

Yarra Higher Income Fund

Gross returns as at 31 January 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception [^] % p.a.
Yarra Higher Income Fund*	0.69	2.31	9.80	7.40	4.97	5.51
RBA Cash Rate [#]	0.36	1.08	4.36	3.28	2.03	1.86
Excess return [‡]	0.32	1.24	5.44	4.12	2.94	3.65

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 January 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception [^] % p.a.
Yarra Higher Income Fund*	0.63	2.15	9.09	6.71	4.30	4.82
Growth return [†]	0.12	0.40	3.12	0.36	-1.12	-0.25
Distribution return [†]	0.51	1.75	5.97	6.35	5.41	5.08
RBA Cash Rate [#]	0.36	1.08	4.36	3.28	2.03	1.86
Excess return [‡]	0.27	1.07	4.73	3.43	2.27	2.97

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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 0.63% (net basis) over the month, outperforming the RBA Cash Rate by 27bps. On a 12-month view the Fund returned 9.09% (net basis), outperforming the RBA Cash Rate by 473bps.

The Fund continued to benefit from its high running yield in January. Carry has continued to contribute meaningfully to performance, as well as provide strong downside protection against any widening of spreads. Bank Tier 1 and Tier 2 spreads moved marginally wider during the month, with our yield curve positioning contributing positively to returns in the month.

We were active participants in primary markets during the month, taking part in several Tier 2 deals. We continue to actively trade position looking for the best risk-adjusted returns.

Market review

The inauguration of President Trump dominated global headlines in January, with a significant number of US policy changes announced. Most notably, the new US administration announced a 10% tariff on China and 25% tariffs on Mexico and Canada. The impact of these policies is yet to be felt; however, we have seen added caution from the US Federal Reserve which kept rates on hold at 4.25% during the month.

US CPI has remained in line with expectations at 2.9% (y/y). The US yield curve continued to steepen during the month, with 10-year yields ending at 4.54%. In other developed nations, the Bank of Japan hiked rates again to bring their cash rate to 0.25%. The European Central Bank cut rates further in response to deteriorating eurozone economic conditions. The Bank of Canada also continued to cut rates, moving the cash rate to 3.0%.

Domestically, we have seen a shift in rate cut expectations from the market. On the back of a sustained reduction in

headline (2.4% (y/y)) and trimmed mean (3.2% (y/y)) CPI data, all four major banks are now predicting the Reserve Bank of Australia (RBA) will cut rates for the first time since 2020 at its February meeting. While the unemployment rate has remained strong at 4.0%, the movement in trimmed mean inflation should provide enough evidence for the RBA to begin gradually easing rates. The Australian yield curve steepened during the month, with the 3-year yield remaining flat at 3.82% and the 10-year yield selling off 7bps to 4.43%.

Spreads moved marginally wider in January as secondary markets took a breath after a tremendous 2024. Nevertheless, demand for new issuance has remained strong, with domestic and foreign investors consistently bidding for deals which has resulted in them closing well oversubscribed. After the successful launch of the Ampol hybrid deal in December, we have observed more companies coming to market to sound out further hybrid deals since conditions remain favourable for issuers. The Australian iTraxx tightened to 3bps to 66bps.

The RMBS/ABS market continued its strong issuance, despite a record 2024, with continued ample demand for the asset class. Issuance spreads have remained relatively flat on last year, with the asset class still providing strong risk-adjusted returns. Private debt continues to be a preferred source of funding for companies further down the credit spectrum, although with illiquidity premiums compressing we are starting to see the asset class become less attractive.

Outlook

It appears highly likely that the RBA will soon commence its easing cycle. The speed and depth of this rate cutting cycle will likely depend on unemployment weakness and the residual inflationary impact of any new policies from President Trump.

With credit conditions remaining favourable for investors, we expect the 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. We expect strong demand, both domestically and internationally for Australian credit.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.96
Credit spread (bps)	242
Average weighted issue credit rating	BBB
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	6.45
Effective duration (years)	1.39
Spread duration (years)	3.11
Number of securities	139

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

Sector allocation

	Portfolio %
Asset Backed Securities	1.60
Banks	37.99
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	4.87
Energy	1.97
Health Care	0.56
Industrials	6.85
Information Technology	-
Insurance	9.42
Materials	-
Mortgage-Backed Securities	8.34
Private Debt	9.25
Real Estate	3.48
Syndicated Loan	7.14
Utilities	1.47
Cash and Other	7.08

Security allocation

	Portfolio %
Tier 1	3.19
Tier 2	41.17
Subordinated	7.63
Mortgage Backed	8.34
Asset Backed	1.60
Senior	14.60
Private Debt	9.25
Syndicated Loan	7.14
Cash and Other (incl. derivatives)	7.08

Top 10 holdings

Issuer	ISIN	Portfolio%
National Australia Bank	AU3FN0084828	2.61
ANZ Banking	AU3FN0091583	2.29
Suncorp Group	AU3FN0055802	1.93
Insurance Australia Group	AU3FN0047544	1.92
Commonwealth Bank	AU3CB0315638	1.63
Banco Santander	AU3FN0089652	1.60
Pepper Prime Mortgage Trust	AU3FN0089850	1.58
ANZ Banking	AU3FN0077939	1.32
Rabobank	AU3FN0072732	1.31
HSBC Holdings	AU3FN0085726	1.30

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

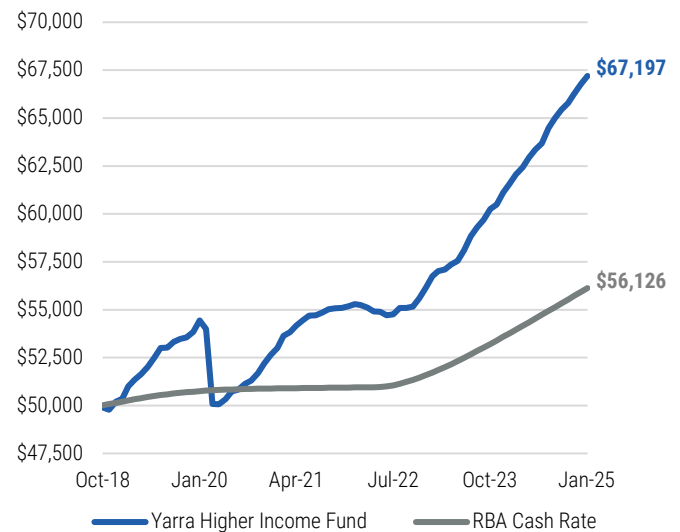
	Portfolio %
AA	4.66
AA-	8.86
A+	0.27
A	2.60
A-	14.21
BBB+	13.96
BBB	26.34
BBB-	7.89
BB+	4.26
BB	7.42
BB-	3.58
B+	2.78
B	2.83
B-	0.31
NR or Below	-

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\$ 158.8 mn as at 31 January 2025	
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 January 2025.



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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