Yarra Higher Income Fund

Gross returns as at 30 June 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.63	2.02	9.30	8.81	7.08	5.65
RBA Cash Rate#	0.31	0.98	4.23	3.80	2.33	1.99
Excess return‡	0.32	1.04	5.07	5.01	4.75	3.66

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 June 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.57	1.86	8.59	8.11	6.39	4.97
Growth return†	-0.06	0.07	1.66	2.40	0.77	-0.23
Distribution return†	0.63	1.79	6.94	5.71	5.62	5.20
RBA Cash Rate#	0.31	0.98	4.23	3.80	2.33	1.99
Excess return‡	0.26	0.88	4.36	4.30	4.05	2.98

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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 1.86% (net basis) over the quarter, outperforming the RBA Cash Rate by 88 bps. On a 12-month view the Fund returned 8.59% (net basis), outperforming the RBA Cash Rate by 436 bps.

During the quarter, the fund continued to benefit from its high running yields. Carry was the standout source of return across the quarter, as the allocation to floating rate securities continues to benefit from elevated base rates. Our allocation to loans and private debt continued to perform well, providing strong income returns with minimal volatility. Duration was a positive contributor to performance during the quarter, particularly through our curve steepener trade.

In terms of trading, we unwound our CDS position as we felt the market outlook was more benign for credit spreads. We also meaningfully increased our allocation to subordinated debt, participating in the Nextera, Melbourne Airport, Aurizon and Scentre primary deals. Our active participation in secondary markets also saw us pick up Australian Issuer USD deals which, when swapped back to AUD, provide attractive spreads.

Market review

A volatile quarter for markets saw further escalation of geopolitical tensions and US involvement in the Middle East. Further to this, trade tensions increased as tariff discussions continued to make headlines, with the market uncertain about President Trump's next move. At the time of writing, Trump's tax bill has been passed before the July 4th holiday significantly increasing the US debt. With so much uncertainty, the US Federal Open Market Committee (FOMC) has been reluctant to reduce interest rates with unknown inflation impacts from tariffs. Unemployment in the US has remained at moderate levels during the quarter at 4.2%. In this context, the FOMC has kept the lower bound of the cash rate at 4.25% for the quarter. The US curve steepened during the quarter with the 10-year yield closing at 4.26%.

Across other developed economies we saw the Bank of England cut rates to 4.25%, with the European Central Bank also cutting rates to 2% in response to weakening data. The People's Bank of China has also lowered their policy rate to 3%.

Domestically, the Reserve Bank of Australia (RBA) lowered the cash rate to 3.85% with the market pricing in a number of cuts for the remainder of 2025. With the last quarterly CPI read coming in at 2.4% (y/y) and the most recent monthly at 2.1% (y/y) the RBA board is now focused on ensuring that unemployment numbers do not weaken dramatically. With sluggish GDP growth and domestic consumption lagging RBA expectations, downside risks appear to be the clear focus for the RBA. During the quarter the curve continued to steepen with 3-year yields closing at 3.27% and 10-year yields moving to 4.2%

Issuance throughout the quarter was strong, however, there was the occasional pause as markets reacted to tariffs and speculation that the Middle Eastern conflict would escalate. In this context, we did see some volatility in credit spreads. This has largely abated with spreads closing marginally tighter for the quarter. Australian credit continues to attract strong domestic and international flows as our robust credit environment remains attractive. De-dollarisation has presented opportunities for new names to enter the market with Kangaroo deals. As the base cash rate begins to reduce, investors have chased fixed rate credit. A number of notable deals came to market during the quarter with subordinated debt issuance continuing to be a feature. The Australian iTraxx index closed at 73.5 bps.

This was a slightly slower quarter for primary RMBS/ABS issuance when compared to 2024. However, the market remains active, with many deals coming to market during the quarter. Spreads have continued to tighten, as the asset class remains attractive on a relative value basis. Private debt continued to remain the subject of headlines and with illiquidity premiums compressed it has become a less attractive asset class. For quality deals in the asset class, private debt provided some stability during the volatile markets conditions seen in April.

