YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 July 2026

Yarra Australian Equity Income Fund

Gross returns as at 31 July 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 Equity Income Fund (grossed up for franking credits)^	2.92	4.00	10.41	10.76	10.47	10.34	11.54
S&P/ASX 200 Accumulation Index (grossed up for franking credits)	2.27	4.27	7.11	11.66	9.41	10.46	11.05
Excess return (before fees)‡	0.65	-0.27	3.30	-0.90	1.06	-0.12	0.49

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 franking credits and 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.
‡Excess return: The difference between the Fund's return and the benchmark return.

Net returns as at 31 July 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 Equity Income Fund^	2.86	3.65	8.08	8.30	7.60	7.46	8.65
Yarra Australian Equity Income Fund Yield (grossed up Dividend Yield)			6.98	7.03	8.19	8.31	8.44
S&P/ASX 200 Accumulation Index Yield (grossed up Dividend Yield)			4.29	4.72	5.22	5.26	5.61
Excess yield‡‡			2.69	2.31	2.97	3.05	2.83

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 of the Yarra Australian Equity Income Fund: November 2008
^ Effective 2 January 2026, the Yarra Australian Equities investment team was appointed to assume investment management of the Fund in place of the Tyndall Asset Management investment team. The Fund was also renamed the Yarra Australian Equity Income Fund (previously named the Tyndall Australian Share Income Fund). There were no changes made to the Fund's investment objective or strategic asset allocation.

Market review

The Australian equities market rose during the month as momentum in AI-related stocks moderated globally, with Australia benefiting from its relatively lower exposure to the theme.

The S&P/ASX 200 Accumulation Index returned +2.3% for the month, taking its 12-month return to +6.0%. The broader S&P/ASX 300 Accumulation Index returned +2.1%, whilst globally, the MSCI World Index delivered +0.2% for the month.

Financials (+5.8%) was the largest sector contributor, driven by gains across the major banks, including Commonwealth Bank of Australia (CBA, +7.8%), National Australia Bank (NAB, +9.2%) and Westpac (WBC, +7.6%) while AMP (AMP, +34.0%) also advanced. Banks rallied despite ongoing risks posed by a cooling housing market, with AMP outperforming as investors responded positively to the company's simplification strategy and earnings outlook.

Energy (+12.2%) contributed strongly, as a renewal of the war in the Middle East drove the oil price higher. Woodside Energy (WDS, +16.8%), Santos (STO, +8.7%) and Ampol (ALD, +21.3%) all rallied.

Health Care (+2.3%) added to performance, led by CSL (CSL, +7.3%) and Sigma Healthcare (SIG, +6.9%), while Pro Medicus (PME, -20.3%) and Telix Pharmaceuticals (TLX, -14.3%) both declined.

Consumer Discretionary (+0.9%) rose modestly, supported by Aristocrat Leisure (ALL, +4.6%) and Eagers Automotive (APE, +10.6%), while Wesfarmers (WES, -1.2%) weakened.

Materials (-0.9%) was the largest detractor, reflecting declines in Lynas Rare Earths (LYC, -22.0%), Liontown (LTR, -42.7%) and PLS Group (PLS, -17.3%), partly offset by South32 (S32, +17.2%). LYC declined as investors focused on weaker production at its expanded processing facilities whereas PLS and LTR fell on weaker lithium prices.

Industrials (-1.4%) detracted, with declines in DroneShield (DRO, -30.0%), Electro Optic Systems Holdings (EOS, -35.0%) and Qantas Airways (QAN, -6.3%).

Information Technology (-2.8%) weakened, driven by Megaport (MP1, -16.1%) and NextDC (NXT, -8.4%), while WiseTech Global (WTC, +10.0%) advanced. MP1 and NXT declined as investor enthusiasm towards AI and data centre infrastructure waned

Portfolio review

Key Contributors

Woodside Energy (WDS, overweight) – the oil and gas producer outperformed as oil (Brent +23%) and global gas (JKM +35%, TTF +38%) prices rose materially during July on renewed hostilities around the Straits of Hormuz. Historically approximately 20% of global oil products and 22% of LNG traverses the Straits. We remain attracted to the company's organic growth pipeline led by the Scarborough project that remains on budget and scheduled to increase production by more than 30% over the next two years.

