# Yarra Emerging Leaders Fund

## Gross returns as at 28 February 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 | -3.17 | -2.07 | 7.78 | 6.79 | 8.58 | 9.03 | 10.96 |
| Emerging Leaders Combined Benchmark† | -3.72 | -2.29 | 8.62 | 5.03 | 8.44 | 8.40 | 7.16 |
| Excess return (before fees)‡ | 0.55 | 0.22 | -0.85 | 1.76 | 0.14 | 0.63 | 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 28 February 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 | -3.26 | -2.37 | 6.45 | 5.48 | 7.24 | 7.68 | 9.65 |
| Emerging Leaders Combined Benchmark† | -3.72 | -2.29 | 8.62 | 5.03 | 8.44 | 8.40 | 7.16 |
| Excess return (after fees)‡ | 0.46 | -0.08 | -2.18 | 0.44 | -1.20 | -0.72 | 2.50 |

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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 fell during the month of February.

The Emerging Leaders Benchmark returned -3.7% for the month, taking its 12-month return to +8.6%. Similarly, the broader S&P/ASX 300 Accumulation Index returned -3.8% for the period and globally, the MSCI World Index returned -0.8%.

Consumer Staples (+4.7%) and Communication Services (+1.7%) were the only positive sector contributors during the month. Within Consumer Staples, a2 Milk (A2M, +35.3%) performed well following strong 1H25 results. Within the Communication Services sector, Domain Holdings (DHG, +59.4%) rallied following a takeover offer from CoStar, a Nasdaq listed provider of online real estate marketplaces and analytics. The offer was made at $4.20 per share, a sizeable 34.6% premium on the last closing price.

Almost all stocks within the Financials sector (-7.1%) underperformed, with Block (XYZ, -31.6%) and Bendigo and Adelaide Bank (BEN, -18.9%) being some of the larger contributors to the decline. Pinnacle Investment Management (PNI, -10.9%) and Magellan Financial Group (MFG, -20.9%) also detracted from performance.

The Energy sector (-14.2%) also fell, with widespread declines across companies such as Viva Energy (VEA, -33.7%), Paladin Energy (PDN, -22.9%) and Ampol (ALD, -8.9%).

Losses in the Health Care sector (-6.7%) were also fairly widespread, with Pro Medicus (PME, -8.9%), Mesoblast (MSB, -20.5%) and Fisher and Paykel (FPH, -11.5%) all retreating.

### Portfolio review

#### Key Contributors

Nanosonics (NAN, overweight) – the healthcare company outperformed following the release of its first-half result. NAN reported total revenue of A$93.6 million, marking an 18% increase compared to the prior corresponding period. This growth was driven by an 11% rise in capital revenue and a 20% increase in consumables revenue. The company revised its full-year revenue growth guidance upwards to 11-14%, driven by expansion in the North American market and increased adoption of its products. We remain positive on the long-term growth opportunity given the company's position as the global market leader in probe disinfection.

Nine Entertainment (NEC, overweight) – the media company outperformed during the period, driven by two key factors. Firstly, US real estate listing firm CoStar, submitted a A$2.65 billion acquisition bid for Domain Holdings, a 35% premium for a company that is 60% owned by Nine Entertainment. NEC and Seven West Media (SWM) also provided a constructive outlook for 3Q25 advertising, signalling the advertising market may be beginning to improve. NEC is well-positioned to benefit from the cycle when conditions do improve given the high degree of fixed cost leverage in the business.

Evolution Mining (EVN, overweight) – the gold and copper producer outperformed during the period following the release of its first-half result. Evolution delivered a solid result, with underlying profit up 144% (y/y). Commodity prices provided additional support, with both gold (+3.2%) and copper (+4.2%) rising during February. We remain attracted to EVN's long-life assets, and meaningful leverage to copper production at its Ernest Henry and Northparkes mines.

