YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 30 April 2025

Yarra Higher Income Fund

Gross returns as at 30 April 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.65	1.80	9.22	8.24	7.10	5.58
RBA Cash Rate#	0.33	1.00	4.30	3.61	2.21	1.94
Excess return‡	0.32	0.80	4.92	4.63	4.89	3.64

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 April 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.60	1.64	8.51	7.54	6.41	4.90
Growth return†	0.04	0.00	1.97	0.89	0.79	-0.24
Distribution return†	0.56	1.64	6.54	6.65	5.62	5.14
RBA Cash Rate#	0.33	1.00	4.30	3.61	2.21	1.94
Excess return‡	0.27	0.64	4.21	3.93	4.20	2.96

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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 0.60% (net basis) over the month, outperforming the RBA Cash Rate by 27 bps. On a 12-month view the Fund returned 8.51% (net basis), outperforming the RBA Cash Rate by 421 bps.

Despite a challenging outset at the start of the month, the Fund continues to provide investors with positive returns. Our high running yields and carry continues to provide meaningful downside protection alongside our duration position as we navigate volatile markets. The Fund's exposure to corporate credit, non-real estate private debt and syndicated loans continues to provide strong risk adjusted returns.

The primary market was mostly closed over the period, however the fund continued to be active in the secondary market, taking advantage of pricing opportunities as they occurred. The Fund also took out some Credit Default Swap protection, to counter adverse spread movements emerging from the US.

Market review

Market volatility spiked in April following the US "Liberation Day" tariff announcements, with the scale and breadth of the policies surprising markets. Equities sold off, fixed income spreads widened, and the VIX measure of implied market volatility increased to 60, the highest level since the COVID pandemic.

Following a sharp rise in the US 10-year yield, peaking at 4.5%, US tariffs were paused for 90 days and a softer approach was announced. Markets responded positively, recovering much of their losses over subsequent weeks, with the US 10-year yield closing the month at 4.2%.

In Australia, the Reserve Bank of Australia (RBA) kept policy rates on hold at its April meeting. Although the Board acknowledged inflation is cooling, it continued to re-iterate the central bank's resolve in ensuring inflation is moving sustainably towards the mid-point of the target band. Q1 CPI in Australia showed a slight uptick in headline inflation, however trimmed mean inflation fell within the 2-3% target band and is in line with the RBA's forecasts in February. Over the month, 3-year government bond yields fell 38 bps to 3.32%, and 10-year bond yields fell 22 bps to 4.16%. The yield curve steepened significantly over the month, from 64 bps to 84 bps.

Across primary issuance, all previously announced transactions were either halted or delayed. Corporate credit spreads widened significantly in the secondary market, particularly in the high-yield segment. Additionally, iTraxx jumped to approximately 108 bps – an increase of 30 bps over the week – reflecting the heightened uncertainty. A possible market revival was hinted at, with Sydney Airport managing to print a $600 million note during the month. This was short lived, however, with no subsequent corporate issuance.

Since the beginning of 2023, the RMBS/ABS primary market margins continue to improve. However, Liberation Day, saw spreads in the secondary market widen materially. While this widening has seen some reversal, particularly in major bank FRN, non-bank prime RMBS spreads continue to trade at near recent wides. Private debt also continued to grab headlines following valuation uncertainty, compressing illiquidity premiums, and difficult economic conditions for companies further down the credit spectrum.

Outlook

Global factors will continue to play a significant role in shaping the domestic market, and the RBA is likely to remain cautious in its decision-making. However, recent data indicates ongoing progress on inflation, with quarterly trimmed mean inflation now within the 2-3% target range at approximately 2.9% (y/y), and headline inflation at 2.4%. This suggests we are moving into a less restrictive interest rate environment.

The pace and extent of future rate cuts will likely depend on a range of domestic and global factors. We remain cautious about the potential for volatile credit conditions. Credit spreads had begun tightening toward the end of April, but any deterioration in global stability—such as a tariff war or geopolitical tensions—could reintroduce risk and lead to a pullback in credit demand.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.42
Credit spread (bps)	280
Average weighted issue credit rating	BBB
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	6.06
Effective duration (years)	0.73
Spread duration (years)	1.96
Number of securities	139

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

Sector allocation

	Portfolio %
Asset Backed Securities	1.55
Banks	34.90
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	6.32
Energy	1.89
Health Care	0.16
Industrials	7.56
Information Technology	-
Insurance	6.28
Materials	-
Mortgage-Backed Securities	7.84
Private Debt	8.91
Real Estate	4.59
Syndicated Loan	7.74
Utilities	3.55
Cash and Other	8.70

Security allocation

	Portfolio %
Tier 1	3.07
Tier 2	36.08
Subordinated	11.96
Mortgage Backed	7.84
Asset Backed	1.55
Senior	14.15
Private Debt	8.91
Syndicated Loan	7.74
Cash and Other (incl. derivatives)	8.70

Top 10 holdings

Issuer	ISIN	Portfolio%
National Australia Bank	AU3FN0084828	2.49
ANZ Banking	AU3FN0091583	2.16
Perenti Finance	USQ7390AAB81	1.99
Commonwealth Bank	AU3CB0315638	1.61
HSBC Holdings	AU3FN0085726	1.54
Banco Santander	AU3FN0089652	1.53
Pepper Prime Mortgage Trust	AU3FN0089850	1.52
Westpac Banking	AU3CB0311140	1.28
ANZ Banking	AU3FN0077939	1.26
Rabobank	AU3FN0072732	1.25

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

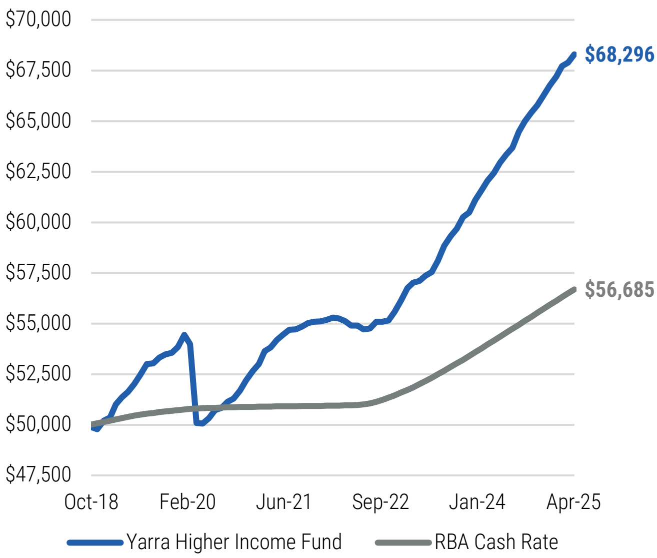
	Portfolio %
AA	4.48
AA-	10.42
A+	0.24
A	2.46
A-	12.81
BBB+	10.47
BBB	24.72
BBB-	8.69
BB+	7.44
BB	7.67
BB-	3.69
B+	3.50
B	3.11
B-	0.30
NR or Below	-

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$164.9 mn as at 30 April 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 April 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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