overweight) – the data centre owner and developer was a modest underperformer during the period despite limited company specific news. We continue to favour NXT as the company has built an enviable footprint and track record of delivery that will allow it to capture long-term structural earnings growth driven by the adoption of cloud and artificial intelligence capabilities with solid returns on capital.

Market outlook

The first month of 2025 proved to be a strong month for local equities, returning 4.6% for both large and small cap equities. This eclipsed the 3.0% returned for global equities, however the best returning asset was gold, rising 6.6% to record highs in the month of January.

US company earnings results and US economic growth momentum has supported equity markets, however, fixed income markets have repriced and now financial markets expect only two US interest rate reductions by calendar year end. Both of these developments accord with our prior stated views.

On balance, we continue to see Trump's policies as a net negative for US growth, yet Trump has inherited an economy growing with solid momentum and benefiting from the tailwind of easier financial conditions. It is feasible that the benefits 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 tariff proposal. However, a return to a trade war mentality not only increases global economic uncertainty and delays investment and employment opportunities, it will just as likely result in a higher terminal rate for monetary policy.

The implications for Australia remain uncertain, but our bias is that US imposed tariffs will likely 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 at near stall-speed economic growth. GDP increased just 0.3% (q/q) and 0.8% (y/y) in 3Q24 the weakest annual rate of economic growth in over 32 years, excluding COVID. While there is little evidence of a material acceleration in economic activity post the tax cuts, a modest consumption-led recovery is still likely over the remainder of 2025 as inflation moderates and income growth remains resilient. Although consumption is set to show some acceleration in 2025, dwelling investment is likely to be a drag upon growth and investment is likely to provide a faltering contribution to economic growth. Slowing population growth is an additional challenge to economic growth in 2025 and although productivity has rebounded somewhat in the private sector, further significant improvement is required in coming months to escape the subdued growth environment.

Recent inflation data has printed well below Reserve Bank of Australia (RBA) projections. We believe the RBA will likely commence an easing cycle in Australia from February and will ease by 75bps in total in 2025, with additional easing to come in May and August. While risk assets may welcome the return to an easing cycle, we caution that this remains a modest positive, as global asset price volatility will be elevated and risk assets remain priced for a narrow band of benign outcomes. All of this should favour a more selective and active approach for investors in coming months.

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	9.62	4.77	4.85
Consumer Discretionary	4.50	11.08	-6.59
Consumer Staples	0.00	3.54	-3.54
Energy	0.00	5.52	-5.52
Financials	19.62	14.62	5.00
Health Care	9.13	9.19	-0.06
Industrials	16.58	13.96	2.62
Information Technology	4.85	6.82	-1.97
Materials	21.36	19.20	2.16
Real Estate	9.85	10.18	-0.33
Utilities	0.00	1.11	-1.11

Top 3 holdings

	Portfolio %	Benchmark %	Active %
Evolution Mining	5.41	1.80	3.61
Block	5.29	1.12	4.16
CAR Group	5.05	0.00	5.05

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
CAR Group	5.05	0.00	5.05
Block	5.29	1.12	4.16
Reliance Worldwide	4.56	0.67	3.88
Underweights			
Pro Medicus	0.00	2.41	-2.41
REA Group	0.00	2.05	-2.05
JB Hi-Fi	0.00	1.76	-1.76

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	12.54	-0.68	1.58	5.24
Distribution return	1.56	7.41	4.98	3.55

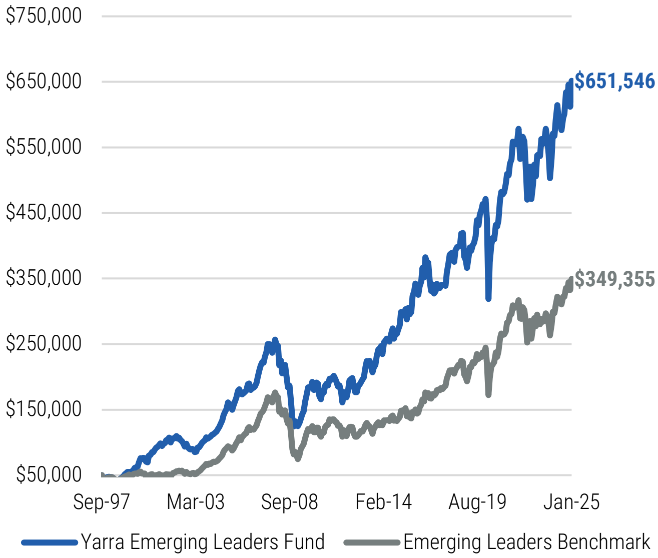
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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$104.9 mn as at 31 January 2025	
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 January 2025.



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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