**Investment Commentary**
Month to 30 April 2024

# Yarra Australian Equities Fund

## Gross returns as at 30 April 2024

| | 1 month % | 3 months % | 1 year % | 3 years % p.a. | 5 years % p.a. | 10 years % p.a. | Since inception* % p.a. |
|---|---|---|---|---|---|---|---|
| Yarra Australian Equities Fund | -2.81 | 2.61 | 6.42 | 8.56 | 8.52 | 7.31 | 10.47 |
| S&P/ASX 200 Accumulation Index† | -2.94 | 1.04 | 9.07 | 7.30 | 7.99 | 7.75 | 9.18 |
| Excess return (before fees)‡ | 0.12 | 1.58 | -2.65 | 1.27 | 0.53 | -0.44 | 1.29 |

**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 30 April 2024

| | 1 month % | 3 months % | 1 year % | 3 years % p.a. | 5 years % p.a. | 10 years % p.a. | Since inception* % p.a. |
|---|---|---|---|---|---|---|---|
| Yarra Australian Equities Fund | -2.89 | 2.39 | 5.46 | 7.60 | 7.54 | 6.32 | 9.47 |
| S&P/ASX 200 Accumulation Index† | -2.94 | 1.04 | 9.07 | 7.30 | 7.99 | 7.75 | 9.18 |
| Excess return (after fees)‡ | 0.05 | 1.35 | -3.61 | 0.30 | -0.44 | -1.43 | 0.29 |

**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 Australian Equities Fund: July 1996

† The benchmark for the Yarra Australian Equities Fund has been amended since the Fund's inception. Effective 28 February 2008 the benchmark is the S&P/ASX 200 Accumulation Index, replacing the S&P/ASX 200 ex Property Accumulation Index Monthly. Further information on changes to the Fund's benchmark is available upon request.

‡ Excess return: The difference between the portfolio's return and the benchmark return.

### Market review

The Australian Equities market was negative for the month of April.

The S&P/ASX 200 Accumulation Index returned -2.9% for the month taking its 12-month return to +9.1%. Comparatively, the S&P/ASX 300 Accumulation Index generated a -2.9% return, and globally, the MSCI World Index fell by -3.9%.

The largest sector contributor was Materials (+0.6%) with Rio Tinto (RIO, +7.2%) and South32 (S32, +19.7%) rallying on the back of rising prices in the key commodities both companies produce. Another notable contributor was Newmont (NEM, +18.6%) which saw its share price increase as gold prices rose during the month.

In contrast, Financials (-3.5%) was the worst performing sector due to the increased prospect of interest rates remaining higher for longer. Commonwealth Bank (CBA, -4.82%) was the largest detractor during the period while Macquarie Group (MCG, -6.1%), ANZ (ANZ, -4.2%) and National Australia Bank (NAB, -2.4%) also contributed to sector underperformance.

Real Estate (-7.7%) also detracted during the month with underperformance stemming from across the sector. Rate sensitive stocks were the main drivers of negative performance as Goodman Group (GMG, -6.3%), Mirvac Group (MGR, -12.7%) and Stockland (SGP, -8.3%) all saw their share price fall during the period.

### Portfolio review

**Key Contributors**

ResMed (RMD, overweight) – the medical equipment company outperformed during the period following the release of strong third quarter earnings. RMD reported strong sales 1% ahead of expectations, with an even stronger beat on gross margins (58.5% vs 57.0% consensus) driving a profit beat of around 10%. Importantly, RMD provided further data to support the case for strengthened CPAP demand for patients on GLP-1's. This is material given the stock continues to trade at a multiple discount to historical levels due to GLP-1's being considered a headwind to CPAP demand.

Origin Energy (ORG, overweight) – ORG outperformed during the month trading up as the market factored in the recent uplift in wholesale electricity prices and the continued strengthening of the investment case in Octopus. ORG has a clear path towards transitioning its electricity supply to less carbon intensive sources as further evidenced by the announcement of the acquisition of a 1.5 Gigawatt wind farm development site during the month.

Sandfire Resources (SFR, overweight) – our overweight position in copper producer Sandfire was a source of outperformance during April as copper prices rose 14.6% to close at US$4.56/lb. We favour SFR as the best exposure to copper on the ASX, a commodity we like given declining supply and its leverage to electrification as a key material in batteries and electric motors. We believe the recent rally in copper prices to >US$4.50/lb is sustainable given improving demand, low inventories, and disappointing mine production globally.

