YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 30 November 2024

Yarra Higher Income Fund

Gross returns as at 30 November 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.79	2.12	10.28	7.03	5.03	5.40
RBA Cash Rate#	0.35	1.07	4.36	3.04	1.91	1.79
Excess return‡	0.44	1.05	5.91	3.99	3.12	3.61

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 November 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.74	1.95	9.56	6.34	4.35	4.72
Growth return†	0.12	0.20	3.80	0.22	-1.04	-0.30
Distribution return†	0.61	1.75	5.77	6.12	5.39	5.03
RBA Cash Rate#	0.35	1.07	4.36	3.04	1.91	1.79
Excess return‡	0.39	0.89	5.20	3.30	2.44	2.93

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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 0.74% (net basis) over the month, outperforming the RBA Cash Rate by 39 bps. On a 12-month view the Fund returned 9.56% (net basis), outperforming the RBA Cash Rate by 520 bps.

Positive overall return was driven by carry as the Fund continues to benefit from the higher for longer approach from the Reserve Bank of Australia (RBA). Active duration management has also seen the fund receive meaningful uplift from our ability to take advantage of interest rate volatility. As spreads in Investment Grade credit continue to tighten our ability to access offshore deals and private deals is proving lucrative. As we enter December and geopolitical uncertainty remains high, we have kept our Credit Default Swaps position active as we look to protect ourselves from any unexpected moves in credit spreads.

During the month we were extremely active in primary markets. We increased our exposure to syndicated loans taking part in a new deal. Furthermore, we took part in the Westpac USD Tier 2 deal, alongside several other financial and insurance Tier 2 deals. We were also active in taking part in Senior deals with primary participation in the Aurizon and Port of Melbourne deals. We continue to actively trade position looking for the best risk adjusted return.

Market review

November marked a significant month for global markets as the outcome of the US election saw former President Trump re-elected. The immediate reaction of the market given the potential inflationary impact of Trump's proposed policies has been to reduce the number of interest rate cuts priced in for 2025. Despite this, the Federal Open Market Committee (FOMC) did deliver a further 25 bps cut at the beginning of November as the Consumer Price Index (CPI) has remained steady and in line with forecasts. The US 10-Year Yield rallied 11 bps to 4.17%. In other central bank meetings, we saw the Reserve Bank of New Zealand cut rates again by 50 bps and the Bank of England cut rates by 25 bps.

Domestically, the RBA kept rates on hold at 4.35%. While trimmed mean CPI continues to move towards the band and headline inflation has moved into the 2-3% target band, Governor Bullock and the board are remaining conservative in their forecasts. Employment data in Australia remains strong with the unemployment rate sitting at 4.1% (y/y). The Australian 3-Year yield rallied 11 bps to 3.91% and the 10-Year yield rallied 16 bps to 4.34% with the curve flattening slightly.

During the month deal flow remained strong as issuers accessed a red-hot market. Robust demand has continued to see issuers remain confident that deals will launch successfully. Bookbuilds continue to be well oversubscribed with pricing tightening during the process. Corporate senior paper along with both foreign and domestic Tier 2 debt dominated the primary issuance. The fact that Australia remains a stable market for investment grade credit attracts offshore investors causing further spread tightening as deals trade well on secondary markets. The Australian iTraxx remained flat at 66 bps.

The RMBS/ABS market continued its record issuance throughout the month with plenty of demand for the asset class. As ADIs look to continue to diversify funding sources at attractive levels and, with strong foreign and domestic demand, spreads have continued to compress. 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 rates cuts are most likely to move into 2025. We expect the RBA to maintain its cautious approach to forecasting inflation, however, we do foresee that inflation will continue to moderate as the core component continues to track lower. The continuation of energy subsidies in 2025 will also prove critical to determining the timing and magnitude of rate cuts.

We expect hybrid securities to continue to trade well, however heightened volatility prompted by the US election may flow into corporate credit spreads. If rates remain elevated 2025 may see some stress move to corporates further down the credit spectrum. Nevertheless, the majority of the Australian credit market remains robust with strong balance sheets protection. While corporate issuance has remained steady, we do expect that leading into Christmas there will be a mild drop off in activity.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.71
Credit spread (bps)	243
Average weighted issue credit rating	BBB
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	6.48
Effective duration (years)	1.45
Spread duration (years)	2.26
Number of securities	139

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

Sector allocation

	Portfolio %
Asset Backed Securities	1.71
Banks	34.56
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	4.49
Energy	2.80
Health Care	0.59
Industrials	7.57
Information Technology	-
Insurance	10.04
Materials	-
Mortgage-Backed Securities	9.23
Private Debt	9.87
Real Estate	3.72
Syndicated Loan	7.71
Utilities	1.57
Cash and Other	6.13

Security allocation

	Portfolio %
Tier 1	3.39
Tier 2	39.71
Subordinated	3.98
Mortgage Backed	9.23
Asset Backed	1.71
Senior	18.26
Private Debt	9.87
Syndicated Loan	7.71
Cash and Other (incl. derivatives)	6.13

Top 10 holdings

Issuer	ISIN	Portfolio%
FMG Resources	USQ3919KAQ42	2.10
Insurance Australia Group	AU3FN0047544	2.06
Suncorp Group	AU3FN0055802	2.04
Banco Santander	AU3FN0089652	1.74
Commonwealth Bank	AU3CB0315638	1.71
Pepper Prime Mortgage Trust	AU3FN0089850	1.69
Rabobank	AU3FN0072732	1.41
Westpac Banking	AU3CB0311140	1.41
ANZ Banking	AU3CB0311561	1.40
ANZ Banking	AU3FN0077939	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

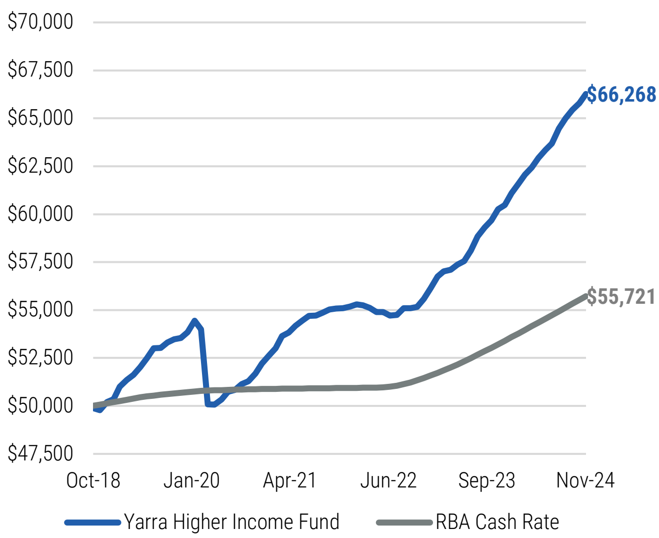
	Portfolio %
AA	4.98
AA-	8.03
A+	0.31
A	2.84
A-	12.00
BBB+	14.16
BBB	24.48
BBB-	9.02
BB+	7.71
BB	6.23
BB-	3.88
B+	2.97
B	3.05
B-	0.34
NR or Below	-

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$ 149.1 mn as at 30 November 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 November 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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