YARRA
CAPITAL MANAGEMENT

Investment Commentary
Quarter to 30 September 2026

Yarra Growth Fund

Net returns as at 30 September 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)	-1.90	0.95	7.21	-3.59	9.64	5.36	7.26	6.93
Fund growth return (net)	-1.90	0.95	-1.50	-12.04	2.28	-0.01	1.59	1.42
Fund distribution return (net)	0.00	0.00	8.71	8.45	7.36	5.37	5.67	5.51
Benchmark*	0.09	0.85	9.34	6.69	13.70	8.96	9.74	8.50

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 0.95% for the September quarter, outperforming its composite benchmark return of 0.85% by 10 basis points.

Australian Equities

The S&P/ASX 200 Accumulation Index rose by 1.33% over the quarter, amid continued instability in the Middle East effecting energy prices and sticky inflation which saw the Reserve Bank of Australia (RBA) raise the cash rate in September.

The Fund's Australian Equities allocation underperformed its benchmark over the quarter, with all three underlying strategies lagging the broader market. The Yarra Australian Equities Fund returned 1.07%, the Yarra Ex-20 Australian Equities Fund 0.61%, and the Yarra Australian Smaller Companies Fund -2.89%.

Sector performance was broadly dispersed over the quarter. Health Care (+26.9%) and Energy (+17.4%) were the strongest performers, supported by a robust reporting season and elevated energy prices, respectively. Materials (+4.6%) and Utilities (+3.1%) also outperformed the broader market. In contrast, interest rate-sensitive sectors underperformed, with Consumer Discretionary (-9.9%), Real Estate (-8.7%) and Information Technology (-7.6%) recording the weakest returns. Industrials (-3.9%), Communication Services (-3.4%), Financials (-0.9%) and Consumer Staples (-0.4%) also lagged the broader market.

Global Equities

The MSCI AC World Index (AUD, unhedged) returned 1.18% over the quarter. The Fund's Global Equities allocation outperformed, supported by a strong contribution from its core holding, the Yarra Global Share Fund (2.70%). This was partially offset by the smaller allocation to the Yarra Global Small Companies Fund, which returned -2.38% in absolute terms but significantly outperformed its benchmark, the MSCI World Small Cap Index (AUD), which declined 4.10%.

Global equities remained near all-time highs despite volatility driven by AI investment, rising bond yields and higher energy prices. AI-related stocks continued to lead, while rising yields pressured growth valuations and favoured value-oriented sectors. Geopolitical tensions also pushed Brent crude above US$100 per barrel, supporting Energy sector performance and reigniting inflation concerns.

Sector performance was concentrated, with Information Technology and Communication Services leading, followed by Healthcare and Financials. Higher yields weighed on Industrials, Utilities, Real Estate and Consumer sectors.

Regional performance was mixed. Japan and the US benefited from strong earnings momentum and AI investment, while Europe lagged amid weaker growth prospects and limited AI exposure. The UK proved more resilient, supported by its greater exposure to Financials, Energy and value-oriented sectors.

Key contributors included IQVIA Holdings Inc., following strong Q2 results and upgraded full-year guidance, Microsoft Corporation, as confidence grew in the commercial returns from its AI investments, and NVIDIA Corporation, following another strong earnings report.

Key detractors included the Fund's nil holding in Apple Inc., which outperformed as investors sought defensive exposure amid a reversal in AI-related momentum. Curtiss-Wright Corporation underperformed despite strong Q2 results and upgraded full-year guidance, following a significant earlier rally. TransDigm Group Incorporated also detracted as higher interest rates weighed on its elevated debt levels, while

Aerospace & Defence stocks faced pressure amid expectations of a potential US military withdrawal from the Middle East.

Australian Fixed Interest

The Bloomberg AusBond Composite 0+ Yr Index declined by 1.51% over the quarter. Overall, the Fund's Australian Fixed Interest allocation outperformed the benchmark. While the Yarra Australian Bond Fund (-1.80%) underperformed the index, the Yarra Enhanced Income Fund (0.30%) contributed positively to performance.

The September quarter was characterised by a sharp rise in global bond yields and elevated market volatility. Escalating conflict between the US and Iran drove energy prices higher and renewed inflation concerns throughout the period. At the same time, resilient economic data and increasingly hawkish rhetoric from major central banks led markets to reassess the outlook for policy rates. By quarter-end, investors had shifted from expecting eventual rate cuts to pricing the risk of further policy tightening in several major economies.

Australian bond yields moved higher across the curve over the quarter. Three-year government bond yields rose from 4.36% to 4.94%, while 10-year government bond yields increased from 4.72% to 5.37%. Yield curves steepened overall as longer-dated yields rose more than the front end. Global concerns surrounding inflation, sovereign debt funding requirements and the prospect of additional rate hikes in the US, Japan and Europe all contributed to higher yields. Domestically, the RBA delivered a further 0.25% cash rate increase during September, although global factors were the dominant driver of market performance over the quarter.

The Yarra Australian Bond Fund remained overweight duration relative to benchmark throughout the quarter. While yield curve positioning contributed positively at times, the significant rise in bond yields more than offset these gains and duration was the primary detractor from performance. Bond yields traded in wide ranges during the period, reflecting shifting expectations around inflation, monetary policy and geopolitical developments.

The portfolio is overweight spread products, primarily in RMBS and other financials, semi-governments (Australian states) and supranational agencies. Corporate spread exposure is concentrated in sub-5-year bonds, with semi-government and supranational exposure predominantly between 5 and 15 years. Credit spreads were generally resilient through July and August before widening modestly from historically tight levels in September. Semi-government spreads also experienced some widening early in the quarter following increased issuance but remained supported overall.