**Key Detractors**

Reliance Worldwide (RWC, overweight) – the plumbing supplies company gave back some of its strong CYTD returns through April as the combination of higher interest rates in the USA and rising copper prices weighed on the share price. A push back in expectations of rate cuts in the USA has the market applying a lower probability to a US housing market recovery in CY25, while a rising copper price creates an input cost headwind that RWC will need to address through active price increases into FY25. Nonetheless, at current levels, we believe the stock valuation doesn't give appropriate credit to the mid-cycle earnings power of the group considering the resilience of its end markets, the majority of which relates to more non-discretionary, repair type housing activity.

Rio Tinto (RIO, underweight) – our underweight position in the global diversified miner was a source of underperformance during April. The company benefitted from commodity price tailwinds in key commodities iron ore (+14.2%), aluminium (+11.4%) and copper (+14.6%). We retain a preference for BHP amongst the major diversified miners given their greater exposure to copper, a commodity we favour, and lower exposure to iron ore where we see increased downside risk.

PEXA (PXA, overweight) – PXA underperformed during the month following the announcement by a startup competitor that it has signed up three major banks in PXA's key expansion market of the UK. Whilst the path towards value creation in the UK remains problematic, the core Australian exchange has been excessively discounted. Valuing PXA's UK and Digital Growth business at zero, PXA's Australian Exchange is trading on only 15.5x EV/EBITDA which we see as an attractive entry point into a high-quality business.

**Key Purchases**

Ansell (ANN) – we initiated a position in the global manufacturer and distributor of PPE as part of the company's $400m placement at a 6% discount to the last price ($23.89) to acquire Kimberley Clarke's PPE business. The acquisition is strategically important and was 12% accretive to group EPS. We are also attracted to the cyclical rebound in the business (prior to the acquisition) coming out of the February result. Both EM and DM industrial production is accelerating which should deliver stronger top-line performance for ANN's Industrial division. De-stocking in Life Sciences and Surgical should also ease over the coming months which bodes well for ANN's Healthcare division.

Woodside Energy (WDS) – We took the opportunity to add to our position in oil and gas producer WDS during April following a period of underperformance. The company has lagged rising oil and LNG prices in recent months and, in our view, is undervalued. We remain attracted to the company's strong growth profile from new projects that remain on budget and schedule to increase production by more than 30% over the next two years.

**Key Sales**

Telstra (TLS) – the decision to exit our position in the telecommunications company was predicated on our view of a tougher outlook for the business, as earnings growth from its key mobile division becomes more challenging and weakness in fixed and enterprise persists. Telstra has done a good job in recent years linking mobile pricing more to CPI-linked increases, although this dynamic may prove more challenging moving forward as inflation moderates and cost pressures persist. Proceeds from the TLS exit have been used to fund more attractive investment ideas.

Link Administration (LNK) – following a Board approved cash bid for the company by Mitsubishi UFJ Trust & Banking Corporation we have taken the opportunity to deploy capital elsewhere, with the stock trading close to the bid terms.

**Key Active Overweights**

Resmed (RMD) – we remain overweight the medical equipment company which we view as the most attractive large-cap healthcare company on the ASX today. The stock sold off due to concerns around a range of factors including the impact on its installed base of CPAP devices following the emergence of weight loss drugs (GLP-1s), gross margin slippage versus expectations and competitive landscape changes (Philips remains out of the market on hardware in the USA). We are not as bearish on these issues, with our favourable view predicated on RMD's large and underpenetrated market (sleep and COPD (chronic obstructive pulmonary disease), clear operating leverage over time (SG&A and R&D) and its strong track record of capital deployment as the business shifts further into digital, connected care solutions.

Woodside Energy (WDS) – we are overweight oil and gas producer WDS. The company has lagged rising oil and LNG prices in recent months and, in our view, is undervalued. We are attracted to the company's strong growth profile from new projects that remain on budget and schedule to increase production by more than 30% over the next two years.

Reliance Worldwide (RWC) – we view the plumbing supplies company as a compelling cyclical industrial opportunity, with cyclical upside as end-markets recover over the periods ahead and an improved, higher value product mix rolls out. We believe the current valuation doesn't give appropriate credit to the mid-cycle earnings power of the group considering the resilience of its end markets, the majority of which relates to more non-discretionary, repair type housing activity.

**Key Active Underweights**

National Australia Bank (NAB) – we remain underweight the Australian bank reflecting our negative sector view. The elevated valuations of the Australian banking sector are not reflective of the fundamental outlook, where we expect flat to deteriorating pre-provision profits through declining net interest margins, elevated expense growth and modest loan growth.

