YARRA CAPITAL MANAGEMENT

Investment Commentary
Quarter to 30 June 2026

Yarra Australian Smaller Companies Fund

Gross returns as at 30 June 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception* % p.a.
Yarra Australian Smaller Companies Fund	2.50	14.26	9.05	9.99	5.71	9.89
S&P/ASX Small Ordinaries Accumulation Index	-2.00	3.32	8.11	9.88	2.98	6.18
Excess return (before fees) ‡	4.50	10.94	0.94	0.11	2.73	3.71

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 June 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception* % p.a.
Yarra Australian Smaller Companies Fund	2.43	14.02	8.13	9.06	4.81	8.96
S&P/ASX Small Ordinaries Accumulation Index	-2.00	3.32	8.11	9.88	2.98	6.18
Excess return (after fees) ‡	4.43	10.70	0.02	-0.82	1.84	2.78

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 second quarter of 2026.

The S&P/ASX Small Ordinaries Accumulation Index returned +3.3% for the quarter, taking its 12-month return to +8.1%. The broader S&P/ASX 300 Accumulation Index returned +4.1%, whilst globally, the MSCI World Index delivered +14.0% for the quarter.

Information Technology (+41.8%) was the largest contributor, supported by strong gains in Megaport (MP1, +208.2%) and Codan (CDA, +41.2%). Megaport rose following significant contract wins.

Industrials (+17.0%) also contributed strongly, driven by NRW Holdings (NWH, +41.2%) and SRG Global (SRG, +61.8%) following contract wins and positive updates.

Financials (+10.0%) added meaningfully, with significant gains in Zip Co (ZIP, +109.0%) and Pinnacle Investment Management (PNI, +21.1%). ZIP rose following upgraded earnings guidance.

Real Estate (+4.7%) contributed positively, led by Centuria Capital Group (CNI, +25.4%) and Digico Infrastructure REIT (DGT, +44.5%), while PEXA Group (PXA, -32.3%) detracted.

Energy (-21.3%) was the largest detractor, as oil prices fell following escalations in the Middle East, with Yancoal Australia (YAL, -33.8%), Beach Energy (BPT, -34.0%) and Viva Energy (VEA, -19.5%) all lower.

Materials (-1.8%) weakened, reflecting broad declines across Metals & Mining including Alcoa (AAI, -17.4%) and Bellevue Gold (BGL, -18.5%), while Sims (SGM, +54.0%) gained.

Communication Services (-6.2%) declined, led by Tuas (TUA, -62.7%) which fell following the collapse of its proposed acquisition of Singapore telecommunications operator M1.

Health Care (-4.7%) was weaker, reflecting declines in 4DMedical (4DX, -18.5%), Healius (HLS, -30.4%) and Integral Diagnostics (IDX, -15.3%).

Consumer Staples (-6.7%) detracted, driven by declines in GrainCorp (GNC, -25.9%) and Elders (ELD, -26.4%), while Cobram Estate Olives (CBO, +28.3%) advanced.

Portfolio review

Key Contributors

Megaport (MP1, overweight) – the global compute and software defined network provider outperformed during the period supported by continued new customer additions. The global compute division won a number of new large clients across both CPU and GPU during the period supported by increasing AI driven demand. We remain positive on the outlook for MP1 across both the global compute and software defined networks, with strong market growth from AI as well as cloud and improving market share supported by new products and an enhanced go-to market strategy. The MP1 balance sheet remains in net cash position providing capacity to fund additional new customer wins.

Zip (ZIP, overweight) – the Buy Now Pay Later (BNPL) company performed strongly over the period following a solid third quarter update and increase to full year earnings guidance. ZIP has maintained TTV growth in excess of 40% whilst managing down credit losses as new products such as 'Pay in 8' season. ZIP is well placed to participate in the structural growth of the US BNPL market, and we view its current multiple of 22.8-times as compelling.

Sims (SGM, overweight) – the scrap steel producer outperformed during the June quarter, as recycled cloud computing prices remained elevated, coupled with strong non-ferrous pricing. We are attracted to improving fundamentals in the scrap metals industry, particularly given the impacts of US tariffs on steel and copper imports, a positive for SGM's US domestic recycling businesses. The company's computing recycling business SLS is now growing strongly and will continue to drive earnings higher in our view. Longer term we see upside for scrap demand given its use in lower emissions Electric Arc Furnace steel making operations.

Key Detractors

Gentrack Group (GTK, overweight) – the utilities and airport software company underperformed during the period after the company downgraded its FY26 outlook. The FY26 earnings outlook was downgraded given delayed new customer additions to the utilities division and the decision to retain the existing cost base to support future growth. We retain a small position in GTK, with significant valuation upside given a number of factors including the airport software division's continued strong performance and market leading position, significantly depressed utilities division earnings and growth expectations, hidden value in the loss-making Amber business and a net cash balance sheet.

