YARRA CAPITAL MANAGEMENT



# Yarra Growth Fund

## Net returns as at 31 December 2025

| | 1 month % | 3 months % | 6 months % | 1 year % | 3 years % p.a. | 5 years % p.a. | 10 years % p.a. | Since inception % p.a. |
|---|---|---|---|---|---|---|---|---|
| Total Fund return (net) | -1.42 | -1.75 | 1.17 | 6.21 | 12.03 | 8.56 | 7.76 | 7.18 |
| Fund growth return (net) | -2.11 | -2.44 | 0.46 | -4.65 | 7.17 | 4.21 | 2.14 | 1.80 |
| Fund distribution return (net) | 0.70 | 0.69 | 0.71 | 10.85 | 4.86 | 4.35 | 5.63 | 5.37 |
| Benchmark* | 0.00 | 0.93 | 5.72 | 10.97 | 14.97 | 10.57 | 9.70 | 8.52 |

Source: YFML, Citi. Total Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund minus Fund growth return. Past performance is not an indicator of future performance. Inception date: February 1996.

* The Fund's benchmark is a composite index constructed using the applicable asset class index, weighted according to the Fund's benchmark asset allocation of: 15% of Bloomberg AusBond Composite 0+ YR Index for Australian fixed interest, 30% of S&P/ ASX 200 Accumulation Index for Australian shares, 50% of MSCI All Countries World Index Net Total Return AUD Index (unhedged) for overseas shares, 0% of S&P/ASX 300 Australian Real Estate Investment Trusts (A-REITs) Accumulation Index for property securities (effective 16 December 2013. Prior to this was the S&P/ASX 200 A-REITs Accumulation Index), and 5% of Bloomberg AusBond Bank Bill Index for Cash.

### Portfolio review

The Fund returned -1.75% for the December quarter, underperforming its composite benchmark return of 0.93% by 268 basis points.

### Australian Equities

The S&P/ASX 200 Accumulation Index declined by 1.01% over the quarter. The Fund's Australian equities allocation underperformed the benchmark in the period, with the Yarra Australian Equities Fund (-1.96%) and Yarra Ex-20 Australian Equities Fund (-3.58%) detracting from performance. In contrast, the Tyndall Australian Small Companies Fund delivered a strong return, rising 4.88% for the quarter.

Sector-level performance was mixed during the period. Materials was the standout performer, rising 13.0%, while Energy (1.2%) and Industrials (0.1%) also recorded gains. While Real Estate (-1.6%), Financials (-1.9%), Consumer Staples (-1.0%) and Utilities (-2.6%) posted modest declines. Communication Services (-6.4%), Health Care (-9.9%) and Consumer Discretionary (-11.7%) fell more sharply, with Information Technology (-26.0%) the worst-performing sector.

Notable contributors to relative performance during the quarter included Northern Star Resources, whose share price was well supported by the continued upward momentum in the gold price. Sims, the scrap steel producer, also contributed positively, with its shares rising on the back of a solid FY25 earnings report and strong scrap steel pricing. While an underweight in Wesfarmers proved beneficial, as the diversified conglomerate underperformed following its AGM update, where weak trading updates from Kmart and Officeworks offset improving momentum at Bunnings.

Detractors from relative performance included NextDC, the leading Australian data centre owner and developer, which struggled amid a broader sell-off in global peers driven by concerns of a potential bubble in the AI value chain. Xero, the cloud-based accounting software company, shares traded lower as the market digested a noisy 2H25 result following the introduction of the loss-making Melio acquisition and associated one-off costs. While revenues were broadly in line with expectations, earnings and forward guidance disappointed, largely due to Melio, further heightening market concerns around the acquisition. Shares in Bapcor, the automotive aftermarket supplier, came under pressure after multiple profit downgrades, with weaker-than-expected sales continuing throughout the quarter.

### Global Equities

The MSCI AC World Index, measured in AUD (unhedged), recorded a gain of 2.66% over the quarter. The Fund's Global Equities allocation underperformed over the quarter, primarily due to the soft performance of its core holding, the Yarra Global Share Fund (-2.64%). In contrast, the smaller allocation to the Yarra Global Small Companies Fund (+3.28%) delivered strong relative performance.

Equity markets ended the quarter with a Santa rally, as investors bided up the more cyclical areas of the market. This was reflected in the Materials sector, driven by a very strong gold price and more recent strength in other precious metals and copper. The Financials sector also performed well, as a cut by the US Federal Reserve (The Fed) in short-term rates attracted further investment into banks. The cyclical boost to markets could also be seen across previously underperforming defensive sectors such as Real Estate, Utilities, and Consumer Staples. Healthcare benefited on pharma sub-sector optimism.

The Yarra Global Share Fund, which invests with a long-term valuation discipline, has found the current environment—driven more by momentum and narrative than by fundamentals—to be challenging. Although relative underperformance for the quarter reflected headwinds for quality investors, it was primarily driven by the Fund being positioned on the wrong side of Alphabet Inc.'s second-half 2025 rally. The market reassessed Alphabet's AI positioning following Gemini 3 and strong TPU v7 performance, elevating TPUs as a credible alternative to NVIDIA's GPUs. In contrast, our AI exposure—tilted toward the OpenAI ecosystem (Microsoft, NVIDIA and Oracle)—faced significant selling pressure as the Alphabet narrative gained momentum.