CSL (CSL) – we retain an underweight to the globally focused biotechnology company. Underpinning this position is our view that earnings growth from its core blood plasma division (approximately 70% of group earnings) will be insufficient to offset the lower earnings growth from the business' vaccine business Seqirus (approximately 15% group earnings) and the more recently acquired business Vifor (now approximately 15% of group earnings). Seqirus is a quality franchise in our view, however market pressures constrain top-line into the medium term. Vifor's outlook is challenged in our view due to end of exclusivity exposure in its iron franchise, and reliance on new product launches. Considering this operating outlook, and risk of consensus earnings expectations needing to moderate, we do not regard the current valuation as overly attractive at this time, with a preference for ResMed in the large cap healthcare space.

Wesfarmers (WES) – we retain an underweight position in the diversified conglomerate. While we believe that WES's core businesses (Bunnings/Kmart) will trade well in the current environment, its non-retail exposures (e.g. Lithium) will continue to dilute the quality of the business. With the company still trading on a premium 12m forward earnings multiple of 26.7-times vs 18.7-times 10yr average and a 3.3% dividend yield we believe better opportunities can be found elsewhere.

## Market outlook

Global equity markets have clearly had a very strong six months into the conclusion of the March quarter, retuning 14%. Yet the month of April saw a major reappraisal of risk, with Australian equities declining 3% in the month, in part prompted by geo-political events and in part some evidence that inflation in the US in Q1 printed higher than expected which led a sharp reduction in the number of interest rate reductions expected by financial markets in 2024.

As we enter May the flashpoint of conflict in Gaza that threatened to spill over into a much larger regional conflict appears to have eased somewhat, and the prospect of a ceasefire has risen modestly.

In a similar vein, after the stronger inflation data in Q1 and the sharp shift in interest rate expectations that attended the data, more recent data and communication from the US Federal Reserve supports the bigger picture view that inflation will continue to moderate and the easing cycle for US interest rates is still likely to commence in 2024. Specifically, core Personal Consumption Expenditures Price Index was better behaved than the CPI data and the subsequent data on producer prices, import prices and key labour market measures suggest little threat to the overarching theme that inflation is more likely to moderate, than accelerate through the remainder of 2024.

As such, some of the equity market declines in April have been reversed in early May and we continue to expect the combination of better news on global economic activity to be met with moderation in inflationary pressures to provide a positive backdrop for equity markets.

Turning to Australia's prospects, despite a weak finish for economic growth in 2023 – expanding just 0.2% qoq and 1.5% yoy - we continue to suggest that not only will Australia avoid a recession it will likely accelerate sequentially through 2024 with the improving global backdrop acting as a tailwind. No one should be disputing that 2023 likely felt like a recession for many Australians. A per capita recession and a negative income shock for those with high debt and young families has cascaded into weak discretionary spending as high interest rates coalesced with surging insurance, utilities, rates, education and food prices. Indeed, 1Q2024 has continued to be a subdued operating environment with retail sales, building approvals consumer confidence and housing finance all printing below market expectations. With the employment data remaining robust the RBA is caught between a relatively weak economy and persistent wage growth and consumer inflation.

Australia also printed above consensus inflation in 1Q. However, we believe the upside surprise in Australia's CPI overstates the real-time price pressures. Much of the upside came via government administered prices, which tend to reflect where inflation was in the prior year rather than current cost pressures, and the prevalence of residual seasonality in inflation pressures at the start of the calendar year. Traded goods prices are trending lower and once administered prices are removed, private sector services prices expanded at a relatively subdued 0.7% qoq in 1Q. We remain of the view that underlying inflation will finish 2024 inside the RBA's target band of 2-3% and that the RBA will commence a modest easing cycle for interest rates in 4Q 2024.

Against this moderation in inflationary pressures, we expect economic growth to accelerate sequentially through 2024. We expect the upswing in global industrial production to provide a tailwind for Australian economic growth. Rising capex intentions in concert with investment backlogs should support business investment growth and the consumer outlook should be supported by a recovery in real household income growth driven by ongoing wage growth, income tax cuts, cost of living support delivered in the Budget and the commencement of the rate easing cycle later in 2024.

As a consequence, we are relatively optimistic on the outlook for the Australian economy and constructive on the equity market outlook for 2024. We expect economic growth to average 2.0% v a consensus forecast of 1.4%, bond yields to finish the year at 4.5%, the $A/$US to reach 72c, and Australian equities to return 10% in in large caps and 15% in small caps. We are most overweight stocks within the Utilities, Industrials and Materials sectors, and are underweight Financials, Consumer Staples and Health Care.

