

Yarra Higher Income Fund

Gross returns as at 31 July 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception [^] % p.a.
Yarra Higher Income Fund*	1.31	2.61	10.31	6.31	4.67	5.18
RBA Cash Rate [#]	0.36	1.08	4.29	2.56	1.68	1.64
Excess return [‡]	0.95	1.53	6.01	3.75	2.99	3.54

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 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception [^] % p.a.
Yarra Higher Income Fund*	1.25	2.44	9.59	5.62	3.99	4.51
Growth return [†]	0.84	1.18	3.79	-0.03	-1.18	-0.41
Distribution return [†]	0.41	1.26	5.80	5.65	5.17	4.91
RBA Cash Rate [#]	0.36	1.08	4.29	2.56	1.68	1.64
Excess return [‡]	0.89	1.36	5.30	3.06	2.31	2.86

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* Effective 15 March 2022, the Fund's name was changed to the Yarra Higher Income Fund. There was no change to the Fund's investment strategy.

[^] Inception date: October 2018.

[†] Growth returns are measured by the movement in the Yarra Higher Credit Fund's unit price, ex-distribution. Distribution return is the proportion of the total return which is paid to unitholders by way of distribution. It does not include distribution amounts deemed as capital distributions.

[#] The RBA Cash Rate is being used for comparative purposes only. The underlying assets of the Fund are of a higher risk profile than cash assets. When comparing performance of the Fund against the RBA Cash Rate, investors should take this into account.

[‡] The excess return figures shown represent the difference between the Fund's return and the RBA Cash Rate.

Portfolio review

The Yarra Higher Income Fund returned 1.25% (net basis) over the month, outperforming the RBA Cash Rate by 89 bps. On a 12-month view the Fund returned 9.59% (net basis), outperforming the RBA Cash Rate by 530 bps.

Our duration position was the story of the month, with our exposure to interest rates proving to be a strong contributor to performance. With some spread tightening during the month, capital return was strong across all asset classes. Our allocation to RMBS and ABS continued to provide strong income and carry on the portfolio continues to benefit from the higher rate environment.

During the month we increased our exposure to private debt, taking part in our second RMBS warehouse deal. We were also active participants in the Tier 2 deals issued from Westpac, ANZ and Banco Santander which all priced at attractive levels.

Market review

A busy month in markets has seen geopolitics again take centre stage, with Joe Biden dropping out of the US Presidential race and Republican candidate Donald Trump surviving an assassination attempt. Tensions in the Middle East escalated further, increasing fears of a larger conflict and pushing oil prices higher. The Bank of Japan lifted its short-term policy rate to 0.25% as inflation nears its 2% target. The Federal Open Market Committee (FOMC) kept rates on hold, with Chair Powell highlighting the dual mandate of the FOMC and emphasising a cooling labour market. Given this, US bonds rallied towards the end of the month, with the US 10-year yield tightening 22 bps to 4.15%.

With no Reserve Bank of Australia (RBA) meeting in July, interest rates remained at 4.35%. Domestic quarterly CPI came in at 1.0% (q/q), with trimmed mean inflation coming in lower than expected at 0.8%. This was a critical data point for the RBA, given that monthly numbers had the market pricing a small chance of an August rate hike. Retail sales were slightly

higher than expected at 0.5% (m/m) as retailers continued strong discounting. Unemployment data for June was in line with consensus at 4.1%, confirming continuing weakness in the economy. Off the back of weaker data, Australian Government bonds rallied, with the yield curve steepening. The Australian 10-year yield rallied 20 bps to 4.11% and the 3-year yield rallied 32 bps to 3.76%.

Corporate credit and hybrid spreads tightened marginally during July. Slow new issuance has led to increased activity in secondary markets, although those deals that launched during the month continued to see high levels of oversubscription, with issuance spreads compressing. While corporate balance sheets have remained strong, reporting season should provide insight into the impact of weaker economic data on corporate Australia. The Australian iTraxx tightened 5 bps to 65 bps.

Outlook

With the RBA remaining steadfast in its goal to reduce inflation into its target band of 2-3%, we believe interest rates will remain on hold for the August meeting. While the quarterly CPI data does prove that we are moving in the right direction after some volatile monthly reads, the RBA will likely wait until the next quarterly CPI read before making any determinations on rate cuts. We expect economic data will continue to weaken over the near term as the impact of higher rates continues to flow through to consumers and the employment market.

