YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 January 2025

Yarra Ex-20 Australian Equities Fund

Gross returns as at 31 January 2025

	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	7.42	5.34	5.94	17.19	11.22	7.06	7.81	8.40
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index#	7.48	5.23	5.47	17.00	8.51	6.37	N/A	N/A
Excess return (before fees)‡	-0.07	0.11	0.46	0.20	2.71	0.69	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 January 2025

	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	6.45	5.26	5.70	16.14	10.23	6.11	6.70	7.20
S&P/ASX 300 ex S&P/ASX 20 Accumulation Index#	7.48	5.23	5.47	17.00	8.51	6.37	N/A	N/A
Excess return (after fees)‡	-1.04	0.03	0.22	-0.85	1.72	-0.27	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 was positive for the month of January as a lower CPI print led to hopes of a rate easing cycle commencing in February.

The S&P/ASX 300 Ex-20 Accumulation Index returned +5.2% for the month, taking its 12-month return to +17.0%. 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%) rose with fairly broad-based gains, led by Evolution Mining (EVN, +18.5%) and BlueScope Steel (BSL, +13.9%). Gold producers Newmont (NEM, +16.2%) and Northern Star (NST, +12.1%) also rose as the gold price continued to climb on the back of geopolitical uncertainty with the start of President Trump's second term commencing with a North American trade war.

Healthcare (+8.0%) rose with ResMed (RMD, +9.3%), Cochlear (COH, +10.3%) and Pro Medicus (PME, +11.3%) all up strongly.

Financials (+5.3%) was the third largest sector contributor, with the insurance sub-sector (+7.3%), in particular, contributing to gains as Insurance Australia Group (IAG, +8.7%) and Suncorp Group (SUN, +9.5%) both rallying.

Within Real Estate (+6.2%), the falls from the previous month were reversed as the outlook for interest cuts strengthened with the release of softer inflation data. Almost all stocks within the sector rose, including Dexus (DXS, +9.0%) and Scentre Group (SCG, +7.6%).

Utilities (-2.4%) and Consumer Staples (-0.2%) were the only two sectors to record declines. Within Utilities, Origin Energy (ORG, -4.1%) and APA Group (APA, -2.2%) retreated.

Key Contributors

Tabcorp (TAH, overweight) – the wagering operator outperformed during the period despite limited company-specific news. While TAH has continued to make progress on its turnaround (such as the appointment of Michael Fitzsimons as its new Chief Wagering Officer), the company has faced challenges from weaker conditions in the domestic wagering market and operating deleverage, which appear to be nearing an inflection point.

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.

Key Detractors

Iluka Resources (ILU, overweight) – the mineral sands producer was an underperformer during the period driven by the release of its fourth-quarter update. The company reported an 8.9% decline in mineral sands revenue for the full year and Iluka's 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.

Origin Energy (ORG, overweight) – the gas and electricity retailer underperformed during the period following the release of its quarterly update. ORG made a small reduction to full year production guidance from APLNG, which led to concerns around the asset's medium-term production and cost outlook. For an exceptionally well performing asset with a very strong resource base that will extend well beyond the asset's contracted life, we feel these concerns have been overblown.

Treasury Wine Estates (TWE, overweight) – the winemaker and distributor underperformed during the period, with weaker US industry datapoints weighing on the stock. TWE remains heavily exposed to the US wine market (~40% of group revenue) and peers such as Constellation Brands reported instances of retailer destocking, higher marketing expenses and discounting in response to softer market conditions. Nonetheless TWE's US portfolio is skewed towards luxury product (55% of US revenue), which we expect will continue to outperform the category.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	13.47	4.99	8.49
Consumer Discretionary	8.88	7.30	1.58
Consumer Staples	3.46	2.91	0.55
Energy	0.00	3.18	-3.18
Financials	14.09	15.37	-1.27
Health Care	9.64	11.59	-1.95
Industrials	6.42	14.21	-7.79
Information Technology	9.08	8.67	0.42
Materials	19.95	18.06	1.89
Real Estate	2.19	10.46	-8.27
Utilities	8.68	3.27	5.42

Top 3 holdings

	Portfolio %	Benchmark %	Active %
ResMed	6.38	2.30	4.08
Northern Star	5.28	1.92	3.36
Xero	5.21	2.54	2.67

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Block Inc	5.07	0.68	4.39
ResMed	6.38	2.30	4.08
CAR Group	5.20	1.48	3.72
Underweights			
Brambles	0.00	2.67	-2.67
Suncorp Group	0.00	2.56	-2.56
WiseTech Global	0.00	2.24	-2.24

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	14.36	8.14	4.20	4.27
Distribution return	1.79	2.09	1.91	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 January 2025	
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

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com