

Yarra Higher Income Fund

Gross returns as at 29 February 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception [^] % p.a.
Yarra Higher Income Fund*	0.80	2.76	9.54	5.65	4.67	4.80
RBA Cash Rate [#]	0.34	1.07	4.07	1.97	1.43	1.44
Excess return [‡]	0.46	1.70	5.46	3.69	3.24	3.36

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 29 February 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception [^] % p.a.
Yarra Higher Income Fund*	0.75	2.60	8.83	4.97	4.00	4.12
Growth return [†]	0.54	1.47	3.22	-0.78	-1.09	-0.77
Distribution return [†]	0.21	1.12	5.60	5.75	5.08	4.89
RBA Cash Rate [#]	0.34	1.07	4.07	1.97	1.43	1.44
Excess return [‡]	0.41	1.53	4.75	3.01	2.57	2.68

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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 0.75% (net basis) in the month of January, outperforming the RBA Cash Rate by 41 bps. On a 12-month view the Fund returned 8.83%, outperforming the RBA Cash Rate by 475 bps (net basis).

Carry continues to underpin positive Fund performance and is providing strong downside protection in volatile markets. While price movements were favourable during this period this was more due to strong demand for floating rate credit. Our exposure to RMBS continues to contribute meaningfully to overall portfolio return.

Primary deal volume picked up substantially during the month with a number of RMBS deals coming to market alongside a late flurry of corporate debt issuance. We were active participants in several primary RMBS deals which are trading at strong levels. We also increased our exposure to syndicated loans and took part in the NAB Tier 2 deal.

We expect that outright yields will remain strong in 2024 and continue to actively trade to position for the best possible risk-adjusted returns.

Market review

Globally, government bond yields widened over the month. Expectations for the US Federal Reserve to cut interest rates in March and May fell, following US non-farm payrolls surging and stronger than expected January inflation numbers. Similarly, the Eurozone lost ground over the month after the release of stronger than expected inflation data. The US 10-year yield closed the month 29 bps wider at 4.24%.

Across to Australia, the RBA continued to retain its tightening bias, refusing to rule out further rate hikes. However, data released during the month continues to show evidence of a weakening economy. Retail sales month on month came in at 1.1% missing consensus (1.5%) and Unemployment came out slightly higher than expected at 4.1% (4% Consensus). With the increased strain on the consumer, higher interest rates are having the desired effect. The Australian 10-year yield closed 13bps wider on the month at 4.14%.

Corporate credit and hybrid spreads continues to trade tighter over the month. Reporting season highlighted strong balance sheets and a resilient corporate earnings backdrop which brought around a flurry of new issuance. In a record-breaking

month of over-subscription, Macquarie issued the largest ever Tier 2 deal in the Australian market which closed 4 times oversubscribed. Notably, after strong post COVID demand, domestic airport deals are being well received with Perth, Melbourne and Brisbane Airport all coming to the primary market. Despite the strong supply, secondary demand was robust with spreads continue to tighten. The Australian iTraxx tightened to 64.7.

Outlook

The Reserve Bank of Australia (RBA) is poised to keep interest rates on hold during March. With data displaying weakness in the economy and inflation trending down, we expect the RBA to follow their counterparts and keep rates steady. However, we expect that it will take some time before the RBA enters a rate cutting cycle to avoid any spikes of inflation. Given this, we expect there to be good levels of carry moving forward for 2024.

Results from Australia's corporate earnings season demonstrated resilient balance sheets however, revenue and margin growth were muted. Given the stability of earnings on the backdrop of a weakening Australian consumer, the level of primary market activity has been significant. With substantial deal flow in February, we expect more corporates to continue coming to market over the coming months. The outlook for RMBS and ABS deals is positive as we expect further issuance particularly from regional banking names. The strong level of demand for primary deals should see momentum continue even in the event of deteriorating economic conditions. In this context, a constructive outlook is maintained, supported by elevated outright yields and robust carry which will continue to offer substantial downside protection.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.84
Credit spread (bps)	301
Average weighted issue credit rating	BBB
Average weighted ESG rating	A
Yield to expected maturity (%)	6.76
Effective duration (years)	0.12
Spread duration (years)	3.39
Number of securities	94

Sector allocation

	Portfolio %
Asset Backed Securities	1.26
Banks	29.07
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	4.51
Energy	2.37
Health Care	0.40
Industrials	7.75
Information Technology	-
Insurance	8.65
Materials	-
Mortgage-Backed Securities	16.28
Private Debt	4.56
Real Estate	6.58
Syndicated Loan	9.41
Utilities	3.50
Cash and Other	5.65

Security allocation

	Portfolio %
Tier 1	7.95
Tier 2	26.23
Subordinated	5.77
Mortgage Backed	16.28
Asset Backed	1.26
Senior	22.89
Private Debt	4.56
Syndicated Loan	9.41
Cash and Other (incl. derivatives)	5.65

Top 10 holdings

Issuer	ISIN	Portfolio%
Aurizon Finance	AU3CB0278380	2.79
National Australia Bank	AU3FN0055224	2.73
Village Roadshow	XXAU0VGRB010	2.27
AVC	XXAU0PJHIL24	2.25
Firstmac Mortgage Backed	AU3FN0076923	1.97
QBE Insurance Group	AU3FN0078747	1.61
Lloyds Banking Group	AU3CB0302115	1.58
QBE Insurance Group	AU3FN0082384	1.56
Insurance Australia Group	AU3FN0055497	1.56
Commonwealth Bank of Australia	AU3FN0082251	1.55

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

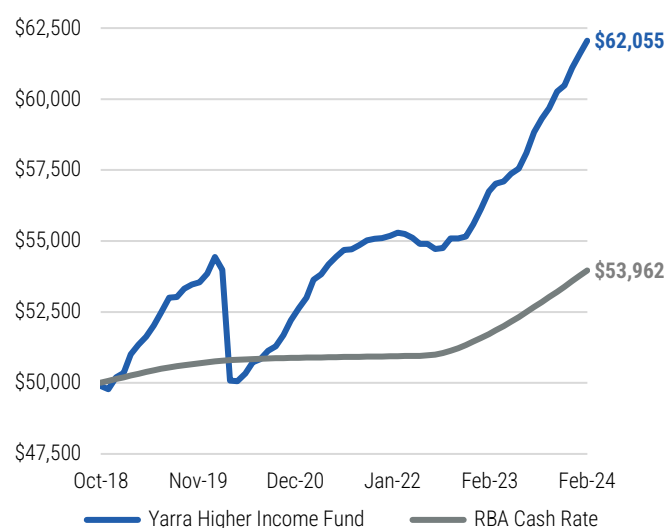
	Portfolio %
AA	4.72
AA-	9.93
A+	-
A	4.73
A-	-
BBB+	17.64
BBB	20.25
BBB-	14.53
BB+	5.41
BB	9.89
BB-	9.84
B+	2.29
B	0.76
B-	-
NR or Below	-

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\$66.0 mn as at 29 February 2024	
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 February 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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