YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 August 2026

Yarra Australian Smaller Companies Fund

Gross returns as at 31 August 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception* % p.a.
Yarra Australian Smaller Companies Fund	4.25	5.15	1.53	9.77	4.55	10.06
S&P/ASX Small Ordinaries Accumulation Index	5.18	-0.19	-1.22	9.76	2.22	6.33
Excess return (before fees) ‡	-0.93	5.34	2.75	0.02	2.34	3.74

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 August 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception* % p.a.
Yarra Australian Smaller Companies Fund	4.17	4.93	0.67	8.85	3.67	9.14
S&P/ASX Small Ordinaries Accumulation Index	5.18	-0.19	-1.22	9.76	2.22	6.33
Excess return (after fees) ‡	-1.01	5.11	1.90	-0.91	1.45	2.81

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 strongly during the month.

The S&P/ASX Small Ordinaries Accumulation Index returned 5.2% for the month, taking its 12-month return to -1.2%. The broader S&P/ASX 300 Accumulation Index returned +1.6%, whilst globally, the MSCI World Index delivered +2.4% for the month.

Materials (+18.5%) was the largest contributor, driven by gold producers such as Vault Minerals (VAU, +39.8%), Resolute Mining (RSG, +47.3%) and Emerald Resources (EMR, +29.3%), as the gold price rose.

Energy (+10.6%) also contributed strongly, led by New Hope Corporation (NHC, +16.2%), Deep Yellow (DYL, +24.2%), Bannerman Energy (BMN, +44.0%) and Yancoal Australia (YAL, +11.0%).

Industrials (+3.3%) added to performance, supported by Electro Optic Systems Holdings (EOS, +46.8%) and Reliance Worldwide (RWC, +19.0%).

Health Care (+4.0%) was higher with low guidance misses in August, driven by Mesoblast (MSB, +15.1%) and Neuren Pharmaceuticals (NEU, +9.7%).

Information Technology (+2.6%) contributed positively, led by Codan (CDA, +17.2%), Dicker Data (DDR, +17.9%) and Bravura Solutions (BVS, +30.3%), while Megaport (MP1, -8.6%) declined.

Financials (+1.0%) was modestly higher, supported by Pinnacle Investment Management (PNI, +7.5%), FleetPartners Group (FPR, +47.7%) following a takeover offer and L1 Group (L1G, +28.2%), while Generation Development Group (GDG, -22.6%) and NIB Holdings (NHF, -9.3%) weakened.

Real Estate (-7.0%) was the largest detractor, reflecting weakness in Arena REIT (ARF, -27.3%), Ingenia Communities Group (INA, -15.2%) and Centuria Capital Group (CNI, -17.1%).

Consumer Staples (-1.6%) declined, driven by Cobram Estate Olives (CBO, -10.8%), Inghams Group (ING, -9.8%) and Ridley Corporation (RIC, -8.4%).

Consumer Discretionary (-0.6%) was weaker, reflecting declines in Harvey Norman (HVN, -13.0%), IDP Education (IEL, -23.6%) and Flight Centre Travel Group (FLT, -10.8%), partly offset by Bapcor (BAP, +54.6%) and PWR Holdings (PWH, +16.0%).

Portfolio review

Key Contributors

Vault Minerals (VAU, overweight) – the West Australian gold miner outperformed in August as gold prices rallied 9% on softer US economic data driving bond yields lower and weakening the US dollar. We are attracted to the company's long-life, low-cost King of the Hills mine. We note VAU is currently subject to a scrip-based merger offer from peer Genesis Minerals (GMD) that will unlock material synergies given the co-location of key assets coupled with GMD's excess ore and VAU's excess processing capacity.

Genesis Minerals (GMD, overweight) – the gold producer outperformed during August as gold prices rose 9% on lower bond yields and a weakening USD. We are attracted to GMD's strong organic growth profile, with potential to more than double current production to 500koz by 2030. We see sound asset optimization opportunities across the company's mines and milling capacity in the Leonora / Laverton district in WA. We are supportive of the recently announced merger proposal with peer Vault Minerals (VAU), as it will provide genuine operating synergies as GMD's large resource base can be processed through VAU's low cost KoTH mill.

Capstone Copper (CSC, overweight) – the copper producer outperformed during August as copper prices increased by 4% to close at US$6.55/lb on continued strong demand led by EVs and data centres. We maintain a positive view on CSC due to its pure-play leverage to attractive copper markets coupled with the potential to nearly double production by decade end.

Key Detractors

West African Resources (WAF, underweight) – our underweight in the African gold miner was a source of underperformance in August as gold prices rallied 9% on soft US economic data that drove bond yields lower and weakened the US dollar. We remain cautious about the company's elevated sovereign risks operating in Africa, particularly given there are numerous investment alternatives in the gold sector. We prefer lower risk jurisdictions, and our holdings Genesis Minerals (GMD), Vault Minerals (VAU) and Bellevue Gold (BGL) operate solely in Western Australia.

Resolute Mining (RSG, underweight) – our underweight in the African gold miner was a source of underperformance in August as gold prices rallied 9% on soft US economic data that drove bond yields lower and weakened the US dollar. We remain cautious about the company's elevated sovereign risks operating in Africa, particularly given there are numerous investment alternatives in the gold sector. We prefer lower risk jurisdictions, and our holdings Genesis Minerals (GMD), Vault Minerals (VAU) and Bellevue Gold (BGL) operate solely in Western Australia.