Codan (CDA, underweight) – the communications and gold detection company outperformed during the period supported by a stronger-than-expected trading update. The trading update indicated stronger than expected earnings growth across both communications and gold detection with FY26 NPAT growth of over 60% y/y. While the company is benefiting from strong growth in both communication and gold end markets with a strong management team; we currently prefer peers such as Imdex (IMD) and Chrysos (C79). We also note CDA valuations are assuming continued strong growth with a FY26 P/E of 47-times.

Judo Bank (JDO. overweight) – the SME lender underperformed during the period after downgrading earnings expectations. The key factor that led to the earnings downgrade was higher-than-expected bad debt outcomes which are expected to be above normal levels in both FY26 and FY27. Outside of debt outcomes, operating metrics remain positive with continued loan book growth above system (market share expansion), net interest margins in line with long term expectations and further improvement in the cost to income ratio. Valuation metrics are now compelling, with JDO trading at a 40% discount to book value and FY27 P/E of only 7.0-times.

Market Outlook

June delivered modest gains across Australian equities, but the broader message from markets and macro data is that Australia remains firmly in a late-cycle slowdown. The S&P/ASX 200 Index rose 0.7% in June after a 1.1% gain in May, partially recovering from April's sharp fall. The June quarter finished up 4.0%, with annual returns at 6.1%. Small caps were weaker, falling 2.0% in June and leaving calendar-year-to-date returns at -7.9%, a stark contrast to their 25% surge in 2025. The divergence between large and small caps continues to reflect tighter financial conditions and softer domestic growth expectations.

Global equities remained the standout. Unhedged global equities gained 3.1% in June and 13.4% for the quarter, while hedged global equities were down 0.7% in June but up 13.8% for the quarter. The difference was largely explained by currency: the Australian dollar fell 3.7% in June, extending April's 3.1% decline. Despite this, the Australian dollar is still up 5.1% over the year, supported by strong commodity prices, which remain 30.4% higher annually despite a sharp 9.9% fall in June.

Bond markets continue to price a weakening domestic economy. Australian fixed interest returned 1.0% in June and 2.6% for the quarter, despite the Reserve Bank of Australia (RBA) holding the cash rate at 4.35%. Global bonds fell 0.7% in June and remain barely positive over the year. REITs posted a 0.8% gain in June but are still down 6.3% annually, reflecting the pressure of higher real rates.

The macro backdrop is increasingly fragile. Real GDP grew just 0.3% in the March quarter, with per-capita GDP falling 0.1%, the first decline since early 2025. Forward indicators point to an ongoing slowdown over the year ahead. Household spending is weakening, business surveys have softened, and labour market momentum is fading. The resilience of the ASX 200 in the June quarter owes more to global equity strength and commodity support than to domestic fundamentals.

Inflation remains the RBA's central challenge. Headline CPI eased to 4.0% in May, but the trimmed mean rose to 3.6%, still above the 2–3% target band. This combination of slowing growth and sticky core inflation has forced the RBA into a holding pattern. The Board's June decision to keep rates at 4.35% underscores its reluctance to ease prematurely. Nevertheless, the RBA is starting to acknowledge downside risks to the economic outlook, restrictive financial conditions, a more balanced labour market, a weaker credit growth outlook post-Budget and declining oil price risks.

The Australian dollar's 3.7% fall in June reflects this tension. While strong commodities and Australia's yield differential have supported the currency over the past year, the near-term outlook is clouded by weaker domestic growth and the prospect of prolonged tight monetary policy. Taken together, June's data and market performance paint a picture of an economy at a late-cycle plateau: supported by global momentum and commodities, but constrained by softening domestic demand, sticky inflation and a cautious central bank. Against that backdrop, we see scope for further volatility for equity markets through the September quarter of 2026. More positive sentiment will likely await the end of the earnings downgrade cycle, more moderate inflation outcomes and the prospect of easier policy in 2027 coming into view.

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

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	4.82	4.96	-0.15
Consumer Discretionary	10.15	9.61	0.55
Consumer Staples	2.30	4.01	-1.70
Energy	2.22	4.98	-2.76
Financials	22.29	12.20	10.10
Health Care	7.68	4.36	3.32
Industrials	11.27	15.13	-3.86
Information Technology	7.41	8.09	-0.68
Materials	16.82	25.86	-9.04
Real Estate	10.49	10.81	-0.32

Top 3 holdings

	Portfolio %	Benchmark %	Active %
Megaport	4.69	1.75	2.94
Breville	4.23	1.12	3.10
AUB Group	4.16	1.29	2.87

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Cuscal	3.32	0.00	3.32
Breville	4.23	1.12	3.10
Auckland International Airport	3.92	0.94	2.97
Underweights			
Codan	0.00	1.79	-1.79
Ventia	0.00	1.75	-1.75
Reece	0.00	1.35	-1.35

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$150.6 mn as at 30 June 2026
ARSN code	642 665 263
Estimated management cost	0.85% p.a.
Buy/sell spread	+/- 0.30%