Yarra Higher Income Fund

Gross returns as at 30 November 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.42	2.15	9.52	5.72	4.65	4.48
RBA Cash Rate#	0.35	1.02	3.76	1.62	1.29	1.29
Excess return‡	0.08	1.12	5.75	4.10	3.36	3.18

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 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.37	1.98	8.81	5.03	3.97	3.80
Growth return†	-0.26	0.06	3.34	-0.61	-1.02	-1.09
Distribution return†	0.63	1.92	5.47	5.64	4.99	4.89
RBA Cash Rate#	0.35	1.02	3.76	1.62	1.29	1.29
Excess return‡	0.02	0.96	5.05	3.42	2.68	2.51

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 prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.

* **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 0.37% (net basis) in November, outperforming the RBA Cash Rate by 2 bps. On a 12-month view the Fund returned 8.81%, outperforming the RBA Cash Rate by 505 bps (net basis).

Tightening spreads – particularly across Senior and Tier 2 securities – led to strong outperformance. With the substantial 10-year yield rally and with the market pricing in a cutting cycle for early next year, fixed rate securities saw the greatest positive price movement. Carry continued to be a meaningful contributor to positive performance.

During the month we took part in the AMC (Latrobe) syndicated loan as we look to gain more exposure to the sector. We also took part in the Firstmac Asset Funding deal which launched at attractive levels and increased our exposure to the ABS market which is providing strong yields. As we move into 2024, we are continuing to look for further deals across a broad range of markets to capture the best outright yield.

Market review

Fixed income markets enjoyed a positive month, following tentative signs of economic moderation and falling inflation across developed markets. Broadly negative data, in conjunction with easing geopolitical tensions, supported the view that central banks have reached their peak in this tightening cycle, with markets now pricing in rate cuts earlier than previously expected. As a result, the US 10-year yield tightened significantly following the highs of October, closing the month at 4.33%.

The Reserve Bank of Australia raised rates to 4.35% in early November following stronger than expected domestic data. However, post this rate hike, data released suggested the Australian economy has slowed and that rate hikes have been effective. The unemployment rate rose to 3.7% in line with expectations, while CPI data released came in well below expectations at 4.9%. In line with global peers, the Australian market is beginning to price in cuts for next year. The Australian 10-year yield movement tightened 51bps to close the month at 4.41%.

Corporate credit and hybrid spreads traded tighter over the month as the appetite for risk picked up again. Given the rally and a favourable rate outlook, fixed rate securities saw the best price movement. Senior and Tier 2 spreads tightened substantially from the prior month, contributing heavily to strong performance.

Primary deal flow was still strong, with Judo Bank coming to market with its inaugural Tier 1 deal. Westpac also came to market with a Tier 1 deal that was three-times oversubscribed, confirming there is still a strong appetite for new issuance. We also saw Australian Unity come to the market with a Senior deal that was well received. The Australian iTraxx index tightened significantly, ending the month at 76 bps.

Outlook

With the RBA choosing to hold for the beginning of December and markets pricing rate cuts for early 2024, it looks as if we maybe at the peak of the rate cycle. While there could be some strong economic data in the retail space off the back of Black Friday sales, data released in November suggests that the economic slowdown is here, and that rate rises have had their desired effect. We expect fixed income securities to perform well throughout any rate cutting cycle and for carry to continue to be a meaningful contributor to performance. We also expect ABS and RMBS markets to continue to offer attractive outright yields compared to other sectors.

Despite the recent tightening in credit spreads, the Australian corporate and hybrid markets remain attractive. Supply and demand trends remain favourable as evidenced by successive months of oversubscribed issuance. Balance sheets are also broadly in great shape, meaning that even if corporate earnings fall following economic slowdown, we would still expect credit spreads to hold. As such, we remain constructive, given the elevated outright yields and strong carry, offering significant downside protection.

Portfolio Profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.99
Credit spread	340
Average weighted issue credit rating	BBB
Average weighted ESG rating	A-
Yield to expected maturity (%)	7.25
Fund duration (years)	0.32
Spread duration (years)	3.34
Number of securities	89

Sector allocation

	Portfolio %
Asset Backed Securities	1.54
Banks	30.20
Communication Services	0.00
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Financials	5.12
Energy	2.69
Health Care	0.46
Industrials	8.66
Information Technology	0.00
Insurance	6.33
Materials	1.29
Mortgage-Backed Securities	16.94
Private Debt	5.36
Real Estate	6.62
Syndicated Loan	5.70
Utilities	3.13
Cash and Other (incl. derivatives)	5.97

Security allocation

	Portfolio %
Tier 1	10.01
Tier 2	24.17
Subordinated	5.72
Mortgage Backed	16.94
Asset Backed	1.54
Senior	24.59
Private Debt	5.36

Syndicated Loan	5.70
Cash and Other (incl. derivatives)	5.97

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	3.17
Aurizon Finance	AU3CB0278380	3.11
Latrobe Financial	XXAU0PJPIN10	2.64
Firstmac	AU3FN0076923	2.29
Macquarie Bank.	US556079AF83	2.05
QBE Insurance Group	AU3FN0078747	1.83
Lloyds Banking Group	AU3CB0302115	1.82
Commonwealth Bank of Australia	AU3FN0082251	1.79
Commonwealth Bank of Australia	AU3FN0080396	1.77
Peet Limited	AU3FN0060638	1.76

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

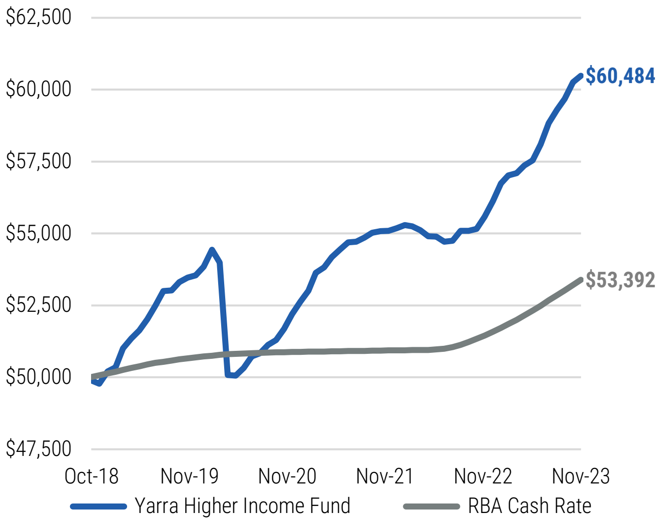
	Portfolio %
AA	5.44
AA-	9.14
A+	0.50
A	5.49
A-	0.00
BBB+	16.64
BBB	21.96
BBB-	14.97
BB+	7.13
BB	9.14
BB-	7.06
B+	2.52
B	0.00
B-	0.00
NR or Below	0.02

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	Fund A$57.1 mn as at 30 November 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 November 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 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

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com