

Yarra Higher Income Fund

Gross returns as at 31 May 2024

| | 1 month % | 3 months % | 1 year % | 3 years % p.a. | 5 years % p.a. | Since inception [^] % p.a. |
|----------------------------|--------------|---------------|-------------|-------------------|-------------------|---|
| Yarra Higher Income Fund* | 0.72 | 2.26 | 10.81 | 5.86 | 4.69 | 4.99 |
| RBA Cash Rate [#] | 0.36 | 1.08 | 4.25 | 2.32 | 1.57 | 1.56 |
| Excess return [‡] | 0.36 | 1.18 | 6.56 | 3.53 | 3.12 | 3.43 |

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 May 2024

| | 1 month % | 3 months % | 1 year % | 3 years % p.a. | 5 years % p.a. | Since inception [^] % p.a. |
|----------------------------------|--------------|---------------|-------------|-------------------|-------------------|---|
| Yarra Higher Income Fund* | 0.66 | 2.10 | 10.09 | 5.17 | 4.02 | 4.32 |
| Growth return [†] | 0.25 | 0.84 | 4.11 | -0.57 | -1.05 | -0.59 |
| Distribution return [†] | 0.42 | 1.26 | 5.98 | 5.74 | 5.07 | 4.90 |
| RBA Cash Rate [#] | 0.36 | 1.08 | 4.25 | 2.32 | 1.57 | 1.56 |
| Excess return [‡] | 0.30 | 1.02 | 5.84 | 2.85 | 2.45 | 2.75 |

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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 0.66% (net basis) in the month of May, outperforming the RBA Cash Rate by 30 bps. On a 12-month view the Fund returned 10.09% (net basis), outperforming the RBA Cash Rate by 584 bps.

Carry continues to underpin positive Fund performance and is providing strong downside protection in volatile markets. Moreover, further spread contraction across a number of segments was additive to monthly performance.

Corporate issuance picked up during the month with a number of primary deals coming to the market. This coupled with several RMBS mandates being announced has allowed us to be selective in the deals that provide the best risk adjusted returns. We expect that outright yields will remain high in 2024 and continue to actively trade to position.

Market review

Globally, government bond yields rallied during the month. Most central banks continued their signalling of rate cuts with the European Central Bank (ECB) preparing to cut rates at their June meeting. Japan saw an increase in Core CPI 1.9% (y/y) up from 1.6% (y/y) last month. The US looks poised to keep rates on hold in the near term with the market pricing a 44% chance of a cut by September. Data from the US remained mostly in line with expectations, with CPI coming in at 3.4% (y/y) and PCE Deflator at 2.7% (y/y). The US 10-year yield moved 18 bps tighter to 4.50%.

Domestically, the Australian 3-10 yield curve flattened with the 3-year bonds selling off and 10-year bonds rallying. The Reserve Bank of Australia (RBA) held the cash rate at 4.35% with Michelle Bullock remaining neutral, reaffirming on the RBA's goal of bringing down inflation. Headlines on the volatility surrounding data releases were prevalent during the month, with CPI data coming stronger than expected at 3.6% (y/y) (3.4% estimate) and retail sales coming in below

expectations at 0.1% (m/m) (0.2% estimate). The Australian 10-year yield closed the month 1bps tighter at 4.41%.

Corporate credit and hybrid spreads continued to tighten on the month. Demand for primary issuance has remained strong with deals often 2-3 times oversubscribed. Secondary markets have also remained active given the level of demand. During the month several new deals came to market, notably NAB came in with a A\$1.25 billion Tier 2 Deal which followed their NABPK Tier 1 issuance. Given recent tightening in spreads we have also seen a more diversified pool of issuers with Flinders Ports, ETSA, Registry Titles (Queensland) and Ausnet all coming to market with deals. The RMBS market has continued issuance at a record pace as it continues to provide a cheap source of funding for ADIs. The Australian iTraxx moved 7 bps tighter to 65.78.

Outlook

With the RBA remaining steadfast in their goal to reduce inflation to their 2-3% target it is likely we will continue to see interest rates hold. During the past few months, data has been volatile, and this volatility has been the catalyst for market revisions on both the timing and magnitude of rate cuts. In our opinion, the data continues to show a weakening consumer and that inflation is generally trending in the right direction.

Credit spreads have continued to tighten with demand remaining high as investors chase outright yields. We expect the Australian RMBS market to see further spread tightening as the market continues to absorb the record supply. Australian credit corporate spreads also remain attractive to domestic and foreign investors given the quality of the corporate debt markets. While corporate balance sheets are generally in good shape, higher interest rates for longer are likely to start impacting the credit quality of companies further 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 to remain strong. In this context, we continue to expect further tightening in corporate credit and hybrid spreads.

