Yarra Higher Income Fund

Gross returns as at 30 September 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	2.92	10.35	6.63	4.85	5.31
RBA Cash Rate#	0.35	1.08	4.34	2.80	1.79	1.72
Excess return‡	0.37	1.84	6.01	3.83	3.06	3.60

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 30 September 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	2.75	9.64	5.94	4.18	4.63
Growth return†	0.10	1.24	3.77	0.10	-0.98	-0.33
Distribution return†	0.56	1.51	5.87	5.84	5.15	4.96
RBA Cash Rate#	0.35	1.08	4.34	2.80	1.79	1.72
Excess return‡	0.31	1.67	5.30	3.14	2.39	2.92

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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 2.75% (net basis) over the quarter, outperforming the RBA Cash Rate by 167 bps. On a 12-month view the Fund returned 9.64% (net basis), outperforming the RBA Cash Rate by 530 bps.

Strong levels of demand in both primary and secondary markets saw spread compression during the quarter. As interest rate cuts continued to be priced in, our exposure to senior fixed paper provided strong returns. Our allocation to Tier 2 also provided meaningful returns. The fund continues to benefit from strong running yields as higher rates persist.

During the quarter we took part in two RMBS/ABS warehouse opportunities to increase our private debt exposure. We also took part in the ANZ (NZ Holding Company) subordinated debt deal, which has seen a strong capital pick up since pricing. Furthermore, the fund took part in several Tier 2 deals alongside the Macquarie Group Tier 1 deal and the Qantas Airways Senior deal. We continue to actively trade, targeting the best available risk adjusted return.

Market review

During the quarter there was notable movements from Central Banks, with interest rates lowered across most major developed economies. The People's Bank of China (PBoC) also released a major stimulus package of rate cuts along with the relaxing of deposit requirements for second home buyers. Both the Reserve Bank of New Zealand (RBNZ) and Bank of England (BoE) cut rates during the quarter while the Bank of Japan (BoJ) moved interest rates from negative territory to 0.25% as Japan's inflation neared 2%. The Federal Open Market Committee (FOMC) also began its rate cutting cycle with a 50 bps cut in the fed funds rate.

Domestically, the Reserve Bank of Australia (RBA) has continued to hold rates at 4.35% during the quarter, with inflation remaining above the target band. While progress is being made to bring inflation back to target, we are lagging other major economies. RBA governor Michelle Bullock and the board have remained adamant that there will be no rate cuts this calendar year, with the beginning of the easing cycle likely moving into 2025.

While inflation readings as measured by Consumer Price Index (CPI) have not yet moved enough for the RBA to consider rate cuts (albeit the latest monthly read came in at 2.7% (y/y)) weakness is showing in other parts of the economy, with real GDP remaining at near recessionary levels.

We continued to observe strong issuance during the quarter as corporate debt issuance appears to be on pace for a record-breaking year. There were a few key events in the Australian corporate credit market during the quarter. Both reporting season and APRA's announcement regarding Tier 1 bank hybrids were significant. The bulk of reporting from investment grade corporates met expectations, with companies maintaining strong balance sheets and earnings. Supportive of current valuations, the quality of Australian investment grade debt remains attractive to local and international investors.

In September APRA released its proposed changes to the Additional Tier 1 bank capital. In short, APRA is proposing to phase out AT1 Bank hybrids by 2032, with any Tier 1 debt after 2027 to be included as Tier 2 capital. It remains to be seen how the banks will react to the proposed changes, and what impact there will be on Tier 2 ratings.

This quarter has also seen the continued issuance of RMBS/ABS deals at a record pace. RMBS and ABS have remained a cheap funding source for ADIs, and we expect the market to close out a record year strongly. Private debt while attracting some media attention has also continued to perform well and quality names continue to provide attractive risk adjusted returns.

