Atchison

September 2025

The untapped potential of Australia’s multi-sector fixed income market

Illuminating
the way forward

Table of contents

Introduction

1.1 As investors focus on global fixed interest, are they missing a return opportunity closer to home?

The perception that the Australian credit market is small, concentrated, and overly reliant on the major banks is outdated. In reality, the market has matured significantly, expanding in breadth, depth and diversity.

In its entirety, the Australian fixed income market is in excess of a $3 trillion opportunity set (the fifth largest globally) having more than doubled in the past 15 years. This evolution is being driven by multiple forces:

- The internationalisation of the Australian credit market provides opportunities across a very large opportunity set to optimise risk adjusted returns through the cycle.
- A rise in private debt issuance across corporate, real estate, infrastructure and asset-backed sectors.

This paper explores how Australian multi-sector portfolios can offer an optimal blend of return, risk, and liquidity, better aligning with client objectives rather than a singular focus on niche areas such as private credit or an over-reliance on global mandates. These diversified portfolios empower investors to effectively manage liquidity across the capital structure, while maintaining the agility to dynamically adjust asset allocations in response to changing market conditions and economic cycles.

Investors allocating solely to domestic benchmark-aligned fixed income portfolios to meet Your Future Your Super ('YFYS') requirements risk missing out on significant segments of the Australian credit market, particularly Residential Mortgage Backed Securities ('RMBS'), Asset Backed Securities ('ABS'), private loans, and other structured credit which are either not represented or underrepresented in traditional indices. These sectors offer diversification, enhanced yield, and exposure to idiosyncratic risk premia that cannot be accessed through vanilla duration-heavy benchmarks.

By incorporating a multi-sector domestic fixed income portfolio, investors gain access to these powerful levers, broadening their opportunity set and improving return potential. Excluding them leaves meaningful value on the table, both in terms of portfolio efficiency and forward-looking outcomes.

In a world where portfolios seek alpha, resilience, and liquidity, ignoring a $3 trillion plus local market rich with credit risk premia seems increasingly inefficient.

1.2 Seeking to change the market's impression:

The prevailing view among many Australian investors is that offshore fixed income markets offer broader diversification and deeper opportunity sets. While global allocations remain valuable for geographical and sectoral diversification, this mindset has led to a prolonged and systematic underweighting of high-quality, high-yielding local opportunities particularly in multi-sector Australian credit strategies.

In today's environment of globally shifting central bank policies, elevated volatility and heightened currency sensitivity, Australian multi-sector fixed income strategies are well positioned to deliver strong risk-adjusted outcomes, spanning public, structured, and private credit. When executed by experienced, well-resourced active managers, these strategies benefit from enhanced deal access, in-depth credit research, and robust risk management frameworks. Scale and market connectivity further strengthen the ability to source, evaluate, and negotiate opportunities across the credit spectrum.

For investors, partnering with active managers that possess deep local expertise and strong origination capability can unlock segments of the market that are otherwise inefficient, providing a distinct edge in portfolio construction and long-term performance.

Yarra Capital Management (Yarra) has commissioned this research paper, in partnership with Atchison, to enhance transparency and facilitate debate around the inclusion of fixed income allocations not represented in the benchmark. Yarra is an established investment manager with a long-standing presence in Australian fixed income and credit markets, having managed institutional and retail portfolios since its initial credit fund's inception in 2002. The Yarra team is actively investing across the full spectrum of Australian fixed income, including public, structured, and private credit markets. With deep experience in originating, analysing, and managing credit exposures, the team provides tailored financing solutions to a broad range of corporate and asset-backed borrowers.

In this paper, the structure of the APRA Australian fixed interest benchmark index (Bloomberg Ausbond Composite 0+yr) and the consequences of inclusion of private bonds and loans in fund portfolios have been addressed. Inclusion of Yarra managed credit and private debt in portfolios has also been considered.

Performance was calculated over rolling five years over the period June 2015 to June 2025. Six portfolios were assessed in the analysis being Bloomberg Ausbond Composite 0+ yr. (Portfolio A), Bloomberg Composite + Corporate Bonds (Portfolio B), Bloomberg Composite + Corporate Bonds + RMBS/ABS (Portfolio C), Bloomberg Composite + Corporate Bonds + Private loans (Portfolio D) and Portfolio E, which includes corporate bond and private loan portfolios actively managed by Yarra.

Lastly, Portfolio F was introduced to examine the impact of a global fixed income allocation within a diversified portfolio. It combines the Bloomberg Barclays Global Aggregate Index (hedged to AUD) with Global Corporate Bonds, enabling a like-for-like comparison between domestic multi-sector fixed income and an internationally diversified equivalent. Portfolio F highlights whether the additional complexity, currency hedging requirements, and differing credit market structures of global allocations deliver superior risk-adjusted outcomes relative to domestic multi-sector solutions.

Tracking error of performance of the portfolios versus the benchmark have been generated on a rolling one-year and rolling five-year basis.

Australian fixed income landscape

Australia's debt market consists of both public and private segments, together forming the largest capital market in the country. Public debt markets are characterised by daily mark-to-market pricing, driven by active trading between buyers and sellers. This results in high transparency, efficient price discovery, and ample liquidity.

