YARRA CAPITAL MANAGEMENT

Investment Commentary
Quarter to 30 June 2026

Yarra Growth Fund

Net returns as at 30 June 2026

	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)	1.69	6.20	-2.79	-1.65	8.56	5.81	7.50	6.96
Fund growth return (net)	-6.57	-2.42	-10.69	-10.28	1.28	0.42	1.82	1.40
Fund distribution return (net)	8.26	8.62	7.89	8.62	7.29	5.39	5.69	5.56
Benchmark*	1.90	8.42	4.81	10.81	13.25	9.21	9.93	8.55

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

After fees and expenses, the Fund delivered a return of 6.20% for the June quarter, underperforming its composite benchmark return of 8.42% by 222 basis points.

Australian Equities

The S&P/ASX 200 Accumulation Index rose by 4.05% over the quarter, as growing expectations of a ceasefire between Iran and the United States supported sentiment, while the Reserve Bank of Australia (RBA) raised the cash rate in May before leaving it unchanged in June. Persistent inflation, AI-related enthusiasm and tax measures announced in the Federal Budget contributed to volatility and dispersion in sector returns. The Fund's Australian equities allocation outperformed its benchmark. Among the Fund's underlying strategies: the Yarra Australian Equities Fund (3.86%) underperformed, while the Yarra Ex-20 Australian Equities Fund (5.25%), and the Yarra Australian Smaller Companies Fund (14.02%) outperformed relative to the broader market over the quarter.

Sector performance was highly dispersed over the period, with several of the weakest-performing sectors from the previous quarter delivering the strongest returns. Consumer Discretionary (19.00%), Information Technology (17.03%) and Real Estate (12.86%) led the market, while Industrials (8.14%), Materials (7.49%) and Consumer Staples (6.41%) also outperformed the broader index. Financials (1.71%) posted a more modest gain. In contrast, Energy (-16.54%) reversed a portion of its previous quarter's strong performance as expectations of the Strait of Hormuz reopening and lower energy prices weighed on the sector. Utilities (-6.61%), Health Care (-5.99%) and Communication Services (-4.08%) also underperformed the broader market.

Global Equities

The MSCI AC World Index, measured in AUD (unhedged), gained 13.62% over the quarter. The Fund's Global Equities allocation underperformed over the quarter, primarily due to the significant performance of its core holding, the Yarra Global Share Fund (8.15%). In contrast, the smaller allocation to the Yarra Global Small Companies Fund (13.75%) delivered strong relative performance.

Investor attention during the quarter centred on two themes: the rapid expansion of AI infrastructure and geopolitical developments in the Middle East. As concerns over energy security and inflation eased, markets increasingly focused on the scale of capital investment required to support AI. Hyperscalers continued to increase spending, extending the earnings upgrade cycle across semiconductors, data centres, power equipment and selected industrials.

Capital continued to concentrate in companies supplying the AI "picks and shovels." South Korea recorded one of its strongest periods in decades, driven by memory semiconductor manufacturers, while Taiwan continued to benefit from its pivotal role in the global technology supply chain.

Defensive sectors, including Health Care, Consumer Staples and Utilities, outperformed, while Materials and Energy lagged as commodity prices weakened on a stronger U.S. dollar and easing Middle East tensions. Consumer-related companies also remained under pressure as elevated living costs weighed on household spending.

Despite this rotation, market leadership remained exceptionally narrow. A relatively small group of AI-related companies accounted for the majority of global equity market gains in 2026, pushing market concentration to its highest level in more than three decades. AI-related stocks have generated over 85% of market returns this year, underscoring both the strength of the theme and the growing dependence of markets on a concentrated set of companies and expectations.

Key contributors to performance included Bio-Techne Corporation after agreeing to a takeover from Merck at a significant premium, US Foods Holding benefitted from a market rotation into defensive stocks, while Amphenol Corporation shares were up reflecting its position as one of the beneficiaries of AI infrastructure investment. Detractors from performance included Microsoft Corporation and Amazon.com, Inc. as investors cooled towards hyperscalers amid growing scrutiny of AI capex. While Broadcom Inc. saw investors take profits after outsized year-to-date gains.

