Yarra Higher Income Fund

Gross returns as at 31 December 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.41	1.03	7.37	8.96	6.93	5.73
RBA Cash Rate#	0.30	0.90	3.88	4.04	2.68	2.11
Excess return‡	0.11	0.14	3.48	4.93	4.24	3.62

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 December 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.35	0.87	6.67	8.26	6.24	5.05
Growth return†	-0.05	-0.34	0.70	2.43	0.44	-0.14
Distribution return†	0.40	1.21	5.97	5.82	5.80	5.19
RBA Cash Rate#	0.30	0.90	3.88	4.04	2.68	2.11
Excess return‡	0.05	-0.03	2.79	4.22	3.55	2.94

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 prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.

* **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 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.
\# 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 0.87% (net basis) over the quarter, underperforming the RBA Cash Rate by 3 bps. On a 12-month view the Fund returned 6.67% (net basis), outperforming the RBA Cash Rate by 279 bps.

The Fund delivered positive performance during the quarter, continuing to benefit from its high running yields. Income remained the primary driver of returns, with allocations to Warehousing and Syndicated Loans being top contributors.

Market conditions shifted following the higher-than-expected October inflation print, which tempered expectations for near-term rate cuts. This led to a broad bond market sell-off through November and December, resulting in a drag from our duration exposure. However, this was partially offset by a marginal tightening in credit spreads, reflecting Australian credit remaining highly attractive to both domestic and international investors. We held a CDS position for part of the quarter which contributed positively to performance as we positioned for a potential risk-off scenario in November.

We remained active across both primary and secondary markets during the quarter, with high issuance levels through year-end. We participated in a diverse range of transactions, including new warehousing structures and syndicated loan facilities, which provided attractive opportunities to deploy capital efficiently. Subordinated debt issuance was a notable trend during the period, and we took part in several key deals including Transgrid, Lendlease and Dexus Finance. In addition, we participated in senior transactions including CVC and Tabcorp, while also increasing exposure to Tier 1 listed securities.

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 book build 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.

RMBS/ABS issuance remained elevated from the previous quarter, supported by strong investor demand. Spread compression continued across senior tranches with mezzanine debt trading flat. Private credit remains compelling, offering attractive risk-adjusted returns amid ongoing regulatory pressures.

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
Current yield (%)	6.12
Credit spread (bps)	224
Average weighted issue credit rating	BBB
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	6.17
Effective duration (years)	1.73
Spread duration (years)	3.35
Number of securities	187

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

Sector allocation

	Portfolio %
Asset Backed Securities	0.66
Banks	31.69
Communication Services	-
Consumer Discretionary	1.44
Consumer Staples	-
Diversified Financials	6.67
Energy	6.29
Health Care	0.09
Industrials	9.89
Information Technology	-
Insurance	5.77
Materials	0.48
Mortgage-Backed Securities	4.12
Private Debt	7.50
Real Estate	5.03
Syndicated Loan	10.80
Utilities	2.13
Cash and Other	7.44

Security allocation

	Portfolio %
Tier 1	5.72
Tier 2	29.75
Subordinated	16.82
Mortgage Backed	4.12
Asset Backed	0.66
Senior	17.18
Private Debt	7.50
Syndicated Loan	10.80
Cash and Other (incl. derivatives)	7.44

Top 10 holdings

Issuer	ISIN	Portfolio%
Nextera Energy Capital	AU3CB0322691	2.25
National Australia Bank	AU3CB0328235	2.22
Insurance Australia Group	AU3FN0102158	2.04
UBS Group	CH1485827070	1.94
ANZ Banking	AU3FN0091583	1.75
BNP Paribas	FR0014014MD4	1.72
ATI Global	XXAU0ATIF012	1.63
Weir Group	AU3CB0327369	1.57
Tabcorp Holdings	AU3CB0328789	1.44
National Australia Bank	AU3FN0084828	1.33

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

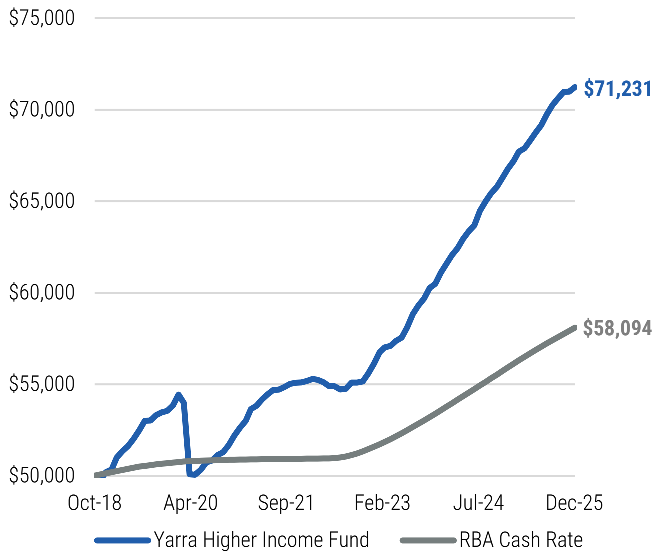
	Portfolio %
AA+	0.13
AA	3.07
AA-	8.83
A+	0.10
A	1.39
A-	13.41
BBB+	8.55
BBB	23.64
BBB-	14.00
BB+	4.96
BB	9.38
BB-	6.79
B+	1.66
B	3.91
B-	0.16
NR or Below	-

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$310.7 mn as at 31 December 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 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 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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