## Sector allocation

| | Portfolio % | Benchmark % | Active % |
|---|---|---|---|
| Communication Services | 5.49 | 3.69 | 1.80 |
| Consumer Discretionary | 8.46 | 7.12 | 1.34 |
| Consumer Staples | 0.00 | 4.04 | -4.04 |
| Energy | 5.35 | 4.86 | 0.49 |
| Financials | 20.34 | 30.05 | -9.72 |
| Health Care | 7.70 | 9.66 | -1.96 |
| Industrials | 10.25 | 6.77 | 3.48 |
| Information Technology | 5.66 | 2.97 | 2.69 |
| Materials | 25.52 | 22.80 | 2.72 |
| Real Estate | 4.88 | 6.57 | -1.69 |
| Utilities | 5.88 | 1.46 | 4.43 |

## Top 5 holdings

| | Portfolio % | Benchmark % | Active % |
|---|---|---|---|
| BHP Group | 10.55 | 9.56 | 0.98 |
| Commonwealth Bank of Australia | 6.24 | 8.41 | -2.17 |
| Woodside Energy | 5.35 | 2.35 | 3.00 |
| Westpac Banking | 5.20 | 3.98 | 1.21 |
| ResMed | 4.58 | 0.85 | 3.72 |

## Key active positions

| Overweights | Portfolio % | Benchmark % | Active % |
|---|---|---|---|
| ResMed | 4.58 | 0.85 | 3.72 |
| Woodside Energy | 5.35 | 2.35 | 3.00 |
| Reliance Worldwide | 3.17 | 0.18 | 3.00 |
| **Underweights** | | | |
| National Australia Bank | 0.00 | 4.61 | -4.61 |
| CSL | 1.41 | 5.87 | -4.45 |
| Wesfarmers | 0.00 | 3.32 | -3.32 |

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 | 0.34 | -4.15 | -5.40 | -3.29 |
| Distribution return | 5.12 | 11.75 | 12.94 | 9.62 |

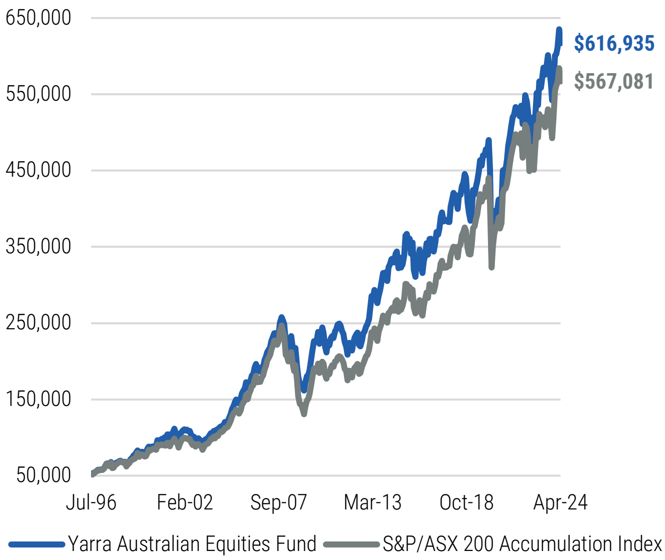
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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 companies listed on the Australian Securities Exchange. In doing so, the aim is to outperform the S&P/ASX 200 Accumulation Index over rolling 3-year periods. | |
| Recommended investment time frame | 5 - 7 + years | |
| Fund inception | July 1996 | |
| Fund size | A$118.6 mn as at 30 April 2024 | |
| APIR codes | JBW0009AU | |
| Estimated management cost | 0.90% p.a. | |
| Buy/sell spread | +/- 0.15% | |
| Platform availability | Asgard<br>Ausmaq<br>BT Panorama<br>BT Super Wrap<br>FirstWrap<br>GrowWrap | Hub24<br>IOOF Pursuit<br>Macquarie Wrap<br>Netwealth<br>Oasis<br>Powerwrap |

## Investment performance comparison of $50,000

After fees, since inception of the Yarra Australian Equities Fund, July 1996 to April 2024.




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 S&P/ASX 200 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. Note that the minimum initial investment amount for the Yarra Australian Equities Fund is $10,000.

### Applications and contacts

Investment into the Yarra Australian Equities Fund can be made by Australian and New Zealand resident investors only.

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