YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 July 2026

Yarra Emerging Leaders 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 Emerging Leaders Fund	-1.02	6.91	7.75	8.31	7.22	7.68	10.93
Emerging Leaders Combined Benchmark†	-1.27	0.27	2.14	7.91	4.66	7.76	7.20
Excess return (before fees)‡	0.25	6.64	5.61	0.41	2.56	-0.08	3.73

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 management costs, meaning they do not reflect the deduction of any investment management fees and expenses 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.	10 years % p.a.	Since inception* % p.a.
Yarra Emerging Leaders Fund	-1.13	6.58	6.42	6.98	5.90	6.35	9.62
Emerging Leaders Combined Benchmark†	-1.27	0.27	2.14	7.91	4.66	7.76	7.20
Excess return (after fees)‡	0.14	6.31	4.28	-0.93	1.23	-1.41	2.42

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* Inception date Yarra Emerging Leaders Fund: September 1997

† Comprising 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries Accumulation Index

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

Market review

The Australian mid and small-cap equities market fell during the month.

The Emerging Leaders Benchmark returned -1.3% in July, taking its 12-month return to +2.1%. The broader S&P/ASX 300 Accumulation Index returned +2.1% for the month, whilst globally, the MSCI World Index delivered +0.2%.

Financials (+3.4%) contributed to performance, led by AMP (AMP, +34.0%) and HUB24 (HUB, +17.2%) partially offset by Zip Co (ZIP, -21.3%). AMP outperformed as investors responded to the company's simplification strategy and earnings outlook. Zip declined following a period of strong share appreciation in line with the broader rotation away from technology stocks.

Energy (+6.7%) was also higher, supported by Ampol (ALD, +21.3%), 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 Discretionary (+4.4%) outperformed, supported by PWR Holdings (PWH, +24.5%), Domino's Pizza Enterprises (DMP, +18.8%) and Guzman y Gomez (GYG, +18.6%).

Communication Services (+5.7%) performed strongly, led by REA Group (REA, +15.5%), Seek (SEK, +9.2%) and News Corporation (NWS, +9.3%).

Real Estate (+1.1%) contributed modestly, with Dexus (DXS, +10.9%) rising, while Consumer Staples (+2.4%) was higher on the back of positive moves from Endeavour Group (EDV, +7.1%) and GrainCorp (GNC, +17.1%).

Materials (-4.0%) was the largest detractor, reflecting declines in Liontown (LTR, -42.7%) and Greatland Resources (GGP, -13.1%). Industrials (-5.1%) also declined, led by Electro Optic Systems (EOS, -35.0%), and DroneShield (DRO, -30.0%).

Information Technology (-7.6%) was weaker, driven by Weebit Nano (WBT, -48.4%), Megaport (MP1, -16.1%) and NextDC (NXT, -8.4%) as investor enthusiasm towards AI, semi-conductor and data centre infrastructure waned.

Health Care (-5.5%) declined, reflecting weakness in Pro Medicus (PME, -20.3%), 4DMedical (4DX, -19.9%) and Telix Pharmaceuticals (TLX, -14.3%).

Portfolio review

Key Contributors

Pro Medicus (PME, underweight) – the portfolio's underweight in the radiology healthcare-tech stock contributed to portfolio relative returns as PME fell sharply. While there was no specific company news in the period, we believe a range of factors drove the weakness. Firstly, the general rotation out of higher multiple stocks (PME trades on 95-times forward earnings). Secondly, there were no new contract announcements over the period.

Guzman Y Gomez (GYG, overweight) – the Mexican quick service restaurant outperformed during the period despite 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.

Liontown Resources (LTR, underweight) – our underweight position in the lithium miner was a source of outperformance during the month as the company provided weak FY27 production and cost guidance that disappointed the market. In addition, lithium prices declined 3% (Platts SC6 spodumene) across July. We are cautious on lithium prices, viewing them as excessive at current spot levels around US$2,000/t (SC6). While EV demand has improved in recent months, and stationary energy storage (ESS) is growing off a low base, we believe there is sufficient supply, particularly from curtailed mines in Australia and Africa.

Key Detractors

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.

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 that remains on track for first production in 2028.

