

# Yarra Higher Income Fund

## Gross returns as at 31 March 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Higher Income Fund*	-0.63	0.58	6.05	8.50	6.54	5.62
RBA Cash Rate <sup>#</sup>	0.33	0.92	3.77	4.08	2.87	2.16
Excess return <sup>‡</sup>	-0.96	-0.34	2.28	4.42	3.67	3.45

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 March 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Higher Income Fund*	-0.69	0.42	5.37	7.80	5.85	4.93
Growth return <sup>†</sup>	-1.09	-0.79	-0.17	1.91	-0.01	-0.24
Distribution return <sup>†</sup>	0.40	1.21	5.54	5.88	5.86	5.18
RBA Cash Rate <sup>#</sup>	0.33	0.92	3.77	4.08	2.87	2.16
Excess return <sup>‡</sup>	-1.02	-0.50	1.59	3.72	2.98	2.77

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.

<sup>^</sup> Inception date: October 2018.

<sup>†</sup> 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.

<sup>#</sup> 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.

<sup>‡</sup> 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 0.42% (net basis) over the quarter, underperforming the RBA Cash Rate by 50 bps. On a 12-month view the Fund returned 5.37% (net basis), outperforming the RBA Cash Rate by 159 bps.

Positive performance for the March quarter came from carry, with the portfolio's healthy running yield continuing to generate meaningful cash income. Warehousing and syndicated loans were the largest contributors to cash income received over the quarter.

Credit spreads were broadly stable over the first two months of the quarter. However, spreads widened materially in March as risk-off sentiment emerged amid escalating conflict in the Middle East, detracting from overall performance for the quarter.

Bond markets remained volatile early in the year as markets continued to price additional policy tightening, although the majority of the sell-off had already occurred in late 2025. As a

result, the impact of the February rate hike was largely reflected in market pricing.

While there was a brief rotation into traditional safe-haven assets, this proved short-lived. In early March, geopolitical developments raised concerns that higher oil prices could translate into broader inflationary pressures, which contributed to the Reserve Bank of Australia (RBA)'s decision to further tighten monetary policy.

This led to a sell-off in rates as markets repriced the path of policy, resulting in a negative contribution from the portfolio's duration exposure over the quarter. Consistent with our view that interest rates are at attractive levels, we have taken a long position in 90-day bank bill futures, locking in the elevated front-end yields.

During the quarter, we remained active across both primary and secondary markets, with a focus on navigating prevailing market conditions and identifying opportunities that offered attractive risk-adjusted returns.

The Fund took part in several new Warehousing and Syndicated Loan transactions during the quarter. We also participated in a number of notable deals, including the Latitude capital notes 2, Aroundtown senior deal, AusNet subordinated transaction, Dalrymple Bay Finance senior, UBS AT1 and Credit Agricole Tier 2 deals.

We continued to diversify issuer exposure while reinforcing the portfolio's strong running yield, supported by higher outright yield levels.

## Market review

The key theme of the March quarter was the escalation of conflict in the Middle East, involving the United States, Israel and Iran, with hostilities extending to neighbouring Gulf nations.

Iran's blockade of the Strait of Hormuz, a critical transit route for nearly 20% of global oil supply, placed upward pressure on oil prices. With limited signs of near-term de-escalation, markets increasingly priced in the risk of energy-driven inflationary pressures.

The Federal Open Market Committee (FOMC) met in both January and March during the quarter and elected to keep the federal funds target rate unchanged at 3.50%. Labour market conditions continued to soften, with the unemployment rate recorded at 4.4% in February 2026, while inflation remained somewhat elevated, with the Personal Consumption Expenditures (PCE) price index reported at 2.8% (y/y) for January 2026.

Data releases remained subject to some delays following last year's US government shutdown. US Treasury yields were relatively stable over the first 2 months of the quarter. However, yields rose across the curve in March as expectations for near term rate cuts were tempered by concerns that the ongoing Middle East conflict could place upward pressure on inflation. As a result, the US Treasury yield curve flattened modestly, with the 10-year Treasury yield ending the quarter 20 bps higher at 4.32%.

In other parts of the world, British lender Market Financial Solutions entered insolvency amid allegations of fraud, leaving several European banks and other investors exposed.

Central banks were cautious in their monetary policy decisions with many keeping their cash rates on hold during the quarter. The Bank of England held its policy rate steady at 3.75% throughout the quarter, acknowledging moderating domestic inflation pressures prior to the escalation of geopolitical tensions, while highlighting the risk that higher global energy and commodity prices could place renewed pressure on household costs. The European Central Bank left rates unchanged as it continued to assess inflation dynamics and broader economic conditions.

In Canada, the Bank of Canada maintained its policy rate at 2.25%, citing inflation is close to target and there are modest growth prospects, while remaining attentive to global risks.

In the Asia Pacific region, the Bank of Japan also kept policy unchanged following last year's historic tightening, as January

inflation eased to 1.5% (y/y), in line with its target.

The Reserve Bank of New Zealand similarly held rates steady noting improving economic momentum, easing inflation expected to return to the midpoint of the target range and the presence of spare capacity in the economy.

Domestically, the RBA increased the cash rate by a cumulative 50 bps to 4.10% over the quarter, delivering two consecutive 25 bps rate hikes. The first increase was decided unanimously, while the second passed by a narrow 5-4 majority. The split decision reflected differing views on the timing of further tightening.

The RBA's actions were driven by ongoing capacity pressures stemming from excess demand in the economy, alongside concerns that escalating conflict in the Middle East could place additional upward pressure on global energy prices. While the RBA acknowledged that financial conditions have tightened since the beginning of the tightening cycle, it emphasised ongoing uncertainty regarding whether current policy settings are sufficiently restrictive to return inflation sustainably to target.

