YARRA CAPITAL MANAGEMENT

Yarra Australian Bond Fund

Net returns as at 30 June 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.
Yarra Australian Bond Fund	1.02	2.77	1.85	4.70	0.73	2.05	4.73
Growth return#	0.16	1.91	-1.84	1.67	-1.19	-1.00	-0.11
Distribution return#	0.85	0.87	3.69	3.02	1.92	3.05	4.84
Bloomberg AusBond Composite 0+YR Index	0.96	2.65	1.53	3.98	0.37	1.77	4.61
Excess return#	0.05	0.13	0.32	0.72	0.36	0.28	0.11

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.

#Growth returns are measured by the movement in the Fund's unit price, ex-distribution. Distribution return is the proportion of the total return which is paid to unitholders by way of distribution. It does not include distribution amounts deemed as capital distributions. Excess return is the difference between the Fund's net return and its benchmark (Bloomberg AusBond Composite 0+YR Index).
*Inception date: July 2000.

Portfolio review

After fees and expenses, the Fund returned 1.02% in June to outperform the benchmark by 5 basis points (bps).

During the month, bond yields declined across the curve, driven by progress toward a ceasefire agreement between the U.S. and Iran and the reopening of the Strait of Hormuz, which helped ease concerns around potential inflationary pressures. The decline in yields had a positive impact on the Fund's performance, given its overweight duration position of +0.52 years versus the benchmark.

The Fund is positioned to benefit from a yield curve steepening of the 3–10 year maturity range and a flattening of the 10–15 year maturity range. Curve positioning was neutral to performance, as the yield curve experienced only negligible steepening over the month.

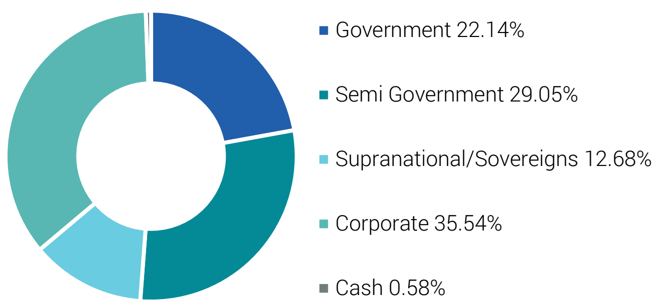
The Fund maintains an overweight position in spread products, primarily across semi-government and supranational agency securities. It is also overweight investment-grade credit, including senior financials, residential mortgage-backed securities, and high-grade corporates with maturities out to five years. Spreads narrowed across the curve during the month, with long-dated semi-government spreads benefiting from reduced supply as several major states entered issuance blackout periods ahead of the FY2026–27 state budget releases. This positioning contributed positively to fund performance.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.32	4.80	0.52
Corporate Spread Duration (yrs)	0.84	0.35	0.49
Total Spread Duration (yrs)	3.61	2.46	1.15
Yield to Maturity (%)	5.15	4.79	0.36
Average Coupon (%)	4.22	3.16	1.06
Weighted-average Credit Rating#	AA	AA	-

#Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	4.23%
3 Year Tracking Error (p.a.)	0.47%

Market Commentary

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned 0.96% in June. Australian government bond yields remained volatile, influenced by global rate movements, commodity prices and domestic inflation expectations. Markets continued to assess the RBA’s policy outlook amid mixed economic indicators, with investors closely monitoring inflation and labour market conditions. Yields eased modestly toward month end, with the 3-year government bond yield declining by 12 basis points to 4.36%, while the 10-year yield fell by 9 basis points to 4.72%, resulting in a slight steepening of the yield curve. Meanwhile, short-term bank bill rates were relatively stable, with the 3-month rate flat at 4.46% and the 6-month rate down 2 basis points to 4.80%. The Australian dollar weakened against the US dollar ending the month at USD 0.69.

The RBA unanimously left the cash rate unchanged at 4.35% in June, in line with market expectations. The Board noted that earlier rate hikes are still flowing through the economy, with tighter financial conditions contributing to moderating activity. However, it maintained that inflation remains elevated, driven by capacity constraints and higher fuel and commodity prices linked to the Middle East conflict. While oil prices have eased, they remain above pre-conflict levels, with higher input costs continuing to flow through to consumer prices.

Australia's annual inflation rate unexpectedly eased to 4.0% in May 2026 from 4.2% in April, below market expectations of 4.4% but well above the RBA's 2–3% target range. The reading marked the slowest pace of inflation since February. However, underlying inflation remained resilient. The RBA's preferred measures showed the trimmed mean CPI rising 3.6% year-on-year, up from 3.5% in April and above market expectations of 3.5%, marking its strongest annual increase since September 2024. Meanwhile, the weighted median CPI accelerated modestly to 3.6% from 3.5% in the previous month, indicating that underlying price pressures remain elevated despite the moderation in headline inflation.

