Yarra Australian Smaller Companies Fund

Gross returns as at 31 December 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception* % p.a.
Yarra Australian Smaller Companies Fund	-0.52	2.38	25.49	14.54	9.22	11.72
S&P/ASX Small Ordinaries Accumulation Index	1.42	1.80	24.96	13.43	6.85	8.44
Excess return (before fees) ‡	-1.93	0.58	0.53	1.11	2.37	3.28

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 December 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception* % p.a.
Yarra Australian Smaller Companies Fund	-0.59	2.16	24.44	13.58	8.30	10.78
S&P/ASX Small Ordinaries Accumulation Index	1.42	1.80	24.96	13.43	6.85	8.44
Excess return (after fees) ‡	-2.01	0.36	-0.52	0.15	1.45	2.34

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 Smaller Companies Fund: August 2020.
‡ Excess return: The difference between the portfolio's return and the benchmark return.

Market review

The Australian small-cap equities market rose during the fourth quarter of 2025.

The S&P/ASX Small Ordinaries Accumulation Index returned +1.8% for the quarter, taking its 12-month return to +25.0%. The broader S&P/ASX 300 Accumulation Index returned -0.9%, whilst globally, the MSCI World Index delivered +3.4% for the quarter.

Materials (+18.5%) was by far the largest contributor, led by Westgold Resources (WGX, +43.8%) and Greatland Resources (GGP, +40.8%). Liontown (LTR, +59.9%) also performed strongly, while IperionX (IPX -25.7%) and Pantoro Gold (PNR, -19.3%) detracted.

Industrials (+4.4%) also contributed positively with SRG Global (SRG, +54.6%), Ventia Services (VNT, +16.4%) and Monadelphous (MND, +17.8%) all posting solid gains. Silex Systems (SLX, +31.4%) also supported returns, while DroneShield (DRO, -33.9%) weighed on market performance.

Energy (+1.1%) delivered a modest gain, aided by Paladin Energy (PDN, +15.3%) and Viva Energy (VEA, +12.9%), while Amplitude Energy (AE1, +15.4%) also contributed. Boss Energy (BOE, -28.9%) was a notable laggard.

Consumer Discretionary (-11.7%) detracted as rate increase concerns seemed to dampen sentiment. Eagers Automotive (APE, -16.4%) and Lovisa (LOV, -21.6%) fell sharply, while Flight Centre (FLT, +29.7%) and Domino's (DMP, +55.8%) delivered strong gains.

Financials (-6.2%) also detracted with Zip Co (ZIP, -25.6%) and Generation Development (GDG, -15.4%) detracting.

Information Technology (-9.1%) detracted with Megaport (MP1, -22.8%), Catapult Sports (CAT, -39.7%) and SiteMinder (SDR, -15.7%) all weaker. Weebit Nano (WBT, +59.1%) provided some offset.

Portfolio review

Key Contributors

Bellevue Gold (BGL, overweight) – the gold producer outperformed during the period supported by an increase in the gold price (+14%) during the quarter. While the company's long-term performance still depends on consistent production, cost control, and execution of its growth plans, the combination of improved earnings outlook and favourable market conditions underpins a positive medium-term view on the stock.

Sims (SGM, overweight) – the scrap steel producer outperformed during the period, aided by a solid FY25 earnings report and a 7.6% increase in Turkish scrap steel prices. We believe the company's majority US exposure is well placed to benefit from steel tariffs, a benefit that should more than offset headwinds elsewhere in the portfolio. The company's strategy to focus on margin over volumes is delivering solid results. Longer term we see upside for scrap demand given its use in lower emissions Electric Arc Furnace steel making operations.

Corporate Travel Management (CTD, underweight) – the global travel management company was a contributor during the period after it was removed from the ASX200 index. The company had been suspended from trading in August 2025 following accounting issues relating to its European business.

Key Detractors

Megaport (MP1, overweight) – the software technology company underperformed during the period following a A$200 million institutional placement to fund its acquisition of Latitude.sh and support expansion into India. While the placement caused near-term dilution and raised some margin concerns, the acquisition strengthens Megaport's capabilities in bare-metal compute and positions the company to capture growth in high-demand international markets. Coupled with its solid recurring-revenue base and expanding global footprint, these investments underpin our positive view on Megaport's long-term growth potential.

Westgold Resources (WGX, underweight) – the gold producer outperformed during the quarter as the gold price rose 14%. We maintain an underweight position in WGX and see better value in peers Genesis Minerals (GMD), Vault Minerals (VAU) and Bellevue Gold (BGL).

Greatland Resources (GGP, underweight) – the gold producer outperformed during the period as both gold (+14%) and copper (+17%) prices rallied. We see better long-term value in gold peers Genesis Minerals (GMD), Vault Minerals (VAU) and Bellevue Gold (BGL). For copper exposure we prefer Capstone Copper (CSC).

