Yarra Higher Income Fund

Gross returns as at 30 September 2023

	1 month* %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.68	2.88	9.03	5.86	N/A	4.33
RBA Cash Rate#	0.33	1.02	3.51	1.39	N/A	1.20
Excess return‡	0.35	1.86	5.52	4.47	N/A	3.13

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 2023

	1 month* %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.63	2.71	8.33	5.18	N/A	3.65
Growth return†	-0.01	1.31	3.54	-0.23	N/A	-1.14
Distribution return†	0.64	1.40	4.79	5.41	N/A	4.79
RBA Cash Rate#	0.33	1.02	3.51	1.39	N/A	1.20
Excess return‡	0.29	1.70	4.81	3.78	N/A	2.45

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* Note: Due to a Melbourne public holiday, Fund performance in September 2023 was calculated up to 28 September 2023, whereas Benchmark performance is shown to 29 September 2023. Fund performance for 29 September 2023 will be captured in October 2023 month-end performance. Further information relating to Unit Pricing calculations can be found in the Fund PDS.

^ Inception date Yarra Higher Income Fund: October 2018.

† Growth returns are measured by the movement in the Yarra Higher Income 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 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 2.71% (net basis) in the September quarter, outperforming the RBA Cash Rate by 170 bps. On a 12-month view the Fund returned 8.33%, outperforming the RBA Cash Rate by 481 bps (net basis).

Carry continues to underpin positive Fund performance and is providing strong downside protection in volatile markets. As spreads tightened during the quarter, we have seen particularly strong performance from offshore issuers. The strongest performance came from offshore banks Tier 1 securities. This quarter, we took part in our first warehousing deal with Firstmac. We also added more senior financial securities to the portfolio which have attractive spreads.

Primary market volumes picked up during the period and presented some attractive opportunities to capture elevated levels of outright yield. We continue to actively trade to position for the best possible risk adjusted returns.

Market review

In a quarter that has seen plenty of volatility in global financial markets, bond and fixed income markets have traded positively. This quarter has seen the "Higher for Longer" mantra from key central banks take shape.

Economic conditions during the quarter saw plenty of key events take place. Most notably the USA had its Fitch credit rating downgraded from AAA to AA+, however, unlike the S&P downgraded in 2011 investors were quick to ignore this.

Persistent inflation figures that appear to be holding in most advanced economies have been substantially linked to increased costs in petrol prices. Supply side control measures saw the price per barrel reach close to $100 USD this quarter. With this being the case most central banks are leaving the possibility for further rate hikes.

In the United States a funding deal was reached, however, it is only a temporary measure until November. With inflation creeping up again and predicted to increase further along with strong jobs numbers, sentiment around the Federal Reserve increasing rates appears to be high.

Closer to home, the Reserve Bank of Australia has held interest rates at 4.1% through the quarter. The decision to hold interest rates has been based on the resilience that the economy has shown. While the August print for inflation did see a slight upward tick, steady employment data has kept rates flat.

Corporate credit and hybrid spread generally moved tighter. Coupled with higher bond yields, outright returns appeared very attractive by the end of the period. While issuance did slow towards the back end of the month, more deals are expected as refinancing pressure continues. The Australian iTraxx index moved marginally wider to 87 bps.

There continued to be ample activity in the RMBS/ABS space particularly towards the back end of the quarter. Spreads contracted over the quarter but remain at wide levels. While borrowers continue to face the challenge of rising rates, a stabilisation of house prices gives us further comfort in the sector. We see value in capturing deals at these levels however we will continue to closely monitor the tightening spreads.

Outlook

The rapid monetary tightening policies of central banks are having a cooling effect on the economy. Interest rates are presently on hold, but there's a growing expectation of potential rate hikes soon, aligning with the "higher for long" mantra. Nevertheless, if inflation does not begin to decrease in the coming months, additional rate hikes could indeed be on the horizon. Most advanced economies, including Australia have left the door ajar for the potential of at least one more rate hike with the market pricing reflecting this. As we move into the last quarter of 2023, consumer sentiment is dropping, and while economic conditions have proved resilient it is expected the effects of rate rises will start to show.

