YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 October 2024

Yarra Higher Income Fund

Gross returns as at 31 October 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.60	2.20	9.88	6.78	4.90	5.34
RBA Cash Rate#	0.36	1.08	4.36	2.92	1.85	1.76
Excess return‡	0.23	1.12	5.52	3.86	3.06	3.59

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 October 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.54	2.03	9.16	6.09	4.23	4.66
Growth return†	-0.02	0.38	3.39	0.12	-1.04	-0.33
Distribution return†	0.56	1.65	5.77	5.97	5.27	4.99
RBA Cash Rate#	0.36	1.08	4.36	2.92	1.85	1.76
Excess return‡	0.18	0.95	4.81	3.17	2.38	2.91

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.

* **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 0.54% (net basis) over the month, outperforming the RBA Cash Rate by 18 bps. On a 12-month view the Fund returned 9.16% (net basis), outperforming the RBA Cash Rate by 481 bps.

The positive overall return has been driven by the continued tightening of credit spreads. In this context, our allocation to subordinated debt has seen strong price performance with Tier 2 and Tier 1 debt being substantial contributors. We have also seen meaningful contribution from USD senior issuance. With the higher for longer mantra of the Reserve Bank of Australia (RBA) the elevated running yield on the fund has allowed us to benefit from strong income returns.

During the month we entered a Credit Default Swap position to reduce our exposure to any adverse movements in spreads during the US election. We were active participants in primary markets during the month, taking part in a number of RMBS transactions, alongside the Judo Bank Tier 2 deal and Blue Owl Senior deal. Our exposure to syndicated loans increased as we took part in a new deal, as the sector continues to provide attractive premiums. We continue to actively trade position looking for the best risk adjusted return.

Market review

The heightened build up to the US election has seen bond markets react to polling data with US yields selling off during the month. Both the short and long end of the curve sold off with the 2-year yield increasing 60 bps to 4.17% and the 10-year yield increasing to 4.28%. Data in the US during the month has mostly been in line with expectations as the Personal Consumption Expenditures Index (PCE) remained benign at 0.2%. In terms of rate expectations there are still approximately 50 bps of cuts priced in for the remainder of 2024. Globally, the Bank of Japan (BoJ) Governor Ueda, has made hawkish comments in the context of negative real interest rates. The Reserve Bank of New Zealand and the Bank of Canada both cut rates another 50 bps.

Domestically, there was no central bank meeting during October and rates remained on hold during the November meeting at 4.35%. While the quarterly CPI read was promising, core inflation has remained above the RBA's 3% target. However, headline inflation has moved into the target band at 2.8% which has seen the market remain consistent in its pricing of future rate cuts. The Australian 3-Year yield sold off 50 bps to 4.02% and the 10-Year yield sold off 50 bps to 4.50% with the curve remaining at 48 bps.

During the month new deal flow began to slow as corporate issuers were hesitant in the face of market volatility preceding the US election. While issuance slowed late in the month, there was no shortage of demand in early October with a number of Tier 2 deals coming to market. Deals still saw large bookbuilds and were oversubscribed as strong demand for Australian Credit continued. We have seen Major Bank Tier 1 and Tier 2 continue their impressive spread tightening as strong balance sheets and robust capital structures remain in high demand. The Australian ITraxx widened 3 bps to 66 bps.

The RMBS/ABS market continued its record issuance throughout the month with plenty of demand for the asset class. Issuance spreads continued to tighten further as investors absorbed the increased supply. Private debt continues to be a preferred source of funding for companies further down the credit spectrum with attractive illiquidity premiums seeing more investors moving into the sector.

Outlook

With the RBA maintaining rates at 4.35% at the beginning of November it appears that rate cuts are most likely to begin in 2025. While headline inflation has moved into the band at 2.8%, the RBA is sighting higher core inflation as an ongoing concern. We expect that the RBA will closely monitor the impact of sales during the Christmas period as well as examining the next quarterly CPI read at the beginning of next year. It also remains to be seen what impact the outcome of the US election will have on rate and inflation expectations.

We expect hybrid securities to continue to trade well, however elevated volatility around the US election may impact corporate credit spreads. We also expect muted new issuance as corporates will remain wary of market volatility. Post election, leading into the Christmas period, we also expect subdued issuance activity.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.60
Credit spread (bps)	232
Average weighted issue credit rating	BBB
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	6.41
Effective duration (years)	1.31
Spread duration (years)	1.89
Number of securities	133

* Please note that the ESG ratings are YCM internal ratings.