In contrast, private debt markets are typically valued at cost or through periodic appraisals. Information on loan terms, interest rates, borrower financials, and collateral is limited, making these markets opaque and less liquid. However, this reduced visibility and complexity are precisely what create return-enhancing opportunities for active managers. Investors can access attractive illiquidity and information premia by allocating to private debt in a disciplined and targeted manner.

The structure of Australian debt in public and private markets is provided below:

Table 1. Australian fixed income market 2025

Bond Market and Debt 2025	$Trillion
Government Bonds	$0.9
State Government Bonds	$0.6
Public Corporate Bonds	$1.8
Total Bonds	**$3.3**
Private Bonds and Loans	$0.4
Total Australian Debt	**$3.7**

* Includes AUD value of corporate bonds issued into offshore markets by Australian-domiciled corporates.

Source: ABS Australian National Accounts: Finance and Wealth, March 2025.

APRA, as the prudential regulator of superannuation funds, has introduced performance benchmarking to assess and compare fund outcomes. For Australian fixed interest, the reference benchmark is the Bloomberg AusBond Composite 0+ Index, and for international fixed interest, it is the Bloomberg Barclays Global Aggregate Index (hedged to AUD). These benchmarks are comprised exclusively of public market instruments, effectively excluding private credit exposures as well as some key public markets. The risk of underperforming these benchmarks can carry significant reputational and commercial consequences for superannuation trustees, as consecutive underperformance over the assessment period can lead to the fund being placed on APRA's public 'underperformance list', restricting the fund from accepting new members and triggering intense scrutiny from both regulators and members. This naturally incentivises allocations to benchmark-aligned instruments.

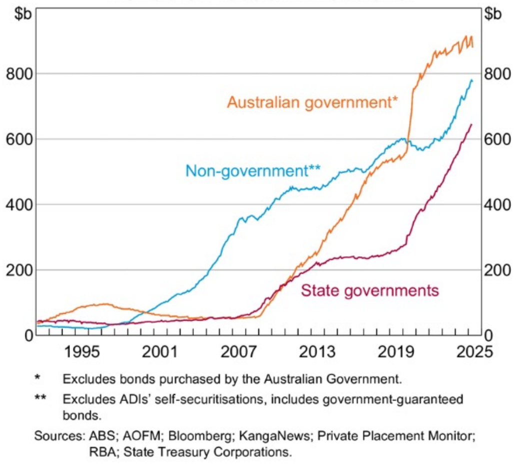
As a result, there is a tension: while private markets offer higher prospective returns and diversification benefits, deviation from the benchmark can penalise performance metrics under APRA's regime. It is therefore critical for Australian investors to carefully assess the risk-return trade-off of including other debt assets in portfolios, and whether the potential uplift justifies the tracking error.

For non-superannuation investors, however, the constraint is less binding, absolute risk and return considerations are paramount, enabling more flexible access to the opportunities presented by markets outside of the index.

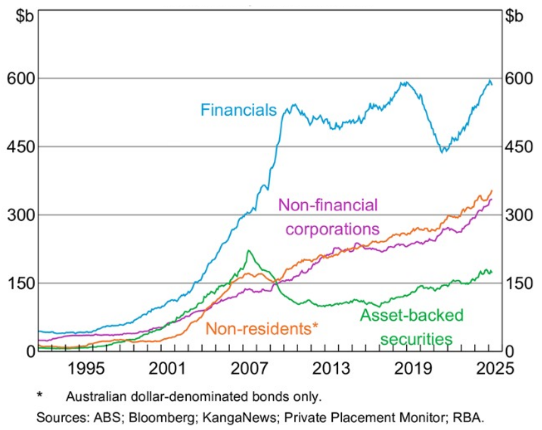
So, what is the impact in terms of return and tracking error, and should investors seek to broaden their fixed income portfolios? What impact does inclusion of private credit and other sub-asset classes have on risk?

2.1. Australian bond issuance

Appendix 1: Bonds on Issue in Australia[1]



Appendix 2: Total Non-government Bonds on Issue[1]



[1] Charts sourced from RBA publications.

The Bloomberg AusBond Composite 0+ Index serves as the primary benchmark for Australian fixed interest within institutional portfolios, particularly for superannuation funds. However, this index is narrow in scope, capturing only government and public corporate bond markets, missing large, return-generative sectors of the domestic debt universe. In fact, it reflects only one-third of the investible Australian credit market accessible to investors.

Crucially, the index excludes or under-represents major fixed income asset classes such as RMBS (Residential Mortgage-Backed Securities), ABS (Asset-Backed Securities), and private credit. These sectors offer meaningful credit spread, liquidity, and complexity premia, and represent key levers institutions can pull to enhance returns, improve diversification, and manage duration and credit exposures more dynamically. By omitting these segments, the benchmark presents an incomplete picture of the opportunities available in the Australian fixed income market.