Portfolio profile

Portfolio characteristics

| | Portfolio |
|--------------------------------------|-----------|
| Current yield (%) | 6.82 |
| Credit spread (bps) | 273 |
| Average weighted issue credit rating | BBB |
| Average weighted ESG rating | A+ |
| Yield to expected maturity (%) | 6.60 |
| Effective duration (years) | 1.03 |
| Spread duration (years) | 3.18 |
| Number of securities | 100 |

Sector allocation

| | Portfolio % |
|----------------------------|-------------|
| Asset Backed Securities | 1.04 |
| Banks | 29.40 |
| Communication Services | - |
| Consumer Discretionary | - |
| Consumer Staples | - |
| Diversified Financials | 5.37 |
| Energy | 2.04 |
| Health Care | 0.35 |
| Industrials | 10.70 |
| Information Technology | - |
| Insurance | 8.22 |
| Materials | - |
| Mortgage-Backed Securities | 14.67 |
| Private Debt | 3.96 |
| Real Estate | 5.70 |
| Syndicated Loan | 8.24 |
| Utilities | 3.04 |
| Cash and Other | 7.26 |

Security allocation

| | Portfolio % |
|------------------------------------|-------------|
| Tier 1 | 6.98 |
| Tier 2 | 27.58 |
| Subordinated | 5.05 |
| Mortgage Backed | 14.67 |
| Asset Backed | 1.04 |
| Senior | 25.22 |
| Private Debt | 3.96 |
| Syndicated Loan | 8.24 |
| Cash and Other (incl. derivatives) | 7.26 |

Top 10 holdings

| Issuer | ISIN | Portfolio% |
|---------------------------------|--------------|------------|
| Aurizon Finance | AU3CB0278380 | 2.39 |
| National Australia Bank | AU3FN0055224 | 2.37 |
| Perenti Finance | USQ7390AAB81 | 2.03 |
| Cimic Finance | USQ24249AA42 | 2.00 |
| Project Highland | XXAU0PJHIL24 | 1.99 |
| Project Pineapple | XXAU0JPIN10 | 1.98 |
| VGR Bidco Facility | XXAU0VGRB010 | 1.97 |
| Firstmac Mortgage Funding Trust | AU3FN0076923 | 1.71 |
| QBE Insurance Group | AU3FN0078747 | 1.40 |
| Hollard Insurance Company | AU3FN0083382 | 1.39 |

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

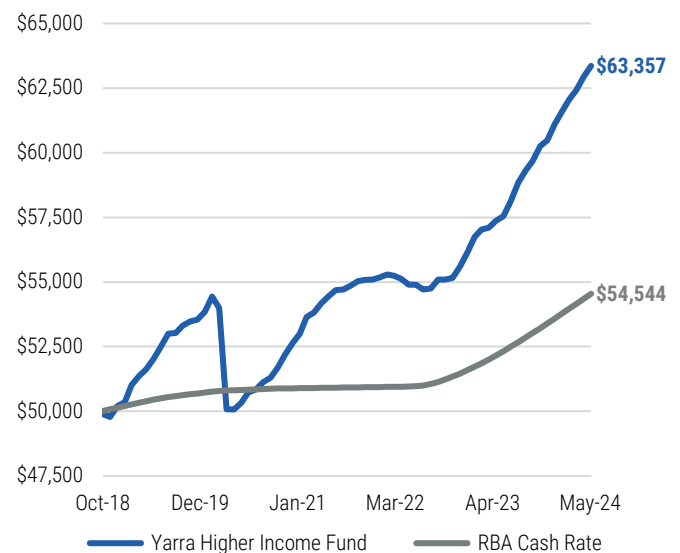
| | Portfolio % |
|-------------|-------------|
| AA | 4.10 |
| AA- | 10.98 |
| A+ | - |
| A | 3.13 |
| A- | 10.85 |
| BBB+ | 9.88 |
| BBB | 23.25 |
| BBB- | 10.35 |
| BB+ | 5.10 |
| BB | 11.72 |
| BB- | 8.65 |
| B+ | 1.32 |
| B | - |
| B- | 0.66 |
| NR or Below | - |

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\$75.9 mn as at 31 May 2024 | |
| Estimated management cost | 0.65% p.a. | |
| Buy/sell spread | +/- 0.10% | |
| Distribution frequency | Monthly | |
| Platform availability | Hub24 | Netwealth |
| | Macquarie Wrap | |

Investment performance comparison of \$50,000

After fees, since inception of the Yarra Higher Income Fund, October 2018 to May 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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