

Yarra Higher Income Fund

Gross returns as at 31 December 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception [^] % p.a.
Yarra Higher Income Fund*	0.82	2.22	10.00	7.25	5.07	5.47
RBA Cash Rate [#]	0.36	1.08	4.36	3.16	1.97	1.83
Excess return [‡]	0.46	1.14	5.64	4.09	3.10	3.64

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 December 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception [^] % p.a.
Yarra Higher Income Fund*	0.77	2.06	9.29	6.56	4.39	4.79
Growth return [†]	0.15	0.26	3.56	0.29	-0.92	-0.28
Distribution return [†]	0.61	1.80	5.73	6.27	5.32	5.06
RBA Cash Rate [#]	0.36	1.08	4.36	3.16	1.97	1.83
Excess return [‡]	0.40	0.98	4.93	3.40	2.42	2.96

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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 2.06% (net basis) over the quarter, outperforming the RBA Cash Rate by 98 bps. On a 12-month view the Fund returned 9.29% (net basis), outperforming the RBA Cash Rate by 493 bps.

During the quarter strong demand in primary and secondary markets saw spreads continuing to grind tighter, with our allocation to Tier 2 benefitting from this. We also saw broad based spread tightening across corporate names as robust credit quality has proved attractive for investors. Our exposure to private debt also continued to provide meaningful carry during the quarter. The ability to add duration to the portfolio allowed us to take advantage of volatility in interest rate expectations as a result of the US election.

We took part in a number of the Tier 2 deals that came to market during the quarter, with a bias towards foreign issuers which priced at attractive levels. With a number of private market deals being finalised in the final quarter of the year, we

were able to meaningfully increase our allocation to syndicated loans. We added further exposure to RMBS and corporate subordinated debt. We continue to actively trade position looking for the best risk adjusted return.

Market review

The final quarter of 2024 proved to be significant for global markets as the US election saw President Trump re-elected to the White House. The election result has seen fixed income markets moving with caution, with the prospect of inflationary policies seeing a more conservative rhetoric from Federal Open Market Committee (FOMC) members. The FOMC cut rates by 50 bps during the quarter, bringing the lower cash rate band to 4.25%. With unemployment rate moving to 4.2% and the November CPI read coming in at +2.7%, data continues to show the Fed walking the narrow path to a soft landing. The US yield curve was steeper over the quarter with the 10-year yield closing at 4.57%.

Across other developed economies we saw the Bank of

England continue to cut rates, with the cash rate sitting at 4.75%. The Bank of Japan kept rates at 0.25%, with inflation continuing to climb. During the quarter we also saw several economic stimulus packages from the People's Bank of China while the policy rate was adjusted to 3.1%. The European Central Bank also continued to cut rates as economic data for the eurozone deteriorated further.

Domestically, the Reserve Bank of Australia (RBA) continued to hold rates at 4.35% during the quarter. With consistent sentiment from the RBA over the course of the year, RBA Governor Bullock's final press conference seemed to indicate a shift in thinking. The latest monthly CPI indicator showed an annualised rate of 2.1% and the prior quarterly CPI read showed an annualised rate of 2.8%, giving the RBA further confidence that inflation is moderating into the target 2-3% band. Notably, employment data has still managed to remain strong with the most recent unemployment rate sitting at 3.9% (y/y). During the quarter the yield curve steepened 7 bps with the 3-year yield selling off to 3.82% and the 10-year yield selling off to 4.36%.

There was no shortage of issuance for the final quarter of the year, with 2024 proving to be a record-breaking year for Australian corporate issuance. During the quarter we saw further substantial spread tightening as both Australian Investment Grade and Subordinated debt spreads remain attractive in a global context. Offshore investors have added further surplus demand to the domestic market as robust corporate balance sheets continue to give confidence to investors. With strong credit conditions in Australia, we should continue to see investment grade credit perform well and in the context of rate cuts, sub investment grade credit should also perform well as we begin to see improving economic conditions. During the quarter, the Australian Prudential Regulation Authority (APRA) confirmed its decision to remove AT1 hybrids as a source of bank funding, with any remaining Tier 1 debt to be included in Tier 2 capital after January 2027. The Australian ITraxx closed slightly wider for the quarter at 69 bps.