As at June 2025, the Ausbond Composite 0+ Index had a 82.2%, allocation to government bonds (well beyond its long-term average of 63.2%). This reflects the explosion of public debt issuance in the pandemic as seen in Appendix 1 jumping from roughly $500 billion in 2019 to over $800 billion in 2025. This skew introduces a duration-heavy, low-yield bias, limiting the ability of the benchmark to generate attractive income or credit-based returns.

As shown in Appendix 1, the non-government bond sector has expanded to nearly $800 billion on issue in 2025, up from less than $200 billion in the early 2000s, and is now comparable in scale to the $900 billion Australian Government bond market. This reflects the depth of domestic capital markets beyond Commonwealth issuance, offering a broad investible universe that is underrepresented in standard benchmarks but rich in opportunities for yield, diversification, and enhanced risk-adjusted returns.

Appendix 2 shows that structured credit, including RMBS and ABS, accounts for over $150 billion of issuance, alongside substantial volumes from financials ($600 billion), non-financial corporates ($300 billion) and non-residents ($250 billion). These segments, particularly structured credit, are typically excluded from benchmark constructions despite offering higher yields and a meaningful credit premium for skilled investors.

Similarly, the Bloomberg Barclays Global Aggregate Index (hedged to AUD), the standard benchmark for international fixed income, includes a broader mix of treasury, government-related, corporate, and securitised bonds across 25 local currency markets, but still emphasises public issuance over private or structured assets.

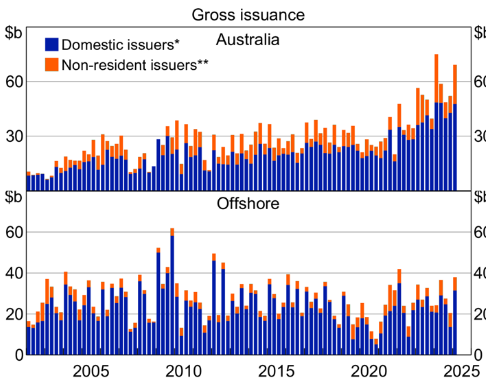
Both indices are built on an issuance-weighted construction, which assigns the highest weightings to the largest debt issuers. While this methodology ensures liquidity and investability, it introduces structural risks by:

- Overweighting highly indebted sovereigns or corporates, irrespective of creditworthiness or risk-adjusted return potential.
- Favouring issuers with large funding needs, which may not align with prudent credit risk allocation.
- Creating crowding in low-yield, high-duration segments, constraining flexibility for active portfolio positioning.

In essence, an issuance-based benchmark reflects supply, not opportunity. It can capture what's abundant in capital markets, but not necessarily what's optimal from a risk-return or capital efficiency perspective.

For Australian investors seeking to maximise portfolio efficiency, this raises a critical consideration: limiting exposure to what is index-included inherently restricts access to more complex, less liquid, but higher-yielding assets, (such as RMBS, ABS, and private loans) that offer material benefits through the cycle. A more holistic, multi-sector approach to Australian fixed income allows investors to go beyond the benchmark and unlock the full breadth of return drivers available in the market without sacrificing liquidity, which commonly occurs when investors allocate to funds exclusively dedicated to private credit. Moreover, access to a much wider opportunity set in a multi-sector framework enables the manager to forensically focus on through-the-cycle, higher risk adjusted returns.

Appendix 3: Non-government Bond Issuance



* Excludes ADIs' self-securitisations.

** Offshore non-resident issuance includes Australian dollar-denominated bonds only.

Sources: Bloomberg; KangaNews; Private Placement Monitor; RBA.

Appendix 3 illustrates that both domestic and offshore issuance remain consistently strong. Domestic non-government issuance (blue bars) has risen notably in recent years, approaching $50 billion in 2025, underpinned by activity from banks, securitisers, and corporate issuers.

Notably, non-resident issuance in Australia (orange bars) reflects confidence in Australia's legal and financial frameworks. Offshore issuance by domestic entities remains active, and had been rising, indicating cross-border investor demand and global integration.

This reinforces the idea that the Australian credit market is deep, open, and increasingly sophisticated, far beyond the perception of it being bank and government-dominated.

2.2. Australian versus global fixed income

For Australian investors, sovereign risk is not a concern when investing in Australian bonds. Australia's superior AAA sovereign credit rating, supported by prudent fiscal management and a stable political and legal environment, underpins the domestic risk-free rate. As a result, Australian fixed income trades without a sovereign risk premia. Credit spreads reflect issuer-specific fundamentals such as industry sector, leverage, and credit quality, rather than systemic sovereign distortions.

By contrast, when Australian investors allocate to global fixed income, they are directly exposed to sovereign risk. Investments in foreign government or corporate bonds carry embedded risks tied to the fiscal health, political stability, and regulatory environment of the issuing country. For instance, U.S. fixed income markets, while deep and liquid, are occasionally disrupted by events such as debt ceiling impasses or concerns about long-term fiscal sustainability. These issues can influence U.S. Treasury yields and ripple through to corporate credit markets.

The exposure to sovereign risk is even more pronounced in emerging markets, where fiscal vulnerabilities, political instability, or currency volatility can significantly affect bond valuations and investor returns. In such environments, credit spreads reflect a blend of issuer-specific and sovereign-level risks.

