Investment Commentary
Quarter to 31 December 2025

Yarra Enhanced Income Fund

Gross returns as at 31 December 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception^ % p.a.
Yarra Enhanced Income Fund	0.34	0.79	6.51	8.42	6.34	6.22	6.29
Yarra Enhanced Income Fund (incl. franking)	0.34	0.82	6.60	8.55	6.45	6.49	6.85
RBA Cash Rate#	0.30	0.90	3.88	4.04	2.68	1.96	3.32
Excess return‡	0.04	-0.08	2.72	4.51	3.76	4.53	3.53

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. Returns inclusive of franking credits are calculated by attributing a cash value to each franking credit, and assuming that amount is re-invested, along with all other distributions. Figures including franking credits should not be relied upon as an exact indication of performance or be compared to returns of other managed funds which do not include amounts for franking credits. The level of franking of distributions may vary.

Net returns as at 31 December 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception^ % p.a.
Yarra Enhanced Income Fund	0.29	0.66	5.92	7.83	5.76	5.53	5.52
Yarra Enhanced Income Fund (incl. franking)	0.30	0.68	6.02	7.95	5.86	5.79	6.07
Growth return†	-0.07	-0.48	0.22	2.07	0.93	1.29	0.12
Distribution return†	0.37	1.15	5.80	5.88	4.93	4.51	5.95
RBA Cash Rate#	0.30	0.90	3.88	4.04	2.68	1.96	3.32
Excess return‡	0.00	-0.22	2.13	3.92	3.18	3.83	2.75

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^ Inception date Yarra Enhanced Income Fund: June 2003.
† Growth returns are measured by the movement in the Yarra Enhanced Income 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. Returns inclusive of franking credits are calculated by attributing a cash value to each franking credit, and assuming that amount is re-invested, along with all other distributions. Figures including franking credits should not be relied upon as an exact indication of performance or be compared to returns of other managed funds which do not include amounts for franking credits. The level of franking of distributions may vary.
# 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 including franking and the RBA Cash Rate.

Portfolio review

The Yarra Enhanced Income Fund returned 0.68% (net basis, including franking) over the quarter, underperforming its benchmark by 22 bps. On a 12-month view the Fund returned 6.02% (net basis, including franking), outperforming the RBA Cash Rate by 213 bps.

The Fund delivered positive performance during the December quarter despite a broad-based sell-off in the bond market. Returns were primarily driven by income, while duration exposure detracted from performance following a higher-than-anticipated CPI print. The Fund did benefit from some marginal spread compression during the quarter which was supported by sustained demand for Australian credit from both domestic and international investors. Our allocation to floating rate securities outperformed during the period, benefiting from the rising yield environment.

We remained active across both primary and secondary markets during the quarter, selectively deploying capital into opportunities that offered attractive risk-adjusted returns. Notable transactions included participation in the Transgrid, Lendlease and Dexus Finance subordinated debt issuances, as well as the CVC senior deal, which further enhanced issuer diversification within the portfolio. We added exposure through several Tier 2 transactions, reinforcing our position in high quality credit assets. In addition, we purchased more Tier 1 listed securities during the quarter.

Market review

Global markets remained volatile during the December quarter as ongoing tariff uncertainty and the prolonged US government shutdown weighed on sentiment.

In the US, the scarcity of timely economic data did little to reassure markets. Labour conditions continued to deteriorate, with the unemployment rate rising to 4.4% (y/y). The Federal Open Market Committee (FOMC) responded by cutting the Federal Funds Target Rate by a cumulative 50 bps over the quarter, including a 25 bps reduction in December, citing slowing job gains and moderate GDP growth. While core PCE inflation rose to 2.8%, upside inflation risks were overshadowed by concerns over softer labour conditions. Initially, US Treasury yields fell across the board, however the curve steepened in December as longer dated yields moved higher with expectations of elevated fiscal pressure and growing economic uncertainty. The 10-year US Treasury yield closed the quarter virtually flat at 4.11%.

Across other developed markets, monetary policy easing continued. The Bank of England lowered its policy rate by 25 bps to 3.75%, pointing to sluggish activity and further loosening in labour markets. The Reserve Bank of New Zealand also reduced its cash rate to 2.25%, cutting 75 bps over the quarter due to concerns of subdued economic growth and a weak labour market. Canada followed a similar path, cutting rates to 2.25% as tariff disruptions and rising unemployment weighed on the outlook. A notable exception to the broader easing cycle was Japan, where the Bank of Japan raised its cash rate by 25 bps to 0.75%, its highest level since 1995, reflecting firmer wage growth and persistent domestic inflationary pressure.

Domestically, the Reserve Bank of Australia (RBA) kept the cash rate unchanged at 3.60% throughout the December quarter, as policymakers balanced soft labour market conditions with renewed inflation pressures. Inflation picked up over the quarter, with trimmed mean inflation rising to 3.0% in October and 3.3% in November, coinciding with the transition to full monthly CPI reporting. Headline CPI moved higher to 3.8% (y/y), largely reflecting the energy subsidies rolling off rather than a broad-based pick up in prices. While unemployment remains above 4% (4.3% as at November), the RBA maintained its assessment that the labour market remains tight in their December meeting. In its Statement on Monetary Policy, the RBA revised its inflation forecasts, now expecting trimmed mean inflation to remain above the 2–3% target band until the second half of 2026. As a result, yields rose significantly across the curve. The curve flattened, with 3-year yields rising 63.5 bps to 4.21% and 10-year yields rising 45.5 bps to 4.80%.