Australian Fixed Interest

The Bloomberg AusBond Composite 0+ Yr Index rose by 2.65% over the June quarter. The Fund's Australian fixed interest allocation underperformed the benchmark, its investment in the Yarra Australian Bond Fund (2.77%), outperformed the index, while the allocation to the Yarra Enhanced Income Fund (2.27%) contributed positively to overall performance.

The quarter saw a gradual reversal of the risk-off conditions that dominated bond markets at the end of March. Australian government bond yields fell over the quarter, accompanied by a modest steepening of the yield curve.

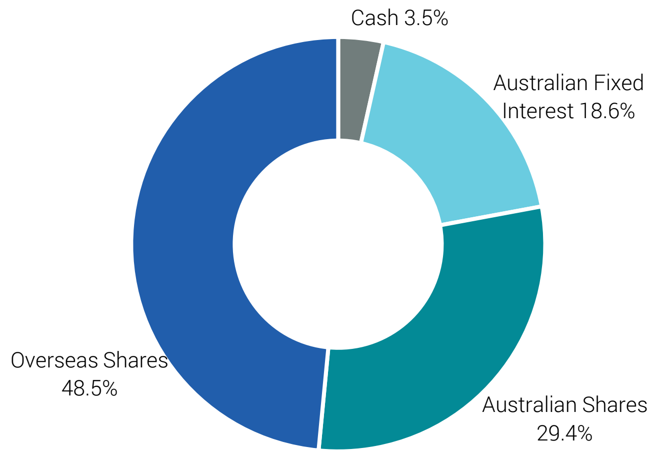
The Yarra Australian Bond Fund maintained an overweight duration position throughout the quarter, which benefited performance as yields declined. It remained positioned to benefit from a steeper curve between 3-year and 10-year maturities and a flatter curve between 10-year and 15-year maturities. During the quarter, the steepening of the 3–10 year curve contributed positively to performance, while the steepening of the 10–15 year segment partly offset these gains. Sector positioning remained overweight spread products, including semi-government securities, supranational agencies, senior financials, residential mortgage-backed securities and high-grade corporates. Credit spreads were broadly stable, while semi-government spreads recovered from the March widening. The narrowing of long-dated semi-government spreads, supported by reduced issuance ahead of state budget announcements, also contributed positively to performance.

The Yarra Enhanced Income Fund delivered strong returns over the quarter, supported by duration, carry and tightening credit spreads as market sentiment improved. Tier 2 securities were the strongest contributors, rebounding from the earlier sell-off triggered by conflict in the Middle East, while the Fund's long position in 90-day Bank Accepted Bill futures also added meaningfully as bond markets rallied. Softer economic data and a more balanced stance from the RBA led markets to scale back expectations for further rate rises, supporting fixed income returns.

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

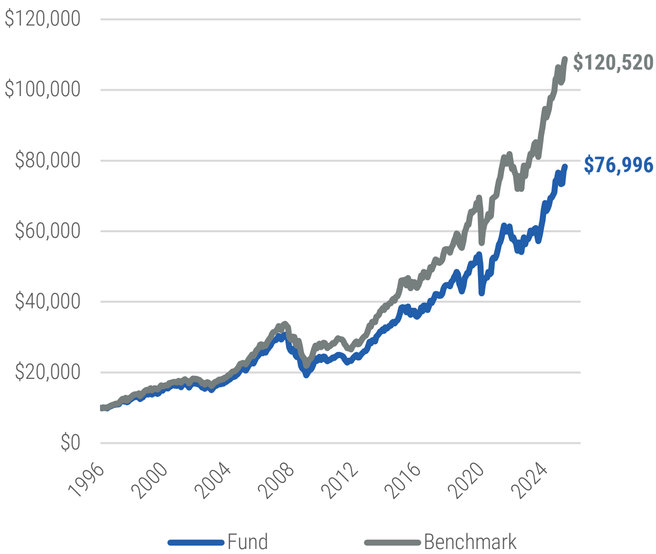
Asset Allocation at Quarter End



Source: YFM, Citi

Performance Graph

After fees, since inception of the Yarra Growth Fund, February 1996 to June 2026:



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

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 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 Yarra Funds Management Limited	**Management Cost** 1.15% p.a.
APIR Code SUN0021AU	**Buy/Sell Spread** 0.15%/0.15%
Fund Size A$63.6mn as at 30 June 2026	**Distribution Frequency** Half Yearly
Minimum Investment AUD 2,000	

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