2.3. Australian versus US credit

Both US and Australian BBB-rated credit markets have repriced significantly since 2022, key differences in valuation suggest better opportunities in Australia. As per Appendix 4, US BBB spreads have compressed well below their long-term average (~1.3% vs 1.8%), indicating loose credit conditions and limited compensation for risk.

In contrast, Australian BBB spreads, shown in Appendix 5, are sitting near their long-term average (1.6%), offering more balanced compensation relative to history. Importantly, yields in both markets are now similar (around 5.5%), however, Australian credit achieves this at a shorter duration (5-year vs 10-year in the US), providing better carry with lower spread risk.

With the RBA maintaining a more cautious monetary policy stance than the US Fed, the Australian corporate market appears less exposed to near-term policy volatility with a return to ultra-low interest rates appearing extremely unlikely.

Additionally, while not explicitly biased, ratings agencies often have a preference for large, globally diversified businesses. This means Australian companies, which are typically smaller and more concentrated by sector or geography, are at a significant disadvantage.

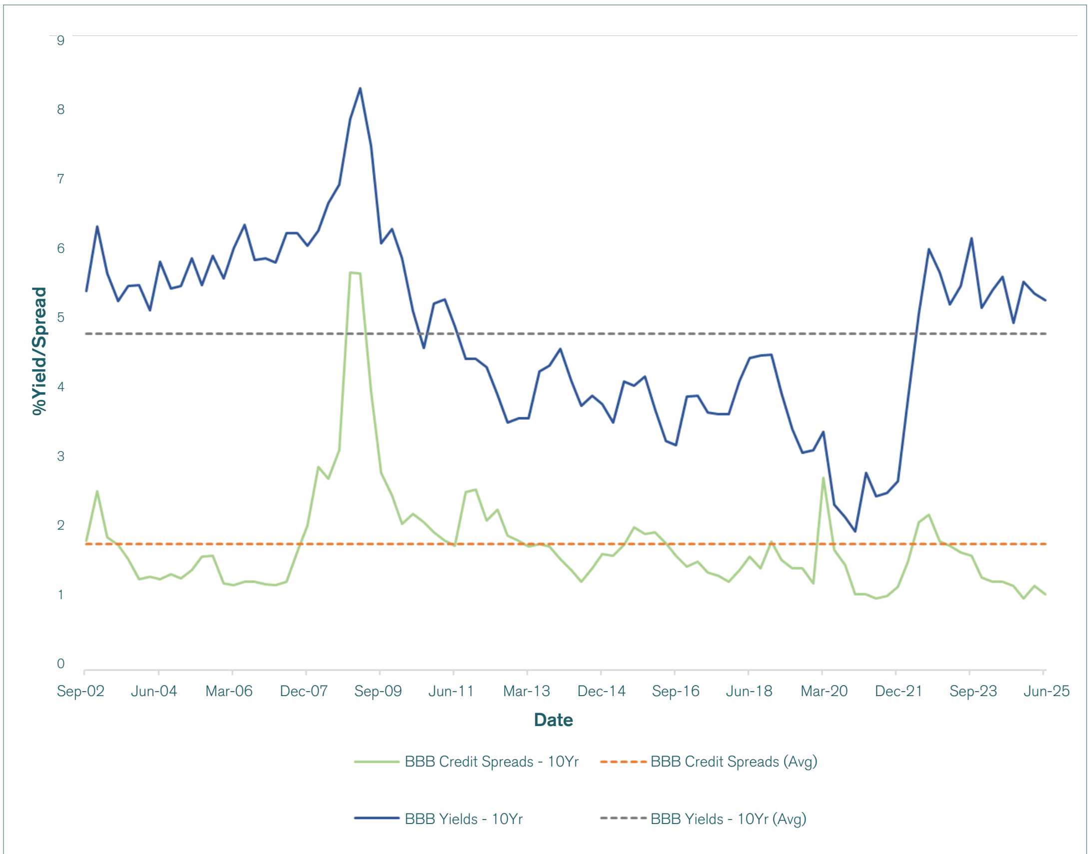
As a result, Australian corporates can be rated one or two notches lower than overseas peers with similar financial profiles.

This rating conservatism means credit spreads for Australian investment-grade issuers may offer excess compensation relative to their actual risk. Despite historically low default rates and strong legal frameworks, Australian corporates often trade wider than equivalent offshore bonds. For active credit managers such as Yarra, this creates an opportunity to generate alpha through selective exposure to underrated domestic issuers.

Overall, Australian corporates present a more attractive risk-reward profile. They offer spread compensation, reduced duration exposure, and more conservative repricing.

For investors seeking resilient income without overstretching on credit or duration risk, Australia stands out as the more compelling credit allocation.