Goodman Group (GMG, underweight) – our underweight position in the industrial and data centre exposed property owner, developer and manager contributed to performance over the period despite an absence of any news flow around data centre leasing. With GMG foreshadowing a material lift in data centre commencements in the June-26 quarter, investors continue to closely monitor the company's progress on leasing de-risking, to support the significant data centre development pipeline ahead for the business. While Goodman now trades on a less demanding 17.5-times EV/EBITDA (vs 18.5-times long run average) we believe the elevated risk profile is underappreciated and retain an underweight position, with a preference for NextDC in the data centre space.

Lynas Rare Earths (LYC, underweight) – the rare earth miner underperformed during July as rare earths (NdPr) prices drifted 2% lower. While rare earths remain a complex and opaque commodity, we see material demand upside as the western world seeks to diversify from China supply dominance. We are underweight LYC as we struggle to identify value and instead prefer gaining exposure to rare earths via peer Iluka Resources (ILU).

Key Detractors

National Australia Bank (NAB, underweight) – the Australian bank outperformed during the month despite limited news flow. The outlook for the banking sector has deteriorated rapidly post the May budget and we continue to believe that the elevated valuations of Australian banks are not supported by the low growth and return outlook for the sector.

Pinnacle Investment Management (PNI, overweight) – the diversified fund manager underperformed during the period despite no material company specific news. PNI continues to have a significant growth opportunity via global expansion with its material existing businesses in Europe, US and Asia and through adding additional fund managers both via capital light team lifts or acquisitions. Short term concerns around flows and performance for a small number of managers are being excessively priced into the share price in our view, with stock valuation metrics attractive (FY27 P/E 16.7-times).

Iluka Resources (ILU, overweight) – the mineral sands producer underperformed during July. Mineral sands markets improved across the month and supported a positive 2Q26 production update, however rare earths prices (NdPr) drifted 2% lower. While rare earths remain a complex and opaque commodity, we see material demand upside as the western world seeks to diversify from China supply dominance. ILU remains our preferred exposure to rare earths via the company's $1.8bn Eneabba Rare Earths Refinery which remains on track for first production in 2028.

Market outlook

July produced a solid headline gain for Australian equities, but performance remained narrow. The rotation again favoured larger, more liquid companies with clearer earnings resilience, while smaller companies remained exposed to tighter financial conditions, softer growth expectations and less forgiving earnings risk.

Sector leadership in large caps was concentrated in Energy and Financials. Energy surged +11.2% in July, taking its annual return to +15.0%, while Financials advanced +6.5%. Resources were broadly flat and Materials eased 0.5%, though both remain strong over the year. Consumer Discretionary gained +0.7% and is up +18.1% over the quarter, helped by resilient spending and reduced expectations of further Australian rate hikes. However, Health Care and Information Technology remain very weak over the year, reinforcing the message that leadership has been selective rather than broad-based.

Offshore equities were softer in Australian-dollar terms. World AUD total returns fell 1.5% as the Australian dollar rose +1.5%, reducing the translation benefit from unhedged global exposure. Defensive assets provided limited support, with composite bonds down 0.8%, government bonds down 0.9% and corporate bonds down 0.3%, while bank bills gained +0.4%.

Commodities delivered the strongest cross-asset signal. The S&P Goldman Sachs Commodity Index, (GSCI) total return jumped 12.1%, lifting six-month and annual gains to 26.7% and 41.1%. Gold rose 1.6% and remains up 23.8% annually. The commodity rebound supported energy equities but also highlighted the tension facing central banks: growth has softened, while some price pressures have not fully normalised.