Market Outlook

December 2025 closed out a year marked by uneven economic data, persistent geopolitical tension and policy shifts. On balance financial markets managed to navigate rising concerns over US debt escalation and US policy uncertainty to finish 2025 positioning for further gains in risk assets in 2026.

In the United States, the month began with the resolution of the federal government shutdown, allowing delayed economic data to be released. The labour market sent mixed signals: nonfarm payrolls unexpectedly fell by 105,000 in November while unemployment rose to 4.6%. Yet wage growth remained firm at 0.4%, and continuing jobless claims stayed low, suggesting underlying resilience despite headline weakness. Inflation readings appeared softer, though analysts questioned the reliability of the data due to gaps created during the shutdown. The Federal Reserve (Fed) delivered its third consecutive rate cut, aiming to support a cooling labour market and stabilise growth heading into the new year.

Globally, inflation remained sticky across major economies, reinforcing expectations that central banks would maintain a "higher for longer" stance even as growth moderated.

In Australia, elevated annual inflation and increasingly hawkish comments from the Reserve Bank of Australia (RBA) following the December meeting have led interest rate markets and many economists to position for multiple interest rate hikes in 2026. While we acknowledge the risks of rate hikes, much of the elevated inflation reflects base effects, subsidy and tax impacts. We believe that the disinflation trend will reassert itself in coming months and the RBA is more likely to ease than hike rates into mid-2026.

Equity markets ended the year on a constructive note. The S&P 500 Index posted a strong 16.39% gain for 2025, achieving 38 record highs, though December's performance was more measured as investors digested the Fed's policy shift. Global equities advanced modestly, with broader participation beyond U.S. mega-caps. International markets outperformed on a relative basis, supported by value-oriented sectors and improving sentiment outside the U.S. Australia proved to be a relative underperformer with the ASX 200 Index returning 10.3% in 2025. Despite a 1.3% m/m gain in December the ASX 200 Index finished the year 3.7% below its October peak.

Fixed income markets were more subdued. Long-dated government bond yields rose, generating modestly negative returns for sovereign debt. Corporate credit fared slightly better, with spreads tightening and total returns remaining positive globally whilst delivering a small negative return in Australia. Divergent expectations about the Fed's 2026 rate path kept volatility elevated across the curve and the RBA shift to a more hawkish tone contributed to Australia's fixed income underperformance in December.

Commodities delivered mixed results. Oil prices fell for the fifth consecutive month, with West Texas Intermediate (WTI) ending the year nearly 20% lower amid softening demand and ample supply. Gold benefited from safe-haven flows driven by geopolitical risk and currency volatility, including disruptions tied to the unwinding of the yen carry trade.

We expect a somewhat bumpy but positive ride for equities in 2026. Our forecasts are for total return of +9% for the US, +12% for Emerging Markets, and +10% for Australia. Within interest rate markets, we expect yield curve steepening to be back in vogue in 1H26 in anticipation of a dovish Fed and stubbornly high government debt in the US. Further, we expect that US dollar weakness will once again emerge as a dominant theme in 2026, driving the AUD/USD exchange rate well above 70 cents during the year.

We are most overweight stocks in the Financials, Health Care and Industrials sectors and are underweight Materials, Energy and Consumer Discretionary.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	4.18	5.00	-0.82
Consumer Discretionary	9.69	11.86	-2.17
Consumer Staples	1.77	3.02	-1.26
Energy	3.09	6.30	-3.21
Financials	16.40	10.99	5.41
Health Care	6.80	4.57	2.23
Industrials	14.33	13.10	1.23
Information Technology	6.29	6.39	-0.10
Materials	21.67	27.84	-6.17
Real Estate	10.24	10.92	-0.68

Top 3 holdings

	Portfolio %	Benchmark %	Active %
AUB Group	4.18	1.12	3.05
Capstone Copper	4.18	0.92	3.25
Bellevue Gold	4.03	0.79	3.24

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Capstone Copper	4.18	0.92	3.25
Bellevue Gold	4.03	0.79	3.24
AUB Group	4.18	1.12	3.05
Underweights			
Westgold Resources	0.00	1.91	-1.91
Regis Resources	0.00	1.79	-1.79
Greatland Resources	0.00	1.72	-1.72

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.

Features

Investment objective	To achieve medium-to-long term capital growth by investing in a diversified portfolio of smaller Australian companies. In doing so, the aim is to outperform the S&P/ASX Small Ordinaries Accumulation Index over rolling 3-year periods.
Recommended investment time frame	5 - 7 + years
Fund inception	August 2020
Fund size	A$106.8 mn as at 31 December 2025
ARSN code	642 665 263
Estimated management cost	0.85% p.a.
Buy/sell spread	+/- 0.30%