Yarra Higher Income Fund

Gross returns as at 31 March 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.32	1.83	9.46	7.89	6.96	5.55
RBA Cash Rate#	0.34	1.03	4.32	3.50	2.15	1.92
Excess return‡	-0.02	0.80	5.14	4.38	4.81	3.63

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 March 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.26	1.67	8.75	7.19	6.27	4.87
Growth return†	-0.29	0.08	2.35	0.61	0.66	-0.25
Distribution return†	0.56	1.59	6.41	6.57	5.61	5.12
RBA Cash Rate#	0.34	1.03	4.32	3.50	2.15	1.92
Excess return‡	-0.08	0.64	4.43	3.69	4.12	2.95

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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 1.67% (net basis) over the quarter, outperforming the RBA Cash Rate by 64 bps. On a 12-month view the Fund returned 8.75% (net basis), outperforming the RBA Cash Rate by 443 bps.

During the quarter the fund continued to benefit from its high running yields. Carry was the primary source of return across the quarter as the allocation to floating rate securities continued to benefit from elevated base rates. Fixed rate securities benefitted from a rally in bonds late in the quarter, while spreads widened slightly. Our allocation to non-real estate syndicated loans and private debt played an important role in the portfolio as the sector continued to provide strong income returns, moderating volatility in the portfolio. We also saw benefit from our curve positioning late in the quarter with our ability to adjust our duration positioning contributing to returns.

We were active participants in primary markets, increasing our allocation to subordinated debt alongside taking part in several Tier 2 deals. We remain vigilant to adverse market conditions and continue to review our positions to look for the best risk adjusted returns.

Market review

The first quarter of 2025 saw volatility spike as the new Trump Administration took office. Tariffs imposed on allies and adversaries alike saw risk markets cool sharply; the 25% tariffs on all imported cars into the US, alongside escalating tariffs against Mexico, Canada and China have driven a spike in inflation expectations as indicated by the University of Michigan Inflation Expectations survey, with consumer confidence sliding.

The impact of the newly formed Department of Government Efficiency (D.O.G.E) is yet to be seen, with the unemployment figure rising over the quarter to 4.2% (y/y). As economists begin to price in the chance of a US recession it seems as if the Federal Open Market Committee (FOMC) is unable to address the concerns of ordinary US citizens, with the Fed Funds rate target remaining at 4.25%. The US 10-year yield fell during the quarter to 4.2%.

Across other developed nations, talks of reciprocal tariffs and attempts to obtain exemptions dominated news headlines. Notably, the Eurozone has begun to plan for sizeable investments into defence programs, supporting an initial increase in long dated Bund yields. Elsewhere, the Bank of Canada continued to ease rates with their target rate sitting at 2.75%. The European Central Bank (ECB) also continued its cutting cycle, while the Bank of Japan lifted rates during the quarter to 0.5%.

Domestically, the quarter saw the first rate cut from the Reserve Bank of Australia (RBA) for the first time since November 2020. After moving the cash rate to 4.1%, Governor Bullock highlighted that the RBA remains uncertain about the global economic outlook and the impacts of proposed tariffs. Nevertheless, the latest quarterly read has seen headline inflation move into the band at 2.4% (y/y) and trimmed mean inflation move close to the target 2-3% range at 3.2% (y/y). Employment remains strong in Australia with the unemployment rate sitting at 4.1% (y/y). During the quarter the yield curve steepened, with the 3-year yield moving to 3.69% and the 10-year yield selling off to 4.42%.

Issuance during the quarter remained strong, with February being an unusually busy month. The large amount of Tier 2 issuance continued from both domestic and offshore issuers as demand for AUD credit remains strong. There was also an uptick in Hybrid issuance, with favourable market conditions continuing to give issuers confidence that deals would be well bid.

Corporate earnings updates during the quarter continued to reaffirm the strength of Australian companies, including those that are investment grade. Spreads initially tightened, before economic volatility saw them widen marginally, particularly towards the end of March. The iTraxx moved wider to 88 bps.