Appendix 4: US BBB Spreads and Yields



*ICE BofA BBB US Corporate Index

Appendix 5: Aus BBB Spreads and Yields

*Bloomberg AUD BBB corporate bond series

The case for multi-sector fixed income

Multi-sector fixed income refers to a broad, actively managed allocation across the full spectrum of fixed income asset classes, both public and private. Unlike benchmark-constrained strategies that allocate primarily to government and corporate bonds, multi-sector portfolios include:

- Government bonds (Commonwealth and state),
- Investment-grade and high-yield corporates,
- Structured credit (e.g. RMBS, ABS),
- Syndicated Loans (large loans syndicated to multiple investors)
- Private debt (e.g. direct corporate loans, real estate debt, infrastructure credit),
- Securitised and alternative credit, including warehouse facilities and bespoke credit structures.

Multi-sector fixed income portfolios are designed to capture diverse sources of return and risk premium by allocating across segments that behave differently through the cycle, providing a more robust and adaptable portfolio profile.

3.1 What is structured credit?

Structured credit involves pooling financial assets (usually loans or receivables) and issuing securities backed by those assets. The most prominent forms in the Australian market are:

- RMBS: Bonds backed by pools of residential home loans. Australia's RMBS market is deep, well-regulated, and historically robust, supported by conservative underwriting and low default rates.
- ABS: Bonds backed by other asset types: such as auto loans, credit card receivables, equipment leases, or SME loans.

Australia's ABS/RMBS market currently has over $150 billion outstanding, with annual issuance nearing $20 billion in recent years. These instruments offer attractive risk-adjusted yields, often higher than corporate bonds of similar credit quality with embedded structural protections, including tranching and credit enhancement. Additionally, they provide exposure to underlying consumer and business credit, which behaves differently from traditional interest rate-sensitive bonds.

3.2 What is private debt?

Private debt refers to non-publicly traded loans and credit instruments, including Direct lending to mid-market corporates, Real estate credit (e.g. construction loans, mezzanine finance), Infrastructure debt (e.g. project financing), and Specialty finance (e.g. receivables finance, litigation finance).

Private debt instruments typically offer on average 100-200 basis points of yield premium over equivalent-rated public corporate bonds, as highlighted in a 10-year study by PineBridge Investments (2024). These higher yields compensate for illiquidity, reduced transparency, and structural complexity. These loans are often governed by bespoke terms, which can include stronger covenants and enhanced investor protections compared to public market equivalents. In addition, private debt exhibits lower mark-to-market volatility, as returns are generally driven by contractual interest payments and scheduled principal repayments, rather than market pricing fluctuations.

3.3 Why multi-sector fixed income?

Multi-sector fixed income offers investors access to a broader and more diverse set of return drivers than traditional benchmark-aligned portfolios. By extending beyond government and corporate bonds to include structured credit, syndicated and private loans, multi-sector portfolios are uniquely positioned to enhance returns, improve diversification, manage risk more effectively, and adapt to changing market conditions.

One of the most compelling advantages of multi-sector fixed income is its return-enhancing potential. Portfolios that include higher-yielding sectors such as RMBS, ABS, and private credit can capture risk premia that are largely unavailable in traditional bond markets. These sectors offer compensation not just for credit risk, but also for some liquidity constraints, structural complexity, and information asymmetry. As of June 2025, Australian government bond yields sit around 4.2%, investment-grade corporates approximately 5.2%, senior RMBS around 6%, and private loans often exceed 8% (Bloomberg, RBA).

These segments are less crowded by passive flows, allowing for greater pricing power and enhanced security selection. In an environment of normalising policy rates and persistent inflationary pressures, such exposures are well placed to deliver higher income and improved through-the-cycle portfolio-level returns.

Beyond return, the diversification benefits of multi-sector fixed income are significant. By allocating across public and private markets, consumer, corporate, and real estate-linked credit, and a variety of capital structures and liquidity profiles, investors can reduce correlation and enhance resilience. Structured credit, for example, may outperform during periods of equity market weakness, while syndicated and private loans can provide steady, contracted income during times of rate volatility or spread widening.

In stressed markets such as March 2020, senior Australian RMBS tranches demonstrated resilience with S&P Global estimating liquidity reserves could sustain nine to 12 months of income payments even under zero cash inflows. In contrast, mid March saw a marked deterioration in non government credit markets, with widening spreads and faltering liquidity in corporate and bank bond segments. This multi-faceted exposure enables portfolios to absorb shocks more effectively and maintain performance across different market regimes.

From a risk management perspective, multi-sector domestic fixed income offers distinct advantages over global or index-aligned strategies. For example, the Yarra Higher Income Fund, a domestic multi-sector fixed income strategy, has an effective duration of just 0.74 years (as of 30 June 2025) compared to 5.3 years for the Bloomberg AusBond Composite 0+ Index (Bloomberg, Yarra Capital). This materially limits capital volatility from rate rises. In addition, global fixed income allocations require currency hedging, which typically costs 20 to 30 basis points annually (Bloomberg, Mercer), further enhancing the case for domestic multi-sector solutions.

In addition, Australia's robust legal and regulatory frameworks, particularly in lending and securitisation, provide a stable foundation for investors seeking clarity and protection around their credit exposures. The net result is stronger capital stability in times of macroeconomic uncertainty.