In the US, the Federal Reserve held the federal funds target range at 3.50%–3.75% at its 29 July meeting, but the decision was not dovish. Three policymakers dissented in favour of a 25bp hike, with the statement noting that inflation remained above the 2% goal, and activity described as expanding solidly with unemployment little changed. This was a hawkish hold, not the start of an easing cycle.

Locally, the case for another interest rate hike by the Reserve Bank of Australia (RBA) has faded materially. An August increase now looks highly unlikely, effectively marking the completion of the hiking cycle, though the RBA will not declare victory while services inflation and labour costs remain elevated. Recent CPI data and a more dovish tone from the RBA Governor both point to easing inflation pressure. Headline inflation eased to 3.8%, the monthly CPI fell 0.1%, and the quarterly trimmed mean was below consensus. International travel costs were the largest recent contributor, while broader price pressures were mild.

Our view is that disinflation is becoming increasingly broad-based, albeit uneven. Annual inflation appears to have peaked in 3Q25, and the removal of July 2025's spike should produce friendlier prints through the rest of the year. Electricity should subtract around 50 bps from annual inflation next month, while new dwelling costs should ease into 2027. Rents, hospitality and regulated prices remain persistent, but items still above 4% are increasingly concentrated in meat, gold-related categories and administered prices rather than broad private-sector demand. The labour market is cooling rather than collapsing: unemployment was steady at 4.4%, employment rose strongly, underemployment increased to 6.5% and participation rose.

Taken together, July's data and the RBA Governor's tone suggest policy is restrictive enough. Rates markets have rallied, and the key risk is shifting from further hikes to the timing of eventual easing. We expect the RBA to remain on hold until early 2027, before commencing a modest easing cycle as growth slows, inflation moderates and spare labour capacity rises.

We are most overweight stocks within the Communication Services, Utilities and Materials sectors, and are underweight Financials, Consumer Discretionary and Industrials.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	8.04	3.40	4.65
Consumer Discretionary	3.64	7.17	-3.53
Consumer Staples	3.84	3.77	0.07
Energy	5.21	4.46	0.74
Financials	29.50	34.58	-5.08
Health Care	5.15	5.56	-0.41
Industrials	3.67	6.83	-3.15
Information Technology	0.00	2.03	-2.03
Materials	27.47	24.98	2.49
Real Estate	6.26	5.86	0.40
Utilities	4.51	1.36	3.15

Top 3 holdings

	Portfolio %	Benchmark %	Active %
Commonwealth Bank of Australia	13.79	10.92	2.87
BHP Group	12.25	11.27	0.99
Westpac Banking	6.58	4.76	1.82

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Rio Tinto	5.52	2.33	3.19
Woodside Energy	5.21	2.30	2.91
Commonwealth Bank of Australia	13.79	10.92	2.87
Underweights			
National Australia Bank	0.00	4.66	-4.66
Wesfarmers	0.00	3.73	-3.73
ANZ	1.41	4.13	-2.73

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.

Income and growth

	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Growth return	-6.45	0.14	0.15	0.17
Distribution return	14.54	8.16	7.45	7.29

The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders by way of income distribution in a 12-month period. It does not include capital distributions.

Fund Metrics*

	Price to Earnings Ratio	Forecast Dividend Yield (pre franking)
Fund	16.80	4.15
Index	16.59	3.57
Difference	0.21	0.59

* Consensus estimated, Factset, NTM

Features

Investment objective	To provide a tax-effective income stream that exceeds the dividend yield of the S&P/ASX 200 Accumulation Index (grossed up for franking credits) by 2% p.a. over rolling five-year periods, before fees, expenses and tax, plus the potential for capital growth over the long-term.	
Recommended investment time frame	5 - 7 + years	
Fund inception	November 2008	
Fund size	A$90.1 mn as at 31 July 2026	
APIR code	TYN0038AU	
Estimated management cost	0.80% p.a.	
Buy/sell spread	+/- 0.15%	
Platform availability	Hub24 Insignia Expand	Netwealth

Applications and contacts

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

Website www.yarracm.com

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