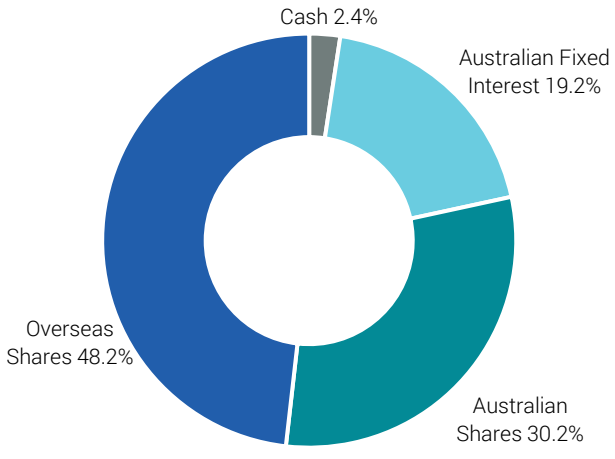
We continue to expect yield curves to steepen as markets adjust to a higher-for-longer inflation environment and ongoing funding requirements from sovereign and corporate borrowers. While cash rate reductions appear unlikely in the near term, bond markets continue to price relatively elevated terminal policy rates. Provided inflation does not reaccelerate materially, we expect government bond yields to moderate over time, led by the front end of the curve.

The Yarra Enhanced Income Fund had a positive quarter, supported primarily by strong income generation and generally resilient credit market conditions. Carry remained the largest contributor to performance throughout the period, with the Fund's high running yield helping offset periods of bond market volatility and higher interest rate expectations. Credit spreads generally tightened during July before moving slightly wider through August and September off the back of strong supply and risk off sentiment. Overall, credit spread movements contributed positively to performance, however, our duration exposure detracted from performance as markets increasingly priced a more aggressive interest rate path amid persistent inflation concerns and sustained geopolitical uncertainty.

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**

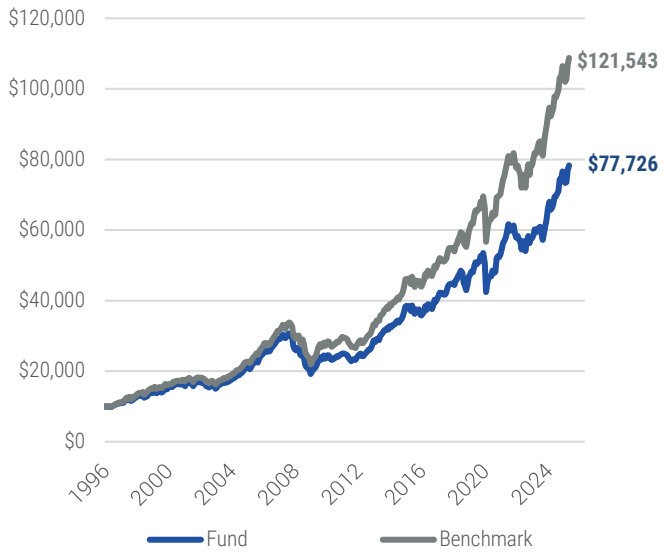
Asset Allocation at Quarter End



Source: YFM, Citi

Performance Graph

After fees, since inception of the Yarra Growth Fund, February 1996 to September 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 but remaining somewhat volatile, slightly higher unemployment and elevated interest rates. The economy continues to be supported by population growth, public spending, technology and AI-related investment, a labour market that remains relatively resilient and a demographic tailwind, with wealthier older households, who are less sensitive to interest rates, continuing to spend. 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 monetary policy stance as inflation has proved more persistent than anticipated. Following a series of rate increases throughout 2026, the cash rate was lifted by 25 basis points to 4.60% at the board's September meeting, ending a multi-month pause and marking a cumulative 100-basis-point tightening for the year. The board noted that previously identified upside risks had materialised, driven by a broadened Middle East conflict inflating global oil supply prices, stronger-than-expected domestic inflation outcomes, rising corporate cost pressures, and a surge in technology goods pricing linked to intensive AI and data-centre demand. While the board considered weaker housing activity, low consumer confidence, and early signs of a cooling labour market, it ultimately decided that pressure on domestic capacity required decisive action. The RBA continues to maintain a hawkish bias, reaffirming its readiness to raise rates if inflation fails to sustainably track back toward the target 2-3% range.

With inflation remaining above the RBA's 2–3% target, borrowing costs are likely to remain elevated over the short to medium term. The RBA faces a delicate balancing act between containing domestic demand and supporting a softening labour market, with unemployment around 4.6% and potentially edging higher as below-trend growth weighs on hiring. Nevertheless, unemployment remains low by historical standards, while the RBA has limited capacity to mitigate externally driven energy price shocks.

Consumer confidence remains fragile, as cost-of-living pressures, persistent inflation, and geopolitical uncertainty continue to weigh on household sentiment. With concern about global energy prices rising and the unwinding of the temporary fuel excise reduction expected to place upward pressure on domestic fuel prices, adding to household cost-of-living pressures and slowing the pace of disinflation. As a result, households remain cautious, prioritising essential spending over discretionary purchases. Consumer pessimism also remains unusually elevated relative to the low unemployment rate, while softening housing prices are likely to further constrain consumption by reducing the household 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 4.5% in 2026 and the low-4% range in 2027, 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 continued strength in 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 and 1.8% in 2027. 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. The recent U.S. rate increase, coupled with elevated Treasury yields amid persistent inflation, fiscal pressures and substantial borrowing requirements, is expected to tighten global financial conditions and place upward pressure on borrowing costs and bond yields, with these effects already evident in Australian bond markets. At the same time, continued 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$67mn as at 30 September 2026	**Distribution Frequency** Half Yearly
Minimum Investment AUD 2,000	

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