YARRA CAPITAL MANAGEMENT

Investment Commentary
Quarter to 30 September 2025

Yarra Australian Equities Fund

Gross returns as at 30 September 2025

	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	-1.36	5.89	10.26	15.27	13.60	9.78	10.58
S&P/ASX 200 Accumulation Index†	-0.78	4.71	10.56	15.15	12.97	10.10	9.44
Excess return (before fees)‡	-0.58	1.18	-0.31	0.12	0.63	-0.32	1.13

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 September 2025

	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	-1.43	5.68	9.38	14.28	12.61	8.79	9.58
S&P/ASX 200 Accumulation Index†	-0.78	4.71	10.56	15.15	12.97	10.10	9.44
Excess return (after fees)‡	-0.65	0.96	-1.18	-0.87	-0.36	-1.31	0.14

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* 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 rose during the third quarter of 2025. Despite ongoing global economic uncertainty, the market was supported by commodity price strength which benefitted the metals and mining sector, though this was partially offset by weakness in the major banks and healthcare stocks.

The S&P/ASX 200 Accumulation Index returned +4.7% for the quarter taking its 12-month return to +10.6%. Similarly, the broader S&P/ASX 300 Accumulation Index returned +5.0% whilst, globally, the MSCI World Index also rose, returning +4.7% for the quarter.

Materials (+20.5%) was by far the highest sector contributor during the period. BHP (BHP, +18.3%), Rio Tinto (RIO, +16.2%) and Fortescue (FMG, +26.2%) rallied strongly on commodity price strength. Gold, lithium and rare earth producers were exceptional, with Lynas Rare Earths (LYC, +95.2%), Mineral Resources (MIN, +90.8%), Pilbara Minerals (PLS, +88.8%), Newmont (NEM, +48.5%), Evolution Mining (EVN, +41.0%) and Northern Star (NST, +29.9%) all posting significant gains. Building materials stock James Hardie (JHX, -32.7%) was a major detractor on US housing market concerns.

Consumer Discretionary (+10.0%) was the second largest contributor. Wesfarmers (WES, +9.9%) continued its solid performance, while Eagers Automotive (APE, +69.5%), Harvey Norman (HVN, +40.0%) and IDP Education (IEL, +80.6%) all surged. Aristocrat Leisure (ALL, +7.4%) and Lottery Corporation (TLC, +11.9%) also contributed positively.

Utilities (+11.4%) performed well, led by Origin Energy (ORG, +18.7%) and APA Group (APA, +8.7%). Real Estate (+4.6%) also posted modest gains, with Charter Hall Group (CHC, +18.6%), Scentre Group (SCG, +17.3%) and Stockland (SGP, +14.2%) rising on rate cut expectations, though Goodman Group (GMG, -4.3%) retreated.

Industrials (+2.9%) showed positive contributions with DroneShield (DRO, +104.4%), NRW Holdings (NWH, +58.1%) and Monadelphous (MND, +30.6%) performing well, though Computershare (CPU, -7.9%) detracted.

Health Care (-9.3%) was the primary sector detractor, with CSL (CSL, -16.3%) and Telix Pharmaceuticals (TLX, -40.3%) both declining significantly, while Sonic Healthcare (SHL, -17.8%) and Ramsay Health Care (RHC, -12.5%) also underperformed.

Financials (+1.3%) was relatively flat, with Commonwealth Bank (CBA, -8.3%) retreating sharply, while Westpac (WBC, +15.1%), National Australia Bank (NAB, +12.2%) and ANZ (ANZ, +13.9%) all rose. Insurance stocks struggled with QBE Insurance (QBE, -10.7%), Insurance Australia Group (IAG, -7.2%) and Suncorp (SUN, -4.1%) all lower.

Portfolio review

Key Contributors

Tabcorp (TAH, overweight) – the wagering operator outperformed during the period after a strong FY25 result, delivering a material beat to consensus expectations through cost-out. Lead indicators of TAH's growth strategy were also evident as the company captured market share, with progress on its in-venue, tote unification, international and media strategies evident. In our view TAH has continued to execute on its turnaround, leaving the company well-placed to benefit from an improvement in the domestic wagering market and operating leverage, which appears to be nearing an inflection point.