**Key Detractors**

Block Inc. (XYZ, overweight) – the payments technology company underperformed during the period following the release of its fourth-quarter results which were slightly softer than expectations. The company re-iterated its full year 2025 guidance, however, pointed to a softer 1Q25 with growth accelerating through the calendar year. We remain overweight XYZ as for a cash generative growth business, Block trades on an undemanding multiple of 14.6-times CY25 earnings and a PEG ratio of <0.5 times.

Kelsian Group (KLS, overweight) – the transport service company underperformed during the period following the release of its first-half result, largely due to a weaker than expected result from its US bus operations. We remain positive on Kelsian. We believe the bus business will continue to generate earnings growth going forward given the defensive nature of existing contacts with cost pass through, extra charter work and improved staff availability. The US bus business has a strong demand outlook from new and existing customers, with pricing increases to offset cost inflation and the opportunity to redeploy capital from lower returning Marine and Tourism assets to US industry consolidation opportunities.

Integral Diagnostics (IDX, overweight) – the leading provider of medical imaging services underperformed during the period following the release of a compositionally weaker-than-expected first-half result that featured higher costs and lower margins. We maintain a modest overweight position in IDX given the strong long-term fundamentals of radiology, market growth including from an aging population and new tests, productivity opportunities including from technology such as AI.

## Market outlook

In recent months we have cautioned that the policies of President Trump would prove on balance to be a net negative for US economic growth and for risk assets. While policies such as a reduction in regulation and lower energy prices may in time prove a positive, a return to a trade war mentality would only increase global economic uncertainty and delay investment and employment opportunities. Moreover, it will likely result in a higher terminal rate for monetary policy.

After an optimistic assessment of Trump's policies in January, financial markets retraced sharply in February and the ongoing reassessment has continued to weigh on financial markets in early March. We have sharply downgraded our US economic growth forecasts in 2025 and 2026 by 100bps and 30bps respectively (to 1.75% and 1.5%, compared to consensus of 2.4% and 2.0%).

Australian assets were particularly hard hit in February, with the S&P/ASX 200 delivering a -3.8% return, including a -6.8% return from REITs. Small Cap stocks declined 2.8% over the same period amid a reporting season that delivered heightened stock volatility and evidence of thematic rotation. Stocks that missed their earnings were particularly hard hit, however, even when well-held stocks met expectations there was evidence of profit taking and rotation towards more defensive sectors.

Uncertainty that emanated from Trump's policies combined with high valuations helped to facilitate the market pullback, but it is noticeable that financial markets have also rushed to embrace non-US exposure. Strong returns have been recorded in European markets in 2025 with Germany, Sweden, Spain, Ireland and Switzerland all delivering double digit returns year-to-date compared with the US declining 1.9% and Japan declining 7.2%. Perhaps the most consequential of this rotation across major markets for Australia is the strength of China's equity markets, with the Hang Seng up +18.5% so far in 2025. The combination of policy support, valuation support and the improved tone of Chinese economic data has clearly resonated with markets. Our bias had been that US imposed tariffs would be met with both reciprocal tariffs on the US and greater domestic stimulus for housing and infrastructure projects in China, and this view appears to have been validated.

Locally, Australia's economic recovery appears to have commenced, albeit the 0.6% (q/q) GDP growth recorded in the December quarter was both heavy on support from the Government and farm sectors which contributed 0.5% of that 0.6% (q/q) growth. Nevertheless, there are hints that private demand growth has bottomed and a modest recovery has commenced. Real household income growth is providing support for consumption growth which, in concert with income tax cuts and the first of what we believe will be three interest rate reductions in 2025, provides scope for the recovery to accelerate. Recent improvements in home building approval trends and Governments that are showing little spending restraint also suggest the economic growth trajectory looks better, albeit still well below Australia's 'potential' economic growth. Slowing population growth and still poor productivity are providing the main headwinds to economic growth in 2025, and careful policy implementation is needed to ensure Australia can sustainably emerge from its subdued growth environment.