Sector allocation

	Portfolio %
Asset Backed Securities	1.97
Banks	34.88
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	4.77
Energy	2.96
Health Care	0.64
Industrials	6.73
Information Technology	-
Insurance	9.97
Materials	-
Mortgage-Backed Securities	9.94
Private Debt	9.80
Real Estate	3.93
Syndicated Loan	5.45
Utilities	1.67
Cash and Other	7.30

Security allocation

	Portfolio %
Tier 1	3.66
Tier 2	39.61
Subordinated	4.22
Mortgage Backed	9.94
Asset Backed	1.97
Senior	18.05
Private Debt	9.80
Syndicated Loan	5.45
Cash and Other (incl. derivatives)	7.30

Top 10 holdings

Issuer	ISIN	Portfolio%
FMG Resources	USQ3919KAQ42	2.21
Suncorp Group	AU3FN0055802	2.20
Insurance Australia Group	AU3FN0047544	2.19
Banco Santander	AU3FN0089652	1.84
ANZ Banking	AU3FN0077939	1.51
Rabobank	AU3FN0072732	1.50
National Australia Bank	AU3FN0075966	1.49
Westpac Banking	AU3CB0311140	1.49
Pepper Prime Mortgage Trust	AU3FN0089850	1.47
HSBC Holdings	AU3FN0085726	1.47

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

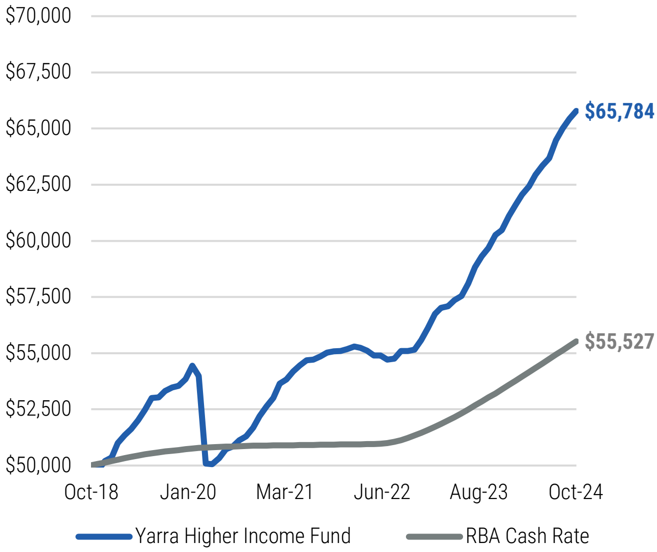
	Portfolio %
AA	4.99
AA-	9.33
A+	0.35
A	2.92
A-	12.26
BBB+	14.30
BBB	24.71
BBB-	8.11
BB+	8.18
BB	6.66
BB-	4.09
B+	1.91
B	1.84
B-	0.36
NR or Below	-

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$ 139.2 mn as at 31 October 2024	
APIR Code	JBW4379AU	
Estimated management cost	0.65% p.a.	
Buy/sell spread	+/- 0.10%	
Distribution frequency	Monthly	
Platform availability	CFS First Wrap/Edge Hub24 Macquarie Wrap	Netwealth Praemium Powerwrap

Investment performance comparison of $50,000

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

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com

Disclaimers

Yarra Funds Management Limited (ABN 63 005 885 567, AFSL 230 251) ('YFM') is the issuer and responsible entity of a range of registered managed investment schemes, which includes those named in this document ('Funds'). YFM is not licensed to provide personal financial product advice to retail clients. The information provided contains general financial product advice only. The advice has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before acting on any advice, you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. Prior to investing in any of the Funds, you should obtain and consider the product disclosure statement ('PDS') and target market determination ('TMD') for the relevant Fund by contacting our Investor Services team on 1800 034 494 or from our website at www.yarracm.com/pdsupdates/. The information set out has been prepared in good faith and while Yarra Funds Management Limited and its related bodies corporate (together, the "Yarra Capital Management Group") reasonably believe the information and opinions to be current, accurate, or reasonably held at the time of publication, to the maximum extent permitted by law, the Yarra Capital Management Group: (a) makes no warranty as to the content's accuracy or reliability; and (b) accepts no liability for any direct or indirect loss or damage arising from any errors, omissions, or information that is not up to date. No part of this material may, without the Yarra Capital Management Group's prior written consent be copied, photocopied, duplicated, adapted, linked to or used to create derivative works in any form by any means.

YFM manages the Fund and will receive fees as set out in the PDS. To the extent that any content set out in this document discusses market activity, macroeconomic views, industry or sector trends, such statements should be construed as general advice only. Any references to specific securities are not intended to be a recommendation to buy, sell, or hold such securities. Past performance is not an indication of, and does not guarantee, future performance. Information about the Fund, including the relevant PDS, should not be construed as an offer to any jurisdiction other than in Australia. With the exception of some Funds that may be offered in New Zealand from time to time (as disclosed in the relevant PDS), we will not accept applications from any person who is not resident in Australia or New Zealand. The Fund is not intended to be sold to any US Persons as defined in Regulation S of the US federal securities laws and has not been registered under the U.S. Securities Act of 1933, as amended.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. Holdings may change by the time you receive this report. Future portfolio holdings may not be profitable. The information should not be deemed representative of future characteristics for the strategy. There can be no assurance that any targets stated in this document can be achieved. Please be advised that any targets shown are subject to change at any time and are current as of the date of this document only. Targets are objectives and should not be construed as providing any assurance or guarantee as to the results that may be realized in the future from investments in any asset or asset class described herein. If any of the assumptions used do not prove to be true, results may vary substantially. These targets are being shown for informational purposes only.

© Yarra Capital Management, 2024.