Iluka Resources (ILU, overweight) – the mineral sands producer delivered strong outperformance following the announcement of an offtake agreement between the U.S. Department of Defence and US rare earths producer MP Materials. The agreed price of US$110/kg of Neodymium-Praseodymium (NdPr) is a meaningful tailwind for Australian rare earth producers in the context of weak China prices. We remain constructive on mineral sands markets in the medium term as the effects of EU anti-dumping tariffs, the potential for stimulus in China and US rate cuts support demand growth.

CSL (CSL, underweight) – the ASX's largest diversified biotech company underperformed over the quarter following the announcement of a significant corporate restructure and a weaker-than-expected earnings outlook. CSL unveiled plans to spin off its Seqirus vaccine division, close plasma centres, and consolidate R&D operations. These measures, aimed at streamlining operations and generating long-term efficiencies, highlight the increased competitive landscape and introduce ongoing uncertainty around the longer-term earnings trajectory. We maintain underweight CSL based on our view that earnings growth from its core blood plasma division will face ongoing challenges due to elevated and persistent cost pressures, increased product competition, a shift in relative product growth away from higher margin specialty products and longer-term product substitution risk.

Key Detractors

Bapcor (BAP, overweight) – the automotive aftermarket supplier underperformed during the period following the release of its July trading update and subsequent FY25 result. Bapcor reported softening earnings momentum, restatements and write-downs, which saw a rebasing of the business and an uncertain earnings outlook. We consider these impacts to be company specific and addressable for BAP which saw weak trading in its key May/June trading periods across Trade, Retail and Wholesale. We remain somewhat cautious on the short-term outlook, with the business still in turnaround, but believe that value will be unlocked if BAP executes its strategic initiatives to simplify the business.

Xero (XRO, overweight) – the cloud-based accounting software company was a modest underperformer during the period on limited company specific news. It appears the recent acquisition of US bill payment platform Melio continues to weigh on the stock. We believe that market concerns over this acquisition are not proportional to its materiality to the overall business and the strong long-term growth profile, regardless of the speed of success in the US.

National Australia Bank (NAB, underweight) – the Australian bank outperformed during the period following its third-quarter update. Net interest margin (NIM) rose 4 bps on an underlying basis, as pressures from mortgage and business competition, cash rates, and deposit mix were more than offset by deposit repricing, unsecured lending, and New Zealand home loans. We continue to believe that the elevated valuations of Australian banks are not supported by the low growth and return outlook for the sector.

Market outlook

September 2025 stood out as mega-cap technology and growth stocks powered global equity gains, while a sharp +11.9% jump in gold prices boosted returns across ASX small-caps and the resources sector.

The ASX 200 Index declined 0.8% in the month of September compared to a +3.4% return for ASX Small Caps Index, extending the outperformance of Small Caps relative to Large Caps to an extraordinary +10.6% for the September quarter. Global equities returned a strong +3.2% in the month of September in US$ terms and +2.1% in Australian dollar terms, with the A$/US$ rising 1.1% in the month. We continue to expect the combination of a rising A$, easier financial conditions and rising domestic economic growth momentum to support Small and Micro Caps out performance through the remainder of 2026.

Global bonds returned +0.7% in the month September, eclipsing the +0.1% return from Australian fixed interest, as weakening US employment data helped build expectations of a deeper interest rate cutting cycle in the US. Although the US shutdown may delay the formal publication of key US labour market data, we continue to stress that the US labour market will likely continue to weaken and, should the current slow pace of hiring transition to rising layoffs in coming weeks, then US recession fears could easily rebuild as a market thematic and prompt a reassessment of risk assets.

The main economic event in Australia during September took place at the end of the month. The Reserve Bank of Australia (RBA) effectively removed its near-term easing bias amid concerns that September quarter inflation may exceed its forecasts and due to signs that financial markets were, in effect, easing conditions for the RBA, via strong asset price returns, lower yields and tighter bond spreads.