Credit spreads have continued to tighten, with demand remaining high as investors chase outright yields. Australian credit spreads remain attractive to domestic and foreign investors given the quality of the corporate debt markets. While corporate balance sheets are generally in good shape, the domestic reporting season will likely begin to evidence some weakness in companies lower down the credit rating spectrum. However, we do expect strong demand to continue to outweigh supply across much of the Australian corporate credit and hybrid markets, with liquidity in the secondary market remaining strong. In this context, we continue to expect further tightening in corporate credit and hybrid spreads.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.46
Credit spread (bps)	248
Average weighted issue credit rating	BBB+
Average weighted ESG rating	BBB+
Yield to expected maturity (%)	5.90
Effective duration (years)	1.48
Spread duration (years)	3.13
Number of securities	115

Sector allocation

	Portfolio %
Asset Backed Securities	1.10
Banks	36.90
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	3.99
Energy	1.36
Health Care	0.76
Industrials	6.93
Information Technology	-
Insurance	11.69
Materials	-
Mortgage-Backed Securities	9.73
Private Debt	4.01
Real Estate	3.83
Syndicated Loan	5.46
Utilities	2.02
Cash and Other	12.22

Security allocation

	Portfolio %
Tier 1	5.18
Tier 2	42.78
Subordinated	2.45
Mortgage Backed	9.73
Asset Backed	1.10
Senior	17.07
Private Debt	4.01
Syndicated Loan	5.46
Cash and Other (incl. derivatives)	12.22

Top 10 holdings

Issuer	ISIN	Portfolio%
Suncorp Group	AU3FN0055802	2.67
Insurance Australia Group	AU3FN0047544	2.66
ANZ Banking	AU3FN0077939	1.82
Rabobank	AU3FN0072732	1.82
National Australia Bank	AU3FN0075966	1.80
Westpac Banking	AU3FN0086328	1.79
Westpac Banking	AU3CB0311140	1.79
Commonwealth Bank	AU3FN0082251	1.78
HSBC Holdings	AU3FN0085726	1.78
Macquarie Bank	AU3FN0061065	1.77

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.

Credit rating profile

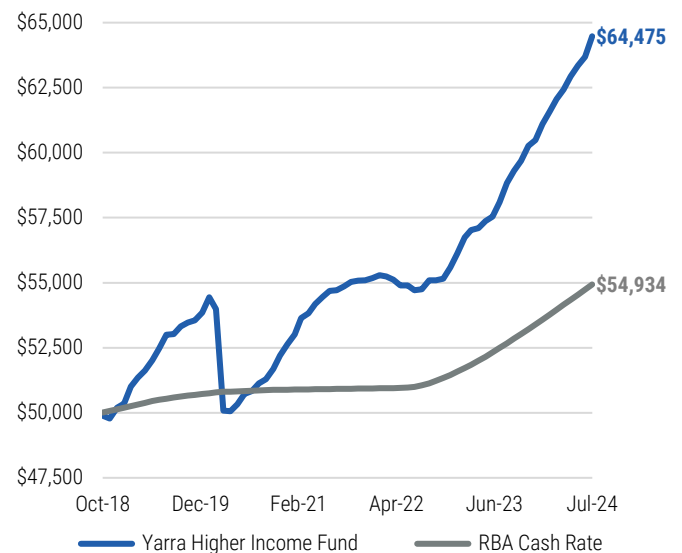
	Portfolio %
AA	3.33
AA-	14.70
A+	-
A	2.37
A-	15.30
BBB+	16.47
BBB	18.92
BBB-	8.37
BB+	4.04
BB	8.90
BB-	5.74
B+	1.43
B	-
B-	0.43
NR or Below	-

Features

Investment objective	Over the medium-to-long term, the Fund seeks to earn higher returns than traditional fixed income by investing in a highly diversified floating rate portfolio of predominantly Australian domiciled credit securities.	
Fund inception	October 2018	
Fund size	A\$114.6 mn as at 31 July 2024	
APIR Code	JBW4379AU	
Estimated management cost	0.65% p.a.	
Buy/sell spread	+/- 0.10%	
Distribution frequency	Monthly	
Platform availability	Hub24 Macquarie Wrap	Netwealth

Investment performance comparison of \$50,000

After fees, since inception of the Yarra Higher Income Fund, October 2018 to July 2024.



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 RBA Cash Rate is for comparative purposes only. Note that the minimum initial investment amount for the Yarra Higher Income Fund is \$10,000.

Applications and contacts

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

Website www.yarracm.com

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