Outlook

While the RBA maintained rates at 4.35% during the month, it does appear that CPI is trending in the right direction based on the monthly indicator. Weakness in the employment market and further downward inflation pressure should lead the RBA to follow the rest of the world in cutting rates. We expect that the RBA will remain focused on the quarterly CPI read and the unemployment forecast to indicate timings for any future rate cuts. With the market pricing in several rates cuts by May next year we see there being a chance the RBA could begin cutting before the end of 2024 on weaker data and lower inflation prints.

Credit spreads have continued to tighten with demand remaining high. Off the back of resilient balance sheets and attractive outright yields, we expect investor demand to remain robust. Given the RBA's easing cycle is lagging the rest of the world there could also be an increase in offshore demand for new issuance, further driving domestic spreads lower. In general terms, we expect credit markets to remain buoyant as demand continues to outweigh supply.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	7.04
Credit spread (bps)	306
Average weighted issue credit rating	BBB
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	6.29
Effective duration (years)	0.50
Spread duration (years)	3.53
Number of securities	130

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

Sector allocation

	Portfolio %
Asset Backed Securities	2.08
Banks	36.54
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	3.52
Energy	3.08
Health Care	0.70
Industrials	7.10
Information Technology	-
Insurance	10.52
Materials	-
Mortgage-Backed Securities	9.30
Private Debt	11.16
Real Estate	4.17
Syndicated Loan	5.78
Utilities	1.78
Cash and Other	4.26

Security allocation

	Portfolio %
Tier 1	3.90
Tier 2	41.52
Subordinated	4.43
Mortgage Backed	9.30
Asset Backed	2.08
Senior	17.56
Private Debt	11.16
Syndicated Loan	5.78
Cash and Other (incl. derivatives)	4.26

Top 10 holdings

Issuer	ISIN	Portfolio%
Suncorp Group	AU3FN0055802	2.32
Insurance Australia Group	AU3FN0047544	2.31
FMG Resources	USQ3919KAQ42	2.30
Banco Santander	AU3FN0089652	1.94
Pepper Prime Mortgage Trust	AU3FN0089850	1.91
Rabobank	AU3FN0072732	1.60
Westpac Banking	AU3CB0311140	1.59
ANZ Banking	AU3FN0077939	1.58
ANZ Banking	AU3CB0311561	1.58
Commonwealth Bank	AU3FN0082251	1.57

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

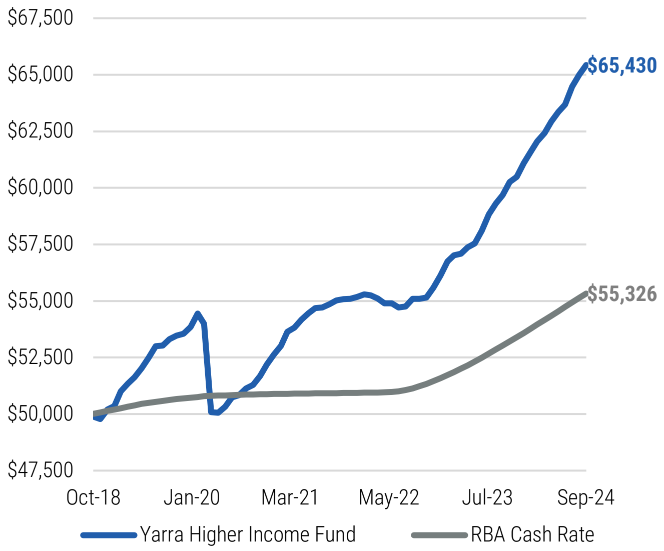
	Portfolio %
AA	5.63
AA-	6.42
A+	-
A	3.64
A-	13.38
BBB+	17.36
BBB	21.97
BBB-	7.82
BB+	5.45
BB	9.06
BB-	4.96
B+	1.28
B	2.66
B-	0.37
NR or Below	-

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$ 131.2 mn as at 30 September 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 September 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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