Region (RGN, overweight) – the expectation for further RBA rate rises and evidence of slowing underlying retailer sales growth in 2H26 saw the Australian real estate investment trust's share price soften over the month. This occurred despite a result that was broadly in line with expectations, with EPS growth of 4%, and supermarket sales growth of 4.1%, although the specialty sales growth rate moderated in the six months to 30 June, reflecting softer trading conditions. Moving forward, RGN has strong operating fundamentals from its exposure to the convenience retail thematic, albeit with lower expected annual growth in earnings and dividends as debt costs revert upwards over time. Quality assets (98.1% occupied), strong industry fundamentals (low new supply) and attractive valuation (6.5% dividend yield, 0.90-times NTA) support the existing position.

Market Outlook

August was more constructive for growth assets, but leadership rotated sharply. The S&P/ASX 200 Index added 1.5%, briefly trading near record highs during reporting season, while small-cap Australian equities rebounded 5.2% as breadth improved and investors looked beyond banks and resources. The move was not uniformly risk-on: Australian listed property fell 7.0% as higher long-end bond yields again weighed on duration-sensitive valuations.

Sector performance reflected the push and pull between stronger risk appetite and higher discount rates. Small caps were the standout domestic equity signal, suggesting some recovery in confidence after sustained underperformance. By contrast, REITs remained under pressure from rising global sovereign yields and concerns that rate-sensitive cash flows would struggle to re-rate while central banks retained tightening biases. Gold was the clearest winner, surging 9.7% as geopolitical risks, fiscal concerns and renewed currency-debasement fears lifted demand for hard assets.

Offshore markets were mixed for Australian investors. Global equities benefited from resilient activity and AI-related investment themes, but Australian-dollar returns were diluted by a firmer currency. Bond markets offered little diversification: long-dated yields rose across Europe, the United Kingdom and Japan as investors demanded more compensation for fiscal risk and persistent inflation. Equities could still rise, but the cost of capital remained the dominant macro constraint.

Commodities reinforced the inflation-risk theme. Oil prices firmed on persistent Middle East tensions and supply concerns, while gold's rally signalled unease about geopolitics and the credibility of fiscal-monetary settings. Commodity strength helped energy-linked exposures but complicated the macro narrative: growth indicators were softening, yet external price shocks meant central banks could not confidently declare inflation risks had passed.

In the United States, there was no meeting scheduled for the Federal Open Market Committee (FOMC) in August however the policy signal strengthened. The July FOMC decision to hold at 3.50%–3.75% already carried a hawkish message, with three dissents in favour of a hike. Chair Kevin Warsh's Jackson Hole speech reinforced that bias, arguing inflation had not yet shown a meaningful improvement in underlying trends and noting that the Federal Reserve (Fed) would have "work to do" if inflation did not move clearly toward 2%. Markets lifted near-term hike probabilities as a result and we do expect that the Fed will hike at the September meeting.

Locally, the Reserve Bank of Australia (RBA) held the cash rate unchanged at 4.35% at its August meeting. The Board judged policy to be somewhat restrictive and acknowledged softer consumer spending, housing and labour market conditions. However, it also stressed that inflation remained too high, and noted that July inflation data showed a further buildup of supply-side pressures.

With virtually all major central banks poised to lift rates, the Australian inflation data now makes it likely the RBA will deliver one further hike in September. The hike will likely be framed around inflation momentum, weak productivity and growth still near the Bank's estimate of potential. The RBA will probably keep optionality open, but we expect this to be the final hike as, by year-end, growth should be clearly below potential and the unemployment uptrend more ominous. Late-cycle hikes are always risky; hiking into slowing growth, falling asset prices and rising unemployment is unprecedented in the inflation-targeting era. As a consequence, expect Australia's economic growth to slow below 1% into early 2027 and for the RBA to commence its easing cycle by mid-2027.

We are most overweight stocks in the Financials, Health Care and Information Technology sectors and are underweight Materials, Energy and Communication Services.

Sector allocation

	Portfolio %	Benchmark %	Active %
Communication Services	2.18	4.97	-2.78
Consumer Discretionary	10.10	9.89	0.21
Consumer Staples	1.66	3.98	-2.32
Energy	2.57	5.89	-3.32
Financials	21.40	12.02	9.38
Health Care	8.59	4.39	4.20
Industrials	11.62	14.35	-2.73
Information Technology	7.73	7.25	0.48
Materials	18.37	27.48	-9.11
Real Estate	10.12	9.78	0.34

Top 3 holdings

	Portfolio %	Benchmark %	Active %
Vault Minerals	4.43	2.36	2.07
Breville	4.18	1.13	3.05
AUB Group	4.17	1.31	2.86

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.

Key active positions

Overweights	Portfolio %	Benchmark %	Active %
Cuscal	3.58	0.00	3.58
Breville	4.18	1.13	3.05
Auckland International Airport	4.00	0.98	3.02
Underweights			
Codan	0.00	1.90	-1.90
Ventia	0.00	1.53	-1.53
West African Resources	0.00	1.47	-1.47

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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$144.4 mn as at 31 August 2026
ARSN code	642 665 263
Estimated management cost	0.85% p.a.
Buy/sell spread	+/- 0.30%