Recent inflation data has printed well below the Reserve Bank of Australia's (RBA) projections, and we expect that this pattern will continue into mid-2025. As such, we believe the RBA will follow its February rate cut with further reductions in May and August, easing by 75bps in total in 2025. 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 likely be elevated through most of 2025. All of this should favour a more selective and active approach for investors in coming months.

We are most overweight stocks within Communication Services, Financials and Materials sectors, and are underweight Consumer Discretionary, Energy and Consumer Staples.

## Sector allocation

| | Portfolio % | Benchmark % | Active % |
|---|---|---|---|
| Communication Services | 10.14 | 5.05 | 5.08 |
| Consumer Discretionary | 4.96 | 11.01 | -6.05 |
| Consumer Staples | 0.00 | 3.88 | -3.88 |
| Energy | 0.00 | 4.92 | -4.92 |
| Financials | 17.96 | 14.19 | 3.77 |
| Health Care | 9.48 | 8.95 | 0.53 |
| Industrials | 16.01 | 14.19 | 1.82 |
| Information Technology | 5.05 | 6.61 | -1.56 |
| Materials | 22.08 | 19.70 | 2.38 |
| Real Estate | 9.40 | 10.43 | -1.03 |
| Utilities | 0.00 | 1.06 | -1.06 |

## Top 3 holdings

| | Portfolio % | Benchmark % | Active % |
|---|---|---|---|
| Evolution Mining | 5.98 | 2.03 | 3.95 |
| CAR Group | 4.78 | 0.00 | 4.78 |
| Netwealth Group | 4.25 | 0.70 | 3.56 |

## Key active positions

| **Overweights** | Portfolio % | Benchmark % | Active % |
|---|---|---|---|
| CAR Group | 4.78 | 0.00 | 4.78 |
| Evolution Mining | 5.98 | 2.03 | 3.95 |
| Netwealth Group | 4.25 | 0.70 | 3.56 |
| **Underweights** | | | |
| Pro Medicus | 0.00 | 2.30 | -2.30 |
| REA Group | 0.00 | 2.05 | -2.05 |
| JB Hi-Fi | 0.00 | 1.68 | -1.68 |

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 | 4.99 | -1.85 | 2.23 | 4.17 |
| Distribution return | 1.46 | 7.32 | 5.01 | 3.51 |

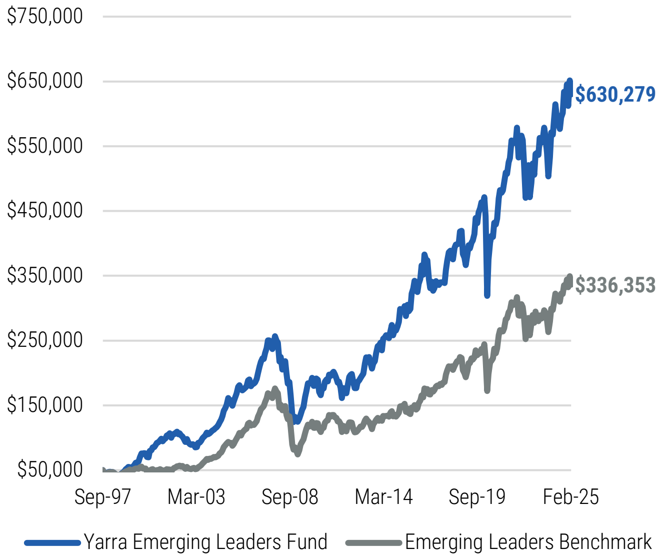
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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$101.4 mn as at 28 February 2025 | |
| APIR codes | JBW0010AU | |
| Estimated management cost | 1.25% p.a. | |
| Buy/sell spread | +/- 0.20% | |
| Platform availability | Asgard<br>Ausmaq<br>BT Panorama<br>BT SuperWrap<br>Financial Index | Hub24<br>Macquarie Wrap<br>Mason Stevens<br>MLC Wrap<br>OneVue |

## Investment performance comparison of $50,000

After fees, since inception of the Yarra Emerging Leaders Fund, September 1997 to February 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.

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