Outlook

While the RBA has maintained rates at 4.35% for all of 2024, the shift in rhetoric from Governor Bullock and the board has signalled to the market that interest rate cuts are not far away. In the context of slowing economic growth and falling CPI, we would expect rate cuts to begin in the first quarter of 2025 barring any upside data surprises. The unemployment rate will likely be the key figure that will decide how sharp any moves in the cash rate will be.

With credit conditions remaining favourable for investors, we expect tightening of spreads to continue. However, we remain vigilant to any potential risk-off events from the unstable geopolitical backdrop. The domestic investment grade market remains robust, with balance sheets in good shape and companies further down the credit rating spectrum set to benefit from any rate cuts in 2025. We expect strong demand, both domestically and internationally for Australian credit.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.90
Credit spread (bps)	246
Average weighted issue credit rating	BBB
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	6.42
Effective duration (years)	1.43
Spread duration (years)	3.12
Number of securities	138

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

Sector allocation

	Portfolio %
Asset Backed Securities	1.64
Banks	35.49
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	4.97
Energy	1.32
Health Care	0.57
Industrials	6.98
Information Technology	-
Insurance	9.63
Materials	-
Mortgage-Backed Securities	8.79
Private Debt	9.50
Real Estate	3.55
Syndicated Loan	7.37
Utilities	1.49
Cash and Other	8.70

Security allocation

	Portfolio %
Tier 1	3.29
Tier 2	38.69
Subordinated	7.13
Mortgage Backed	8.79
Asset Backed	1.64
Senior	14.89
Private Debt	9.50
Syndicated Loans	7.37
Cash and Other (incl. derivatives)	8.70

Top 10 holdings

Issuer	ISIN	Portfolio%
ANZ Banking	AU3FN0091583	2.37
Suncorp Group	AU3FN0055802	1.97
Insurance Australia Group	AU3FN0047544	1.96
Banco Santander	AU3FN0089652	1.69
Commonwealth Bank	AU3CB0315638	1.67
Pepper Prime Mortgage Trust	AU3FN0089850	1.62
ANZ Banking	AU3CB0311561	1.37
Westpac Banking	AU3CB0311140	1.37
Rabobank	AU3FN0072732	1.36
ANZ Banking	AU3FN0077939	1.35

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

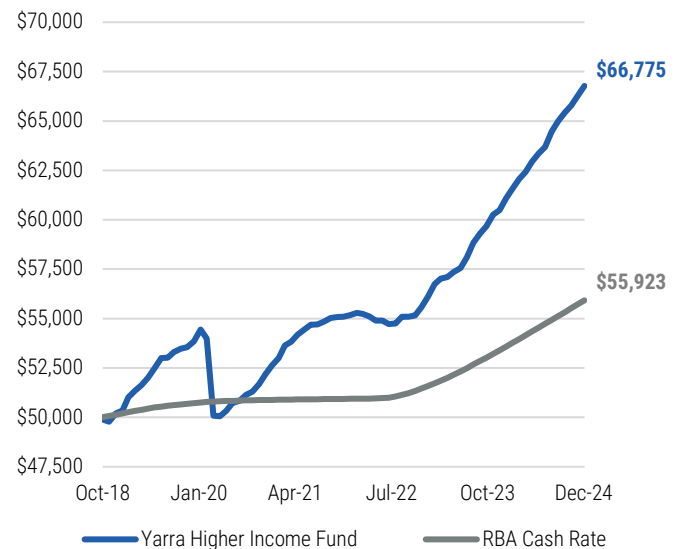
	Portfolio %
AA	4.78
AA-	10.54
A+	0.29
A	2.70
A-	11.66
BBB+	13.30
BBB	26.90
BBB-	8.06
BB+	4.36
BB	7.60
BB-	3.70
B+	2.86
B	2.93
B-	0.32
NR or Below	-

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\$154.4 mn as at 31 December 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 December 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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