During the December quarter, Australian credit markets remained resilient despite periods of rate driven volatility. Overall, credit spreads were broadly stable, with mild tightening into quarter end as investors continued to view domestic corporate credit as fundamentally sound. Demand for Australian Dollar credit, particularly from offshore investors in Asia, remained a defining feature of the quarter and provided strong support for new issuance.

Primary market activity was robust early in the quarter, with transactions consistently oversubscribed and experiencing spread tightening throughout the bookbuild process. This included a range of new names, reflecting continued depth in the domestic market. Noteworthy activity included subordinated deals from issuers such as Lendlease Finance, Transgrid and Dexus Finance, each attracting solid demand and reaffirming the sustained appetite for subordinated risk. The Australian iTraxx closed the quarter marginally tighter at 64.4 bps reinforcing the stable risk sentiment towards Australian corporates.

Outlook

While the RBA's most recent statement struck a more moderate tone and left the path for cash rates uncertain, Governor Bullock's interview conveyed a distinctly hawkish stance. Although headline CPI remains elevated, the RBA has highlighted that several components reflect one-off factors and the shift to the new monthly CPI series may introduce volatility. In the near term, we expect the RBA to prioritise the December quarter CPI print before making any material adjustments to forecasts.

Spreads have continued to tighten, reflecting robust demand for Australian credit and its perceived relative value among offshore investors. Assuming global and domestic risk sentiment remains stable, we expect this trend to persist in the near term. Investor demand remains strong evidenced by consistently oversubscribed bookbuilds, which should support strong liquidity conditions. Looking ahead, we anticipate high issuance activity into early 2026, driven by refinancing needs and new entrants seeking to capitalise on favourable funding conditions.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	5.73
Option Adjusted Spread	161
Average weighted issue credit rating	BBB+
Average weighted ESG Rating*	BBB+
Estimated yield to maturity (%)	5.63
Fund duration (yrs)	1.79
Spread duration (yrs)	3.55
Number of securities	218
Listed	38
Unlisted	180

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

Sector allocation

	Portfolio %
Asset Backed	-
Banks	47.18
Communication Services	-
Consumer Discretionary	1.36
Consumer Staples	-
Diversified Finance	8.36
Energy	5.87
Health Care	0.74
Industrials	9.84
Information Technology	0.12
Insurance	9.75
Materials	0.35
Mortgage Backed	-
Real Estate	6.49
Utilities	2.90
Cash & Other	7.03

Top 10 holdings

Issuer	ISIN	Portfolio %
ANZ Banking	AU3FN0091583	1.81
BNP Paribas	AU3FN0094280	1.58
National Australia Bank	AU3CB0324226	1.44
Credit Agricole	AU3FN0094819	1.39
National Australia Bank	AU3CB0328235	1.36
Tabcorp Holdings	AU3CB0328789	1.36
Ampol Limited	AU3FN0094520	1.34
Westpac Banking	AU3CB0322337	1.32
UBS Group	CH1485827070	1.30
Aurizon Finance	AU3FN0098372	1.24

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.

Maturity profile

	Portfolio %
Perpetual/Callable	10.56
Callable	66.28
At Maturity	16.14

Security profile

	Portfolio %
Floating rate	47.44
Fixed rate	45.53
Cash & Other	7.03

Credit rating profile

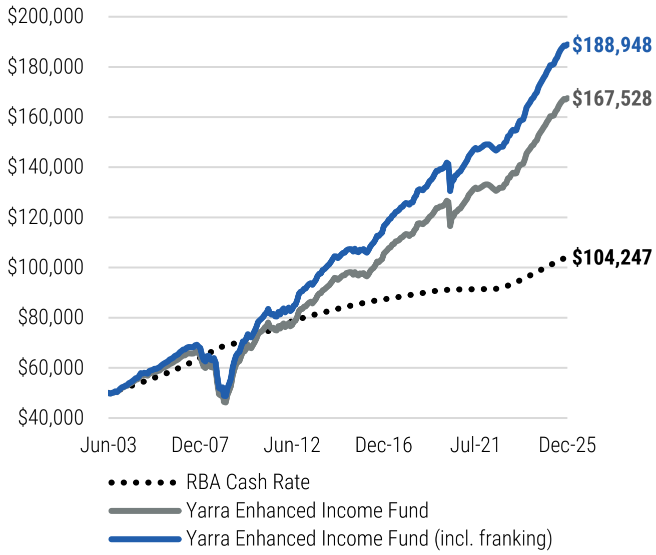
	Portfolio %
AA-	1.49
A+	0.16
A	0.28
A-	18.24
BBB+	13.95
BBB	36.45
BBB-	12.94
BB+	2.88
BB	4.07
BB-	1.94
B+	0.09
B	0.48
B-	-
Not rated or below	-
Cash and Derivatives	7.03

Features

Investment objective	To earn higher returns than traditional cash management and fixed income investments (over the medium-to-long term) by investing in a diversified portfolio of fixed income and hybrid (debt/equity) securities.
Recommended investment time frame	3 – 5+ years
Fund inception	June 2003
Fund size	Pooled Fund A$3,054.1 mn as at 31 December 2025
APIR code	JBW0018AU
Estimated management cost	0.55% p.a.
Buy/sell spread	+/- 0.10%
Platform availability	AMP North Asgard BT Panorama CFS First Choice Hub24 IOOF Wrap Macquarie Wrap Mason Stevens MLC Wrap MLC Navigator Netwealth Praemium Powerwrap uXchange (DASH) Xplore Wealth

Investment performance comparison of $50,000

After fees, since inception of the Yarra Enhanced Income Fund, June 2003 to December 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 Enhanced Income Fund is $10,000.

Applications and contacts

Investment into the Yarra Enhanced Income Fund can be made by Australian resident investors only.

Website www.yarracm.com

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