During the quarter RMBS/ABS spreads tightened slightly in the early parts of the year and moved marginally wider in late March following the rest of the market. RMBS/ABS deal flow continues to remain strong. Private debt during the quarter continued to receive media attention as some lower quality assets made headlines. As illiquidity premiums continue to compress the sector is looking less attractive.

Outlook

Global factors will continue to play a dominant role in the domestic market. That said, domestic data continues to show progress on Australian inflation, providing scope for the RBA to ease rates further. How fast and far rate cuts go will likely depend on any unemployment weakness and the residual inflationary impact of any new policies from President Trump.

As we look to the potential impact of tariffs, we remain wary of likely deteriorating credit conditions. Domestic credit has remained favourable with investment grade companies maintaining strong balance sheets. While any further rate cuts from the RBA should ease financial conditions, global instability in risk markets may see a contraction in overall demand for credit.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.77
Credit spread (bps)	263
Average weighted issue credit rating	BBB
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	6.29
Effective duration (years)	1.21
Spread duration (years)	2.94
Number of securities	137

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

Sector allocation

	Portfolio %
Asset Backed Securities	1.60
Banks	35.67
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	6.26
Energy	1.95
Health Care	0.17
Industrials	5.80
Information Technology	-
Insurance	10.32
Materials	-
Mortgage-Backed Securities	8.18
Private Debt	9.21
Real Estate	4.09
Syndicated Loan	7.18
Utilities	2.41
Cash and Other	7.16

Security allocation

	Portfolio %
Tier 1	3.19
Tier 2	40.30
Subordinated	10.57
Mortgage Backed	8.18
Asset Backed	1.60
Senior	12.60
Private Debt	9.21
Syndicated Loan	7.18
Cash and Other (incl. derivatives)	7.16

Top 10 holdings

Issuer	ISIN	Portfolio%
National Australia Bank	AU3FN0084828	2.58
ANZ Banking	AU3FN0091583	2.31
Suncorp Group	AU3FN0055802	1.91
Insurance Australia Group	AU3FN0047544	1.89
Commonwealth Bank	AU3CB0315638	1.64
Banco Santander	AU3FN0089652	1.61
Pepper Prime Mortgage Trust	AU3FN0089850	1.57
Rabobank	AU3FN0072732	1.32
Blue Owl	AU3CB0314730	1.31
Westpac Banking	AU3CB0311140	1.31

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

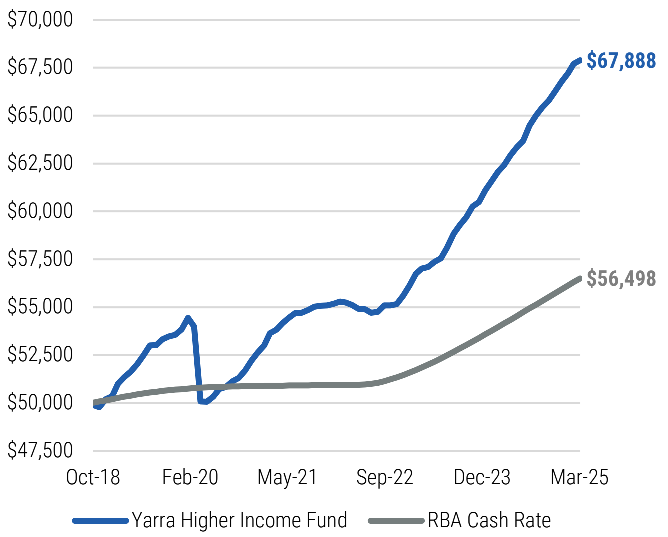
	Portfolio %
AA	4.63
AA-	8.94
A+	0.26
A	2.56
A-	12.97
BBB+	12.11
BBB	27.28
BBB-	7.82
BB+	5.32
BB	7.97
BB-	3.81
B+	2.79
B	3.25
B-	0.31
NR or Below	-

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$ 159.2 mn as at 31 March 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 March 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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