Domestic data released during the month continued to indicate moderating economic activity. Australia's economy grew by 0.3% quarter-on-quarter in Q1 2026, below the 0.5% consensus forecast and down from 0.9% in Q4, marking the slowest annual pace of growth in a year. The slowdown reflected subdued household and government spending, weather-related disruptions to mining activity, and weaker external demand. The seasonally adjusted unemployment rate eased to 4.4% in May from 4.5% in April, in line with market expectations. Meanwhile, Cotality's national Home Value Index declined 0.4% in June, the largest monthly fall since December 2022, leaving values 0.7% below the March 2026 peak. Property market conditions remain subdued, with elevated interest rates, affordability constraints, and uncertainty surrounding proposed negative gearing and capital gains tax reforms weighing on demand.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
New South Wales Treasury Corporation	AA+
Queensland Treasury Corporation	AA+
International Finance Corporation	AAA
Treasury Corporation of Victoria	AA
South Australian Govt Financial Authority	AA+
Export Finance & Insurance Corp	AAA
Athene Global Funding	A+
Western Australia Treasury Corporation	AAA
Metropolitan Life Global Funding I	AA-

All of the above portfolio securities are Australian dollar denominated issues and include fixed interest and FRNs.

Market Outlook

Australia appears to be entering a prolonged period of modest growth, gradually easing inflation, slightly higher unemployment and elevated interest rates. The economy continues to be supported by population growth, public infrastructure spending, technology and AI-related investment, and a labour market that remains relatively resilient. However, growth is being constrained by weak productivity, ongoing cost-of-living pressures, elevated household debt and heightened global uncertainty, particularly relating to energy markets and trade tensions. Recent forecasts suggest Australia is likely to avoid a technical recession, although economic growth remains subdued and per-capita growth is weak.

The RBA has maintained a restrictive policy stance as inflation has remained more persistent than expected. The cash rate is currently around 4.35% following rate increases earlier in 2026. We expect rates to remain elevated for some time, with no further increases anticipated this year. Any easing is likely to depend on clearer evidence that inflation is sustainably returning to target. However, we expect inflation to moderate faster and unemployment to rise more than the RBA currently forecasts. Recent unemployment data are already tracking closer to the RBA’s forecast of 4.5% by mid-2027, which could support earlier rate cuts.

Inflation remains the key economic challenge. While headline inflation has eased from its peak and has moderated somewhat during 2026, underlying inflation remains above the RBA’s 2–3% target range. Inflation is expected to gradually decline, but progress has been slower than policymakers had hoped, meaning households are likely to continue facing cost-of-living pressures.

The labour market remains relatively healthy but has softened.

Unemployment is currently around 4.4–4.5% and may drift slightly higher as economic growth remains below trend and business hiring becomes more cautious. Nevertheless, unemployment remains low by historical standards, and widespread job losses are not currently expected.

Consumer confidence remains fragile, as cost of living, persistent inflation and geopolitical uncertainty continue to weigh on household sentiment. Although lower energy prices have provided some relief, consumers remain cautious, prioritising essential over discretionary spending. Household pessimism also remains unusually high given the low unemployment rate. Softening housing prices are likely to further dampen consumer spending by weakening the wealth effect.

Business conditions remain mixed. Firms supported by infrastructure, AI, data centres, the energy transition and technology investment remain confident. In contrast, many small and medium-sized businesses continue to face pressure from higher borrowing costs, weaker consumer demand and rising operating costs. While investment intentions remain positive overall, businesses are increasingly focused on productivity gains and cost management.

The economy is not currently showing signs of a severe downturn, but both consumer and business sentiment remain cautious. Key risks include a sharper slowdown in China, renewed energy price shocks, escalating global trade tensions, weaker productivity growth and increased volatility stemming from geopolitical conflicts. Improvements in productivity and business investment remain critical to strengthening the medium-term outlook.

China, Australia's largest export market and the dominant buyer of iron ore, coal and other commodities, is expected to record moderate but slowing growth, with the OECD and IMF forecasting GDP growth of around 4.4–4.5% in 2026, down from approximately 5% in 2025. While government stimulus, infrastructure investment, high-tech manufacturing and exports continue to support activity, the economy faces persistent structural challenges, including a prolonged property downturn, weak household consumption, industrial overcapacity and deflationary pressures. For Australia, weaker Chinese property activity could reduce demand for commodity exports and weigh on mining investment, although infrastructure spending and manufacturing should provide some ongoing support.

The U.S. economy is expected to remain relatively resilient, with the OECD forecasting GDP growth of around 2.0% in 2026. Growth continues to be supported by consumer spending, AI-related investment and productivity gains, although persistent inflation, fiscal pressures and trade policy uncertainty are expected to moderate activity. For Australia, continued U.S. growth should support global demand and financial market stability. However, uncertainty surrounding tariffs, trade policy and government finances could increase market volatility, tighten global financial conditions and weigh on global trade, while ongoing U.S. investment in technology, AI, defence and energy presents opportunities for Australian exporters and investors.

Fund Objective

The Fund aims to outperform the Bloomberg AusBond Composite 0+YR Index over any three-year rolling period, before fees, expenses and taxes.

Key Facts	
Responsible Entity Yarra Funds Management Limited	**Management Cost** 0.30% p.a.
APIR Code TYN0104AU	**Buy/Sell Spread** +0.05% / -0.05%
Portfolio Manager Darren Langer	**Distribution Frequency** Quarterly
Fund Size A$498 mn as at 30 June 2026	**Benchmark** Bloomberg AusBond Composite 0+YR Index
Minimum Investment A$10,000	

Applications and contacts

Investment into the Yarra Australian Bond Fund can be made by Australian resident investors only.

Website www.yarracm.com

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com