Equally important is the agility that multi-sector portfolios provide through the market cycle. Unlike static or narrowly constructed strategies, multi-sector portfolios can dynamically rotate between sectors based on relative value, macro conditions, and the credit cycle. Investors can increase exposure to credit risk when spreads are wide, or tilt defensively during times of heightened volatility. This adaptability is increasingly vital as traditional portfolio structures face pressure from persistent inflation, compressed yields, and rising correlations between equities and bonds.

The opportunity set for multi-sector credit is particularly compelling in the current environment. With cash rates at almost 4%, public debt issuance at historic highs (dominating benchmarks with long-duration, low-yielding assets), and a deep but underutilised market for structured and private credit, investors have an opportunity to reposition fixed income allocations for greater efficiency.

A thoughtfully constructed multi-sector approach can deliver a substantial incremental return, depending on risk appetite and liquidity tolerance, with only modest additional tracking error. Crucially, it enables access to segments of the credit market that are excluded from standard indices, thereby improving risk-adjusted outcomes and portfolio robustness over the long term.

Attributes of public and private debt markets

Public and private debt markets serve complementary roles in diversified portfolios, offering distinct characteristics in terms of pricing, volatility, liquidity, and valuation.

Public debt securities are traded on open markets and priced daily through buyer and seller interactions, resulting in high liquidity and transparent price discovery. This daily mark-to-market dynamic leads to more volatile returns, reflecting real-time shifts in market sentiment, interest rates, and macroeconomic conditions.

Private debt, by contrast, is typically valued at cost or through periodic appraisals. These valuations result in smoother return profiles, as price adjustments are less frequent and less sensitive to short-term market movements. However, this comes at the cost of reduced transparency and significantly lower liquidity, particularly in times of market stress, when forced sellers may struggle to find buyers. This has been evident in recent months, with several Australian private debt managers forced to gate funds and establish run-off classes after being unable to meet redemption requests.

Importantly, private debt can offer return-enhancing features through illiquidity, information asymmetry, and structural complexity. These premia reward investors who can commit capital over longer time horizons and tolerate lower liquidity.

Blending public and private debt in portfolios allows investors to balance liquidity and return stability, potentially enhancing overall risk-adjusted outcomes.

4.1. Challenges

Challenges which limit participation in private markets, thereby providing opportunities for organisations with the required expertise and resources to overcome them, include:

1. Lack of information transparency provides a private market advantage. Private market participants must rely on proprietary information, private negotiations, and informal networks. This opacity manifests in several areas:
    - Business, asset or securities information and relationships - Detailed financials, operational performance metrics, and governance structures are often not publicly disclosed. Gaining access requires direct relationships, deep due diligence capabilities, and industry-specific knowledge.
    - Pricing including transactions - There is no centralised marketplace for most private transactions, making it difficult to determine fair value or prevailing market terms. This lack of price discovery can deter less sophisticated investors but allows well-resourced firms to source deals at more favourable terms.
2. Illiquidity limits the number of participants
    - The absence of a deep secondary market can make it difficult to exit positions, further discouraging risk-averse investors.

4.2. Investing in private debt

In selecting an investment proposition, consideration must be given to duration and average life, credit rating and generation of regular cash flow.

Pricing for the segments of the private debt markets provides the prospect of information advantage. Credit assessment capability requires the skills of analysing financial statements and business prospects. While public credit rating methodologies are commonly applied to major companies in public markets, in private markets these analytical skills are exercised directly by managers, who undertake their own assessments rather than relying on external ratings.

A reward for the risk that loan interest and principal may not be paid reflects the credit risk premium. The time premium compensates for long-term commitments. An illiquidity premium applies to private loans.

Ultimately, private debt offers the potential for stable, predictable income streams and attractive risk-adjusted returns, particularly when accessed through specialist managers with proven origination, underwriting, and monitoring capabilities.

These return premia are further supported by the structural protections embedded in senior secured private lending. Such protections typically include first-ranking security over borrower assets, covenants that restrict excessive leverage or mandate minimum financial performance, and lender rights to take remedial action at the earliest signs of distress. In many cases, loan terms also incorporate amortisation schedules and cash flow sweeps, which progressively reduce principal exposure over the life of the facility. Together, these measures substantially mitigate default risk and potential loss severity, allowing the enhanced yields from private debt to be captured without materially increasing downside risk.

When integrated into a broader multi-sector fixed income strategy alongside public credit, structured credit, syndicated loans and other diversifying exposures, private debt's return and diversification characteristics can enhance the portfolio's overall risk-adjusted profile without compromising liquidity. This approach allows investors to capture multiple sources of risk premia, reduce reliance on any single segment of the market, and improve resilience across varying economic and interest rate environments along with meeting client liquidity requirements.

Structure of benchmark and alternative portfolios

Portfolio characteristics of the benchmark and a spectrum of alternative portfolios are provided in Table 2.

