YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 July 2026

Yarra Australian Smaller Companies Fund

Gross returns as at 31 July 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception* % p.a.
Yarra Australian Smaller Companies Fund	-1.59	5.53	5.36	8.02	5.17	9.44
S&P/ASX Small Ordinaries Accumulation Index	-3.17	-3.18	1.81	7.46	2.18	5.52
Excess return (before fees) ‡	1.57	8.71	3.54	0.56	2.99	3.93

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 31 July 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception* % p.a.
Yarra Australian Smaller Companies Fund	-1.66	5.31	4.47	7.11	4.29	8.52
S&P/ASX Small Ordinaries Accumulation Index	-3.17	-3.18	1.81	7.46	2.18	5.52
Excess return (after fees) ‡	1.50	8.49	2.66	-0.35	2.11	3.00

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 fell during the month.

The S&P/ASX Small Ordinaries Accumulation Index returned -3.2% for the month, taking its 12-month return to +1.8%. The broader S&P/ASX 300 Accumulation Index returned +2.1%, whilst globally, the MSCI World Index delivered +0.2% for the month.

Consumer Discretionary (+4.3%) was the largest sector contributor, supported by gains in Domino's Pizza Enterprises (DMP, +18.8%) and Guzman y Gomez (GYG, +18.6%).

Energy (+7.0%) also contributed positively, driven by Viva Energy Group (VEA, +37.7%) and Karoon Energy (KAR, +19.6%). VEA rose strongly on refining margin strength announced during the first half trading update.

Consumer Staples (+2.5%) added to performance, supported by Metcash (MTS, +6.4%) and GrainCorp (GNC, +17.1%).

Materials (-5.7%) was the largest detractor, driven by Lynas Rare Earths (LYC, -22.0%), Liontown (LTR, -13.1%), Alcoa (AAI, -17.0%) and Iluka Resources (ILU, -14.4%). LYC declined as investors focused on weaker production at its expanded processing facilities, whereas LTR fell on weaker lithium prices.

Industrials (-7.4%) weakened, reflecting declines in DroneShield (DRO, -30.0%), Electro Optic Systems Holdings (EOS, -35.0%) and SRG Global (SRG, -15.6%).

Information Technology (-12.0%) was a significant detractor, driven by Weebit Nano (WBT, -48.4%), Megaport (MP1, -16.1%) and SiteMinder (SDR, -17.9%) as investor enthusiasm towards AI related stocks waned.

Real Estate (-2.1%) was lower, reflecting weakness in PEXA Group (PXA, -28.0%) and Centuria Capital Group (CNI, -24.1%).

Financials (-1.3%) were weaker overall, reflecting declines in Zip Co (ZIP, -21.3%) and Pinnacle Investment Management (PNI, -6.6%), partially offset by gains in Perpetual (PPT, +22.3%). ZIP declined following a period of strong share price appreciation in line with the broader rotation away from technology stocks.

Health Care (-2.7%) declined, driven by 4DMedical (4DX, -19.9%), Polynovo (PNV, -6.0%) and Telix Pharmaceuticals (TLX, -14.3%).

Portfolio review

Key Contributors

Guzman Y Gomez (GYG, overweight) – the Mexican quick service restaurant outperformed during the period on limited company specific news flow. Despite mixed sales trends through FY26, long-term value drivers remain intact, with margin upside from the store rollout and store maturation, drive through mix, fixed G&A leverage and royalties all set to drive performance. While headline multiples appear elevated at 54.5-times FY27 P/E, earnings have been understated by US losses (the US business is being exited) and upfront investment in Australia, with a longer-term view of profitability that is more compelling.

Weebit Nano (WBT, underweight) – the semiconductor memory technology company underperformed during the period consistent with underperformance of the broader semiconductor market. We continue to hold an underweight to WBT given ongoing commercialisation risks which we don't believe are appropriately reflected in the share price.

Amplitude Energy (AEL, overweight) – the gas producer outperformed during July as energy prices rose on a resumption of hostilities around the Straits of Hormuz. We are attracted to AEL as the leading small-cap exposure to the increasingly undersupplied east coast gas markets.

Key Detractors

Centuria Capital (CNI, overweight) – the diversified real estate fund manager came under pressure in July following media commentary regarding a credit exposure within their credit fund manager, Centuria Bass. Centuria Bass is a dedicated real estate credit manager, now 100% owned by CNI and making up a little over 10% of total business AUM. We remain focused and mindful of valuation and funding related risks across the real estate sector from both an equity and debt perspective.

Zip Co (ZIP, overweight) – the Buy Now Pay Later (BNPL) operator underperformed following a period of strong performance following its third quarter update and increase to full year earnings guidance. The underperformance followed a similar retreat in US peers, despite strong sectoral operating trends. ZIP has maintained TTV growth, in excess of 40%, whilst managing down credit losses as new products such as 'Pay in 8' season.

Megaport (MP1, overweight) – the global compute and software defined network provider underperformed during the period consistent with the underperformance of the broader semiconductor market and despite no company specific news. 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. MP1's balance sheet remains in net cash position, providing capacity to fund additional new customer additions.

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 in the Financials, Health Care and Consumer Discretionary sectors and are underweight Material, Energy and Industrials.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	5.09	5.21	-0.11
Consumer Discretionary	11.21	10.47	0.74
Consumer Staples	1.89	4.25	-2.35
Energy	2.53	5.59	-3.06
Financials	21.86	12.58	9.28
Health Care	8.62	4.44	4.18
Industrials	12.04	14.64	-2.60
Information Technology	7.55	7.44	0.11
Materials	17.09	24.34	-7.25
Real Estate	10.08	11.06	-0.98

Top 3 holdings

	Portfolio %	Benchmark %	Active %
Breville	4.50	1.20	3.30
Auckland International Airport	4.25	1.02	3.23
AUB Group	4.23	1.31	2.92

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Cuscal	3.47	0.00	3.47
Breville	4.50	1.20	3.30
Auckland International Airport	4.25	1.02	3.23
Underweights			
Ventia	0.00	1.72	-1.72
Codan	0.00	1.70	-1.70
NIB Holdings	0.00	1.32	-1.32

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$130.4 mn as at 31 July 2026
ARSN code	642 665 263
Estimated management cost	0.85% p.a.
Buy/sell spread	+/- 0.30%