Regionally value stocks outside the United States outperformed during the quarter, with Europe and commodity-rich indices such as Canada and the UK all delivering stronger returns. Less value-oriented indices, such as the US, underperformed, while Hong Kong also lagged, giving up some of the gains made earlier in the year.

## Australian Fixed Interest

The Bloomberg AusBond Composite 0+ Yr Index declined by 1.15% over the December quarter. The Fund's Australian fixed interest allocation outperformed the benchmark, its investment in the Yarra Australian Bond Fund (-1.14%), performed broadly in line with the index, while the smaller allocation to the Yarra Enhanced Income Fund (+0.66%) contributed positively to overall performance.

The final quarter was marked by continued bond markets volatility driven by shifting inflation expectations, strong domestic data, and increasingly hawkish signals from The Reserve Bank of Australia (RBA). A series of stronger-than-expected economic releases appeared to shift the RBA's interest rate outlook. While policy rates were left unchanged at both RBA meetings during the quarter, the December meeting altered market sentiment as the Governor adopted a more hawkish tone, warning that rate hikes could occur if inflation failed to move toward the midpoint of the 2-3% target band.

Prior to the December meeting, markets had been pricing in rate cuts; however, following the December communication, expectations shifted, with some participants calling for a potential hike as early as February 2026. Bond yields rose sharply over the quarter, led by the short end of the curve, resulting in curve flattening. Ongoing geopolitical tensions, alongside uncertainty surrounding US tariffs and global trade, further contributed to elevated bond market volatility.

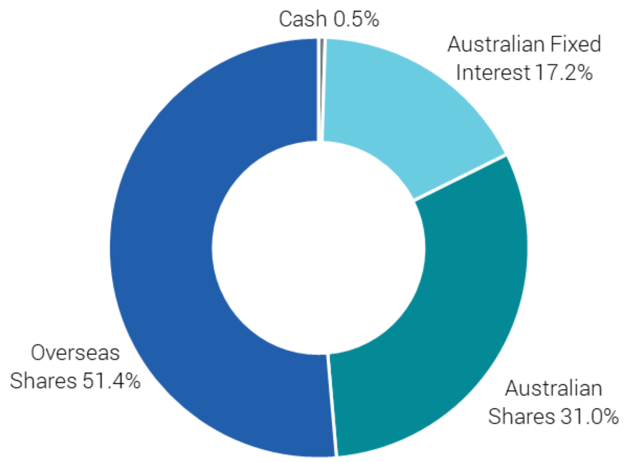
The Fund's performance was negatively impacted by rising bond yields due to its overweight duration position, which was maintained throughout the quarter. Curve flattening in the 3-10 year segment detracted from performance but was partially offset by flattening in the 10-15 year segment, where the Fund was positioned to benefit.

The Fund remained overweight spread products, primarily senior financials, residential mortgage-backed securities, and high-grade corporates with maturities of up to five years, as well as 10-15 year semi-government securities. Sector allocation contributed positively to performance as credit spreads remained tight and long-end semi-government bonds outperformed other parts of the curve.

## Strategic Asset Allocation

| Asset Class | Target Allocation (%) | Range (%) |
|---|---|---|
| Australian Shares | 30 | 20-45 |
| International Shares (unhedged) | 50 | 35-65 |
| Property Securities | 0 | 0-10 |
| Total growth assets | 80 | 70-95 |
| Australian Fixed Interest | 15 | 5-25 |
| Cash | 5 | 0-20 |
| Total income assets | 20 | 5-30 |

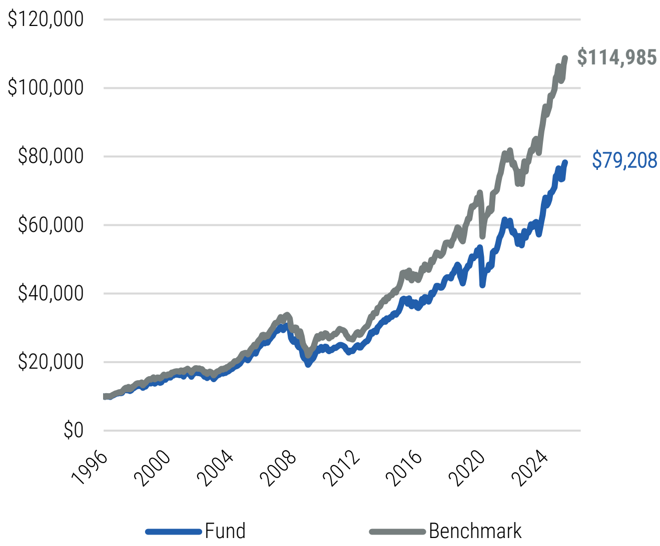
## Asset Allocation at Quarter End




Source: YFM, Citi

## Performance Graph

Value of $10,000 invested in the Yarra Growth Fund since inception:




Source: Citi & YFM. Past performance is not an indicator of future performance.

## 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. 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.

## Fund Objective

The Fund aims to provide a modest level of capital growth and income over the medium to long-term, with total returns (before taxes, fees and expenses) above the Fund's benchmark over rolling five-year periods.

| Key Facts | |
|---|---|
| **Responsible Entity**<br>Yarra Funds Management Limited | **Management Cost**<br>1.15% p.a. |
| **APIR Code**<br>SUN0021AU | **Buy/Sell Spread**<br>0.15%/0.15% |
| **Fund Size**<br>A$73.2mn as at 31 December 2025 | **Distribution Frequency**<br>Half Yearly |
| **Minimum Investment**<br>AUD 2,000 | |

**Contact Us**

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