- **Portfolio A** reflects the Australian fixed income APRA CPPP Benchmark (Bloomberg Composite Bond 0+ Yr).
- **Portfolio B** introduces Australian Bloomberg Credit and FRN indices into the portfolio.
- **Portfolio C** adds AAA RMBS into portfolio B by reducing the benchmark.
- **Portfolio D** further reduces government exposures by making an initial allocation to private credit. (The US leveraged Loan Index has been used as a proxy).
- **Portfolio E** stems from Portfolio A's government bond benchmark but takes a more benchmark-unaware stance. Government exposures are materially reduced from prior portfolios, with the remaining allocation split across two Yarra strategies:
  - **Yarra Portfolio 1** = Yarra Enhanced Income Fund (Corporate Bond Exposure)
  - **Yarra Portfolio 2** = Yarra Higher Income Fund (Private Debt, Syndicated Loans and ABS/RMBS Exposure)
- **Portfolio F** reflects the Global Fixed Income APRA CPPP Benchmark (Bloomberg Barclays Global Aggregate Index) along with Global Corporate Bonds.

Table 2: Summary of portfolio characteristics

Bond Market and Debt 2025	Portfolio A Benchmark %	Portfolio B %	Portfolio C %	Portfolio D %	Portfolio E %	Portfolio F %
Characteristics – 30 June 2025						
Yield to Maturity (% pa)	3.94	3.81	3.85	4.14	4.96	4.33
Interest Duration (years)	4.88	4.65	4.29	3.93	2.63	6.22
Credit Duration (years)	4.95	4.59	4.53	4.42	4.09	4.09
Av. Credit Quality	AA+	AA+	AA	A	A	AA-
Credit Range	AAA-BBB	AAA-BB+	AAA-BB+	AAA-Unr.	AAA-Unr.	AAA-BB
Sector Exposures						
Government	91.7%	86.3%	79.5%	72.6%	45.0%	45.9%
Public Corporate Bonds	8.3%	13.6%	12.6%	14.5%	45.5%	45.5%
Private Loans	0.0%	0.0%	7.9%	7.8%	4.5%	8.5%
Securitised	0.0%	0.0%	0.0%	5.0%	5.0%	0.0%
Index Weights						
Composite Bond Index	100.0%	70.0%	62.5%	52.5%	45.0%	0.0%
Credit Index	0.0%	25.0%	25.0%	30.0%	0.0%	0.0%
FRN Index	0.0%	5.0%	5.0%	5.0%	0.0%	0.0%
Structured Credit	0.0%	0.0%	7.5%	7.5%	0.0%	0.0%
Private Bank Loans	0.0%	0.0%	0.0%	5.0%	0.0%	0.0%
Yarra Portfolio 1	0.0%	0.0%	0.0%	0.0%	27.5%	0.0%
Yarra Portfolio 2	0.0%	0.0%	0.0%	0.0%	27.5%	0.0%
Global Composite Bond Index	0.0%	0.0%	0.0%	0.0%	0.0%	70.0%
Global Corporate Bond Index	0.0%	0.0%	0.0%	0.0%	0.0%	30.0%

Performance comparison of alternative portfolio construction

Set out in table 3 are returns, tracking error and information ratios of returns from the five portfolios over 10 years from June 2015 to June 2025. Tracking error is measured against the Bloomberg AusBond Composite Bond Index over one year and over rolling five years.

Table 3: Returns and tracking error June 2010 to June 2025

Bond Market and Debt 2025	Portfolio A Benchmark %	Portfolio B %	Portfolio C %	Portfolio D %	Portfolio E %	Portfolio F %
Characteristics – 30 June 2025						
1 Years	6.81%	6.97%	6.94%	7.08%	7.66%	5.69%
5 Years	3.25%	3.99%	4.10%	4.66%	7.12%	2.55%
10 Years	4.98%	5.29%	5.28%	5.52%	6.67%	5.16%
Rolling 1Yr Tracking Error pa	0.00%	0.63%	0.89%	1.19%	3.22%	1.53%
Rolling 1Yr Value Add pa	0.00%	0.28%	0.29%	0.54%	1.59%	-0.16%
Rolling 5Yr Tracking Error pa	0.00%	0.22%	0.28%	0.41%	0.94%	0.21%
Rolling 5Yr Value Add pa	0.00%	0.40%	0.47%	0.80%	2.01%	-0.18%
Information Ratio Rolling 1Yr	0.00	0.45	0.32	0.45	0.49	-0.10
Information Ratio Rolling 5Yr	0.00	1.80	1.67	1.95	2.15	-0.84

Performance outcomes for the hypothetical Portfolios A to F were assessed over the 10-year period to June 2025, with key performance and risk metrics calculated using both one year and rolling five year measures. This includes tracking error and value add, consistent with the requirements of the YFYS performance test regime. Notably, tracking error on a rolling one year basis is particularly relevant given its disclosure requirement in superannuation member statements.

As shown in the updated performance table, five year tracking error remains well controlled for most active portfolios. Portfolios B, C, and D all sit below or near the 0.6% p.a. YFYS threshold, with Portfolio D at 0.41%. Portfolio E, however, exceeds this with a five year tracking error of 0.94% p.a. Despite this, Portfolio E delivered a strong five year value add of 2.01% p.a. (the highest in the cohort) demonstrating the potential for investors to achieve superior outcomes when higher active risk is harnessed effectively through skilled active management.