Outlook

The market is pricing in a strong chance of a rate cut in the next RBA monetary meeting. Inflation numbers now pose a downside risk, while further weakening economic data, alongside slowing GDP growth has the market pricing in further cuts in 2026. Currently, unemployment has remained flat at 4.1%. If this number starts to move higher and depart from RBA forecasts, we could see a more aggressive approach to the easing cycle.

With credit conditions remaining favourable for investors, we expect the tightening of spreads to continue, however, we remain vigilant to any potential risk off events stemming from the unstable geopolitical backdrop. The domestic investment grade market continues to prove to be robust, with balance sheets in good shape. Companies further down the credit rating spectrum should benefit from any rate cuts in 2025. We still expect strong demand for Australian credit, both domestically and internationally.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	6.51
Credit spread (bps)	264
Average weighted issue credit rating	BBB
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	6.06
Effective duration (years)	0.93
Spread duration (years)	3.30
Number of securities	147

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

Sector allocation

	Portfolio %
Asset Backed Securities	1.29
Banks	33.13
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	5.95
Energy	7.60
Health Care	0.14
Industrials	10.75
Information Technology	-
Insurance	5.40
Materials	-
Mortgage-Backed Securities	6.57
Private Debt	7.20
Real Estate	3.94
Syndicated Loan	8.22
Utilities	2.51
Cash and Other	7.29

Security allocation

	Portfolio %
Tier 1	2.62
Tier 2	33.23
Subordinated	18.74
Mortgage Backed	6.57
Asset Backed	1.29
Senior	14.83
Private Debt	7.20
Syndicated Loan	8.22
Cash and Other (incl. derivatives)	7.29

Top 10 holdings

Issuer	ISIN	Portfolio%
ANZ Banking	AU3FN0091583	2.79
Nextera Energy Capital	AU3CB0322691	2.63
National Australia Bank	AU3FN0084828	2.13
Aurizon Holdings	AU3FN0098372	1.80
Perenti Finance	USQ7390AAB81	1.67
Iron Mountain Australia	XXAU0IRON024	1.56
Westpac Banking	AU3CB0304376	1.46
Banco Santander	AU3FN0089652	1.33
HSBC Holdings	AU3FN0085726	1.32
Woodside Finance	US980236AV51	1.22

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

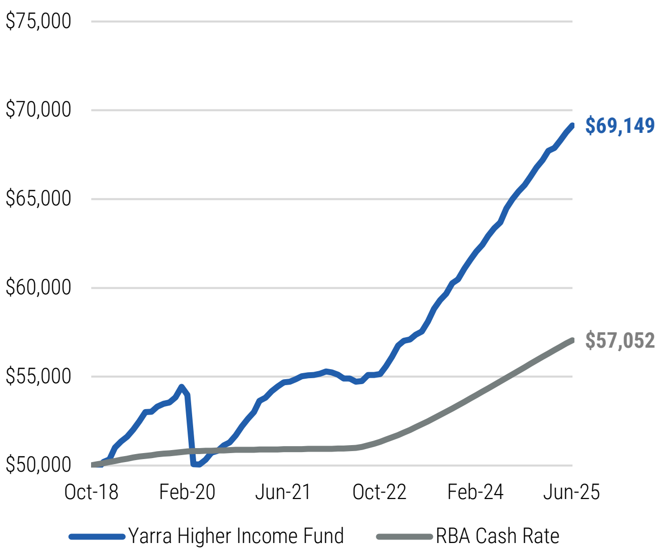
	Portfolio %
AA	3.71
AA-	8.77
A+	0.20
A	2.13
A-	10.53
BBB+	11.07
BBB	28.49
BBB-	10.50
BB+	7.09
BB	9.23
BB-	3.16
B+	3.02
B	1.84
B-	0.26
NR or Below	-

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$ 192.1 mn as at 30 June 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 June 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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