NextDC (NXT, overweight) – the leading Australian data centre owner and developer underperformed during the month as data centre supply chain stocks, especially microchip producers, sold off globally. NXT announced a further expansion in contracted capacity during the month, increasing contracted capacity by 11% to 740MW. Importantly, this additional capacity can be accommodated within existing data centres, hence requiring minimal incremental capex or funding beyond current commitments.

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 Consumer Discretionary, Financials and Materials sectors, and are underweight Energy, Real Estate and Industrials.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	6.23	4.68	1.55
Consumer Discretionary	10.34	7.36	2.98
Consumer Staples	4.26	4.35	-0.09
Energy	0.00	5.84	-5.84
Financials	15.18	12.39	2.79
Health Care	5.57	7.35	-1.78
Industrials	9.41	12.55	-3.14
Information Technology	7.44	7.45	-0.01
Materials	28.53	26.25	2.28
Real Estate	6.29	11.01	-4.72
Utilities	0.00	0.77	-0.77

Top 3 holdings

	Portfolio %	Benchmark %	Active %
NextDC	5.09	1.59	3.50
Orica	4.40	1.69	2.71
Dyno Nobel	4.08	0.94	3.14

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
NextDC	5.09	1.59	3.50
Evolution Mining	3.47	0.00	3.47
Block Inc.	3.92	0.70	3.22
Underweights			
Vicinity Centres	0.00	1.65	-1.65
Mineral Resources	0.00	1.59	-1.59
Ampol	0.00	1.48	-1.48

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	0.22	2.81	-0.65	2.16
Distribution return	6.20	4.16	6.55	4.18

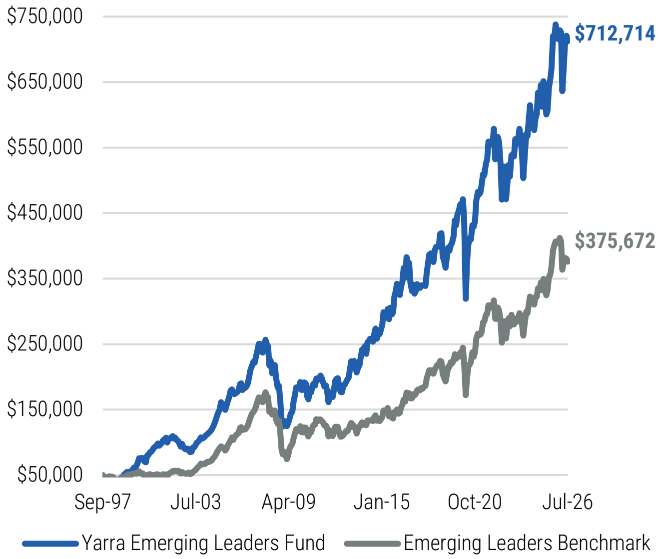
The Growth Return is measured by the movement in the Fund's unit price (inclusive of fees), ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders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

Features

Investment objective	To achieve medium-to-long term capital growth through exposure to small and medium sized Australian companies that are considered to possess strong capital growth potential. In doing so, the aim is to outperform the benchmark over rolling 3-year periods.	
Recommended investment time frame	5 - 7 + years	
Fund inception	September 1997	
Fund size	A$109.8 mn as at 31 July 2026	
APIR code	JBW0010AU	
Estimated management cost	1.25% p.a.	
Buy/sell spread	+/- 0.20%	
Platform availability	Asgard Ausmaq BT Panorama BT SuperWrap Financial Index	Hub24 Macquarie Wrap Mason Stevens MLC Wrap OneVue

Investment performance comparison of $50,000

After fees, since inception of the Yarra Emerging Leaders Fund, September 1997 to July 2026.



For illustrative purposes only. Past performance does not guarantee future results, which may vary. The total net fund returns shown are prepared on an exit to exit basis (i.e. they include all ongoing fees and expenses and assume reinvestment of all distributions). They do not take personal taxation into account. The comparison with the benchmark (comprising 50% S&P/ASX Midcap 50 Accumulation Index and 50% S&P/ASX Small Ordinaries Accumulation Index) is for comparative purposes only. Index returns do not allow for transactional, management, operational or tax costs. An index is not managed and investors cannot invest directly in an index.

Applications and contacts

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

Website www.yarracm.com

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