Portfolios D and E stand out for their efficiency in converting risk into return. Portfolio D achieved a five year value add of 0.80% p.a., with an Information Ratio (IR) of 1.95. Portfolio E's higher return was matched by an IR of 2.15, indicating consistently strong performance relative to its risk budget.

Portfolio F's analysis reveals that a globally diversified allocation has lagged domestic-focused strategies, both in terms of absolute returns and on a risk-adjusted basis. From a portfolio construction perspective, these results point towards a greater strategic weighting in Australian multi-sector fixed income. Such an approach not only captures the attractive yield premium available domestically, but also reduces exposure to unfavourable global rate cycles and currency risk. From a forward-looking perspective, credit-sensitive strategies appear well positioned, particularly in an environment where spreads and outright yields remain a key driver of fixed income returns. The performance of Portfolios D and E, tilted towards credit, reinforces the argument for maintaining modestly higher tracking error in pursuit of sustainable alpha, especially within well-diversified, risk-aware mandates.

Finally, when assessed as part of a broader diversified portfolio, the tracking error associated with these active Australian fixed interest strategies does not represent materially higher risk. These strategies, especially those like Portfolios D and E, have demonstrated that value-add in excess of tracking error is achievable, reinforcing their relevance in forward-looking portfolio construction under the YFYS framework.

Implementation for Australian investors

For Australian investors, active management in credit markets can be a powerful tool for enhancing risk-adjusted returns, particularly in segments where inefficiencies persist and benchmarks may not fully capture the opportunity set. Unlike traditional benchmark-relative approaches, active multi-sector credit strategies can exploit mispricings, provide downside protection, and access investments beyond public markets, including private debt and other bespoke corporate financing solutions.

Manager selection, however, remains critical, as not all credit exposures are created equal. The ability to access differentiated deal flow, apply rigorous credit analysis, and structure transactions tailored to borrower needs can materially influence performance. High-conviction managers with strong origination capability, execution discipline, and robust risk frameworks are better positioned to navigate periods of volatility and illiquidity, while also capturing alpha from idiosyncratic opportunities.

A well-executed example of this approach can be seen in managers like Yarra, who have built diversified portfolios across public and private credit markets. Their more than 200 years' collective experience in sourcing and structuring privately negotiated transactions, often unavailable to mainstream investors, highlights the value that specialist active managers can bring when supported by deep market relationships and research capability.

Ultimately, for institutions aiming to go beyond the limitations of benchmark-aligned fixed income exposures, active credit strategies offer the flexibility, customisation, and return potential needed to meet long-term objectives.

Conclusion and key findings

Australia's fixed income market is large, deep, and well-developed, forming a critical component of investor portfolios. Importantly, Australian investors are not exposed to sovereign risk when allocating to domestic fixed income, unlike global investments, where political and fiscal instability in foreign jurisdictions can subtly affect valuations and risk-adjusted outcomes. The relative transparency, stability, and predictability of Australia's bond market creates a strong platform for building diversified, risk-aware portfolios, which has often been overlooked by domestic institutions.

Institutions can improve risk-adjusted outcomes by incorporating multi-sector fixed income exposures, including private loans and other underrepresented sub-sectors in the market. Analysis of historical performance shows that the inclusion of private debt (e.g., Portfolio D) would have increased returns by approximately 0.80% p.a., with only a 0.41% p.a. increase in tracking error. However, broader multi-sector portfolios (e.g., Portfolio E) have demonstrated the potential to deliver up to 2.01% p.a. in excess returns over rolling 5-year periods, with a tracking error of just 0.94% p.a..

From a forward-looking perspective, current private debt yields remain attractive. Inclusion of actively managed Yarra credit strategies into portfolios is expected to further enhance returns on a risk-adjusted basis. These strategies deliver incremental yield through exposure to credit, some illiquidity, and complexity premia, while maintaining robust credit underwriting standards and liquidity, particularly through allocations to senior secured loans.

Crucially, the marginal increase in tracking error resulting from these allocations does not present a material risk when measured against the YFYS fixed interest benchmark. Nor does the average decline in credit quality imply higher default losses, due to the structural protections embedded in senior secured private lending. The enhanced yield more than compensates for any increase in credit risk, thereby improving portfolio efficiency.

In conclusion, the Australian fixed income landscape, especially when complemented with high-quality private debt, offers a compelling opportunity for investors seeking to enhance returns without compromising on risk. Strategic allocation to these alternative credit segments can improve diversification, generate consistent income, and capture excess returns in a benchmark-aware framework.

Atchison

Atchison
Level 4, 125 Flinders Lane,
Melbourne Vic 3000

P: +61 (0) 3 9642 3835
enquiries@atchison.com.au
www.atchison.com.au

ABN: 58 097 703 047
AFSL Number: 230846

To obtain further information, please contact:

Kev Toohey
Principal
Phone: +61 413 770 710
Email: kev@atchison.com.au

Nick Hatzis, CFA
Investment Analyst
Phone: +61 433 717 504
Email: nick@atchison.com.au