While there has been some slight widening in corporate credit spreads, the hybrid market remains compelling. A risk off scenario has the potential to drive spreads wider, enhancing the sector's value proposition. Talks of further interest rate hikes have potential to increase outright returns. With the possibility of risk off events occurring in the US, macro-economic conditions are expected to play a substantial role for the last quarter of 2023. We expect carry to continue to drive strong performance as we look to 2024.

Portfolio Profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.47
Credit spread (%)	324
Average weighted issue credit rating	BBB
Average weighted ESG rating	BBB+
Yield to expected maturity (%)	7.13
Fund duration (years)	0.34
Spread duration (years)	2.10
Number of securities	86

Sector allocation

	Portfolio %
Asset Backed Securities	0.77
Banks	29.58
Communication Services	0.00
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Financials	5.72
Energy	1.92
Health Care	0.51
Industrials	8.56
Information Technology	0.00
Insurance	5.78
Materials	1.41
Mortgage-Backed Securities	18.60
Private Debt	5.74
Real Estate	7.02
Syndicated Loan	4.29
Utilities	3.34

Security allocation

	Portfolio %
Tier 1	9.10
Tier 2	25.86
Subordinated	4.22
Mortgage Backed	18.60
Asset Backed	0.77
Senior	24.67
Private Debt	5.74
Syndicated Loan	4.29
Cash and Other (incl. derivatives)	6.75

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	3.44
Firstmac	AU3FN0076923	2.47
Macquarie Bank	US556079AF83	2.18
QBE Insurance Group	AU3FN0078747	1.93
Commonwealth Bank of Australia	AU3FN0080396	1.91
Lloyds Banking Group	AU3CB0302115	1.90
Peet	AU3FN0060638	1.86
Firstmac	AU3FN0076949	1.66
Aurizon Finance	AU3CB0278380	1.65
Firstmac	AU3FN0076931	1.61

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

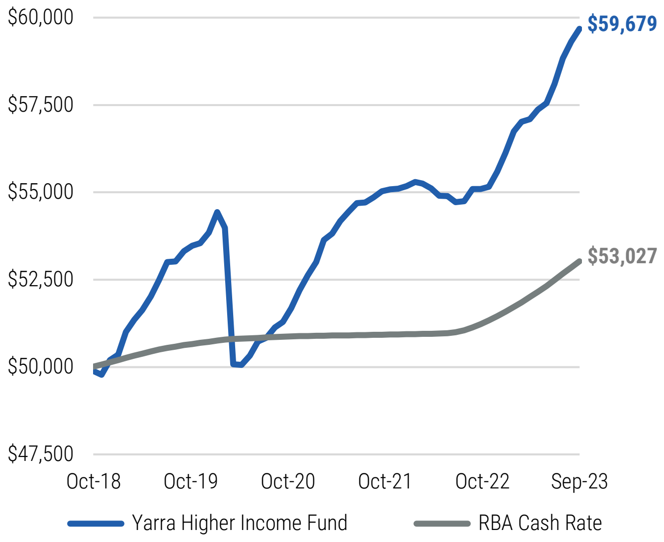
	Portfolio %
AA+	0.00
AA	5.84
AA-	10.18
A+	0.58
A	5.89
A-	0.00
BBB+	15.92
BBB	21.04
BBB-	15.08
BB+	5.94
BB	11.94
BB-	5.77
B+	1.80
B	0.00
B-	0.00
NR or Below	0.02

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$52.7 mn as at 30 September 2023
Estimated management cost	0.65% p.a.
Buy/sell spread	+/- 0.10%
Distribution frequency	Monthly
Platform availability	Hub24 Macquarie Wrap Netwealth

Investment performance comparison of $50,000

After fees, since inception of the Yarra Higher Income Fund, October 2018 to September 2023.



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 Absolute Credit Fund is $10,000.