Yarra Higher Income Fund

Gross returns as at 31 March 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.65	2.33	10.05	5.74	4.65	4.84
RBA Cash Rate#	0.36	1.07	4.14	2.09	1.48	1.48
Excess return‡	0.29	1.27	5.90	3.66	3.18	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 31 March 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.60	2.17	9.33	5.06	3.98	4.17
Growth return†	0.18	1.27	3.61	-0.73	-0.93	-0.72
Distribution return†	0.42	0.90	5.73	5.79	4.90	4.89
RBA Cash Rate#	0.36	1.07	4.14	2.09	1.48	1.48
Excess return‡	0.23	1.10	5.19	2.97	2.50	2.69

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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 2.17% (net basis) in the March quarter, outperforming the RBA Cash Rate by 110 bps. On a 12-month view the Fund returned 9.33%, outperforming the RBA Cash Rate by 519 bps (net basis).

Carry continues to underpin positive Fund performance and is providing strong downside protection in volatile markets. The portfolio benefited from spread tightening with our allocation to Tier 2 securities seeing strong price movement. Our allocation to alternate security types saw meaningful contributions from our RMBS, Private Debt and Loans.

During the quarter there was a flood of new issuance. We adjusted our US exposure rotating out of our Macquarie Bank and Northern Star Resources positions into the new Cimic deal. We further increased our exposure to RMBS and Loans as they continue to provide attractive risk adjusted returns. We also took part in a number of primary senior and Tier 2 deals, most notably we were active participants in the record-breaking HSBC issuance.

Market review

The first quarter of 2024 has seen a strong start for fixed income. While most developed markets are still signalling that there will be rate cuts, none have come thus far with the exception of the Swiss National Bank. Traders have tempered their expectations on the number of cuts that the US Fed and the RBA will make in 2024.

The US 10 year yield sold off during the quarter moving wider to 4.2%. With inflation sitting at 0.4% (m/m) for March, Fed Chair Jerome Powell signalled to investors that the strict annual 2% inflation target may become more flexible.

In other markets the Bank of Japan moved interest rates from negative territory for the first time in 8 years. This was off the back of agreed wage rises of 5% from some of the largest employers in the country.

Domestically, the Reserve Bank of Australia (RBA) has continued to hold rates steady at 4.35%. The March meeting did see the RBA move towards a more neutral tone, but no indication has been given on when we are likely to see any cuts.

The GDP print of 0.2% (q/q) continues to show the slowdown of the Australian economy. Private domestic demand growth remained weak which has been reflected in household consumption, while the public and business sector both contributed to growth.

Late in the quarter, ratings house Moody's announced the results of a change in their banking methodology. This resulted in ratings actions on eleven bank ratings. Importantly, the changes saw ANZ, NAB and Westpac's senior debt credit ratings upgraded by one notch and Macquarie's senior debt upgraded by two notches.

Corporate earnings remained strong in the quarter with the reporting season showing robust strength in balance sheets despite a weakness in the consumer. The Australian 10-year yield moved 1 bp wider to 3.97% over the quarter.

Outlook

The Reserve Bank of Australia (RBA) is likely to keep a neutral stance in May and is becoming increasingly confident that the inflation battle is being won. That being said, we expect the RBA is in no hurry to cut rates, wanting a "soft landing" and is prepared to keep rates steady for longer. In our assessment, the RBA will wait until they have enough assurance that inflation will continue to decline on the desired trajectory before the initial rate cut, which is expected in the 2nd half of 2024.

Credit spreads have continued to tighten significantly despite record level of issuance volumes and is still at top end of normalised range. Australian credit spreads remain attractive relative to USD and EUR spreads, this is despite stronger domestic fundamentals and the profile of AUD corporates being higher quality. Strong demand continues to outweigh supply across much of the Australian corporate and hybrid markets with liquidity in the secondary market remaining strong. In this context, we continue to expect further tightening in corporate credit and hybrid spreads.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.61
Credit spread (bps)	278
Average weighted issue credit rating	BBB
Average weighted ESG rating	A
Yield to expected maturity (%)	6.35
Effective duration (years)	0.02
Spread duration (years)	3.38
Number of securities	98

Sector allocation

	Portfolio %
Asset Backed Securities	1.13
Banks	29.27
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	5.54
Energy	2.14
Health Care	0.36
Industrials	9.23
Information Technology	-
Insurance	7.81
Materials	-
Mortgage-Backed Securities	13.75
Private Debt	4.14
Real Estate	5.99
Syndicated Loan	8.57
Utilities	3.21
Cash and Other	8.87

Security allocation

	Portfolio %
Tier 1	7.27
Tier 2	26.59
Subordinated	5.27
Mortgage Backed	13.75
Asset Backed	1.13
Senior	24.42
Private Debt	4.14
Syndicated Loan	8.57
Cash and Other (incl. derivatives)	8.87

Top 10 holdings

Issuer	ISIN	Portfolio%
Aurizon Finance	AU3CB0278380	2.50
National Australia Bank	AU3FN0055224	2.49
Cimic Finance	USQ24249AA42	2.17
AVC	XXAU0PJHIL24	2.06
VGR Bidco Facility	XXAU0VGRB010	2.03
Firstmac Mortgage Funding Trust	AU3FN0076923	1.79
Lloyds Banking Group	AU3CB0302115	1.45
QBE Insurance Group	AU3FN0078747	1.44
QBE Insurance Group	AU3FN0082384	1.43
Commonwealth Bank of Australia	AU3FN0082251	1.41

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

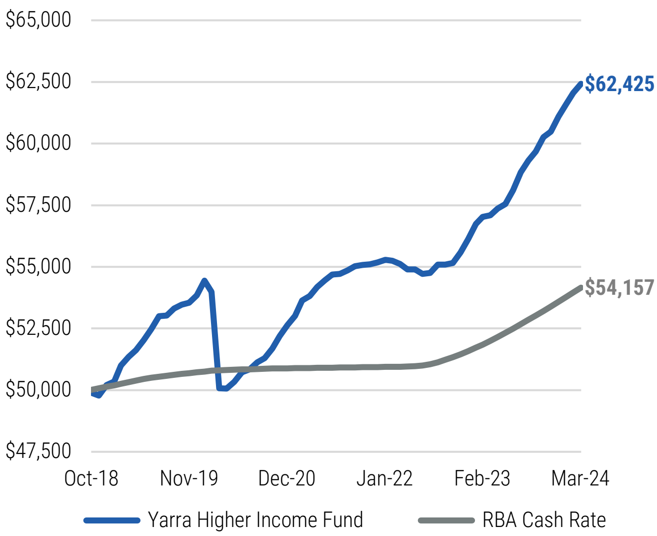
	Portfolio %
AA	4.30
AA-	12.76
A+	-
A	3.27
A-	-
BBB+	17.46
BBB	20.47
BBB-	16.13
BB+	4.93
BB	8.89
BB-	8.95
B+	2.13
B	0.69
B-	-
NR or Below	-

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$72.5 mn as at 31 March 2024
Estimated management cost	0.65% p.a.
Buy/sell spread	+/- 0.10%
Distribution frequency	Monthly
Platform availability	Hub24 Netwealth Macquarie Wrap

Investment performance comparison of $50,000

After fees, since inception of the Yarra Higher Income Fund, October 2018 to March 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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