Indeed, our Financial Conditions Index has now moved to a neutral setting which is consistent with achieving a trend like pace of economic growth over the next 12-18 months. As such we have removed our forecast for a November interest rate cut, with the case for near-term interest rate easing resting on a material rise in the unemployment rate or a surprisingly low print in the September quarter CPI. We still see the RBA easing rates through 2026 on the basis that inflation remains on check, unemployment drifts higher and productivity recovers. However, for now, the RBA appears to have shifted to a mode where they want to monitor the recovery in private demand rather than stimulate it further.

Although October can be a volatile month for risk assets and valuations are stretched, Australia looks relatively well-placed to benefit from an economic and financial market perspective. Australia is emerging from a much lower starting point in the economic cycle, has low direct exposure to the US tariff shock and Australia's policy easing has a more immediate impact upon demand relative to its peers. Tactically, bonds may outperform equities in coming weeks, however, we remain constructive on the medium-term prospects of Australia's economic and financial market outlook.

We are most overweight stocks within the Communication Services, Materials and Utilities sectors, and are underweight Financials, Consumer Discretionary and Real Estate.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	8.80	3.92	4.89
Consumer Discretionary	4.19	8.11	-3.92
Consumer Staples	2.07	3.40	-1.33
Energy	4.79	3.50	1.29
Financials	25.11	33.99	-8.88
Health Care	8.10	7.82	0.28
Industrials	5.37	7.34	-1.97
Information Technology	6.50	3.46	3.04
Materials	25.01	20.26	4.75
Real Estate	3.65	6.78	-3.13
Utilities	4.88	1.43	3.45

Top 3 holdings

	Portfolio %	Benchmark %	Active %
BHP Group	9.76	8.05	1.71
Commonwealth Bank of Australia	7.63	10.41	-2.79
Westpac Banking	7.11	4.97	2.14

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Woodside Energy	4.79	1.63	3.15
NEXTDC	3.37	0.40	2.96
ResMed	3.77	0.87	2.90
Underweights			
National Australia Bank	0.00	5.04	-5.04
Wesfarmers	0.00	3.89	-3.89
ANZ	0.65	3.69	-3.04

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	4.68	9.30	3.47	-0.07
Distribution return	4.71	4.98	9.14	8.86

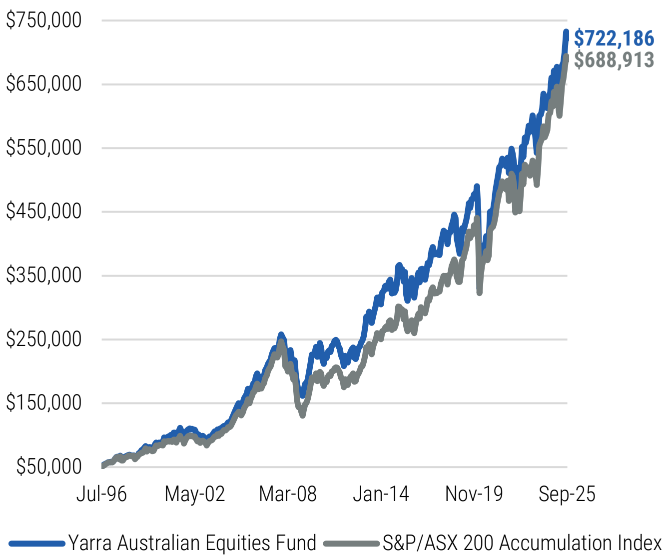
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders 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$134.5 mn as at 30 September 2025	
APIR codes	JBW0009AU	
Estimated management cost	0.90% p.a.	
Buy/sell spread	+/- 0.15%	
Platform availability	Asgard Ausmaq BT Panorama BT Super Wrap FirstWrap GrowWrap	Hub24 IOOF Pursuit Macquarie Wrap Netwealth Oasis Powerwrap

Investment performance comparison of $50,000

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

Website www.yarracm.com

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