Inflation remained elevated during the quarter, with the Consumer Price Index (CPI) rising 3.7% (y/y) to February 2026, a slight easing from 3.8% in January. Housing continued to be the largest contributor to inflationary pressures. Labour market conditions softened modestly, with the unemployment rate at 4.2% in February 2026, 10 bps higher than January, signalling some loss of momentum.

Bond markets reflected the evolving inflation and policy outlook over the quarter. The yield curve flattened, as markets priced in higher short-term inflation. The yield on 3-year bond futures traded broadly flat over the first two months of the quarter before rising 47 bps to 4.68% by quarter end. Meanwhile, the yield on 10-year bond futures declined over the first two months of the quarter, however amid rising inflation concerns linked to geopolitical developments and energy supply disruptions 10-year yields increased to 5.01%, a 21 bps rise over the quarter.

During the quarter, Australian credit markets remained fundamentally strong, although conditions were increasingly influenced by risk-off sentiment as the conflict in the Middle East intensified. Credit spreads were generally stable across the first two months of the quarter, before widening in March as investors became increasingly cautious amid escalating geopolitical risks and the potential implications for corporate earnings.

Primary market issuance was strong at the start of the year, before moderating as the reporting season neared. February was characterised by heavy bank issuance, marking the largest monthly issuance of Tier 2 and Additional Tier 1 (AT1) securities on record, with AT1 issuance coming exclusively from foreign banks given the ongoing phase-out of domestic AT1.

Issuance activity slowed into early March, as issuers showed greater reluctance to price transactions amid elevated volatility. However, deal flow recovered toward the end of the

month, and overall issuance remained robust across the quarter. Despite the more cautious market backdrop, new transactions continued to attract strong investor demand. Deals were generally well oversubscribed, reflecting sustained appetite for Australian credit, supported by continued participation from Asian investors.

Notable issuance during the quarter included the Latitude Group Holdings subordinated capital note, Aroundtown senior note, UBS AT1 transaction, as well as Tier 2 issuance from major domestic banks including Commonwealth Bank, ANZ, Westpac and Macquarie Bank.

The Australian iTraxx Index traded broadly flat over the first two months of the quarter. However, as risk-off sentiment intensified in March, spreads widened and the index closed the quarter 27.3 bps wider at 91.7 bps, reflecting heightened macroeconomic uncertainty and a more cautious investor stance.

RMBS/ABS issuance softened in the new year before recovering into February. However, heightened uncertainty stemming from the conflict in the Middle East resulted in several transactions being delayed and in some cases withdrawn entirely. Despite these disruptions, there was approximately \$6 billion of RMBS issuance in March. Spreads remained broadly stable over the early part of the quarter. Although, ongoing geopolitical tensions contributed to a widening in senior tranche spreads, which moved approximately 10 bps wider in March. Warehousing opportunities continued to offer attractive risk-adjusted returns amid the evolving market backdrop.

## Outlook

Markets continue to price the possibility of additional rate hikes, reflecting concerns that inflationary pressures stemming from the conflict in the Middle East, particularly through higher oil prices, could persist.

However, expectations regarding the extent of further tightening have moderated amid ongoing geopolitical uncertainty and the RBA's acknowledgement that financial conditions have already tightened, though with uncertainty around the degree of restrictiveness.

We expect market volatility to persist as geopolitical developments continue to evolve in the Middle East. Consumer confidence has deteriorated sharply, reaching historically low levels comparable to those observed during the COVID period, which may weigh on household spending and broader economic momentum.

Against this backdrop, we expect the RBA to remain cautious, assessing evolving geopolitical developments alongside domestic economic conditions when guiding future policy decisions.

Global growth is forecast to slow which could place pressure on credit metrics, however many Australian corporates have indicated that they are well positioned to manage the current period of uncertainty. Higher outright yields are expected to persist in the near term, which should continue to support

demand for Australian credit.

While issuance activity has moderated amid heightened geopolitical tensions, ongoing corporate funding requirements are likely to underpin issuance levels even if the conflict persists. That said, the extent to which issuance is sustained remains uncertain. More broadly, capital market conditions remain supportive and could help facilitate a rebound in issuance activity should market conditions stabilise.

## Portfolio profile

### Portfolio characteristics

	Portfolio
Current yield (%)	6.52
Credit spread (bps)	248
Average weighted issue credit rating	BBB
Average weighted ESG rating*	A-
Yield to expected maturity (%)	6.81
Effective duration (yrs)	1.74
Spread duration (yrs)	3.09
Number of securities	191

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

### Sector allocation

	Portfolio %
Asset Backed Securities	0.48
Banks	28.87
Communication Services	-
Consumer Discretionary	1.19
Consumer Staples	-
Diversified Financials	6.12
Energy	5.24
Health Care	0.07
Industrials	8.91
Information Technology	-
Insurance	5.56
Materials	0.39
Mortgage-Backed Securities	3.13
Private Debt	10.65
Real Estate	6.76
Syndicated Loan	10.90
Utilities	2.42
Cash & Other	9.30

## Security allocation

	Portfolio %
Tier 1	6.14
Tier 2	26.94
Subordinated	15.94
Mortgage Backed	3.13
Asset Backed	0.48
Senior	16.52
Private Debt	10.65
Syndicated Loan	10.90
Cash & Other	9.30

## Top 10 holdings

Issuer	ISIN	Portfolio %
Australian Auto Loans Trust	XXAU0AAL0041	2.46
Nextera Energy Capital	AU3CB0322691	1.86
National Australia Bank	AU3CB0328235	1.83
Australian Auto Loans Trust	XXAU0AAL0033	1.73
Insurance Australia Group	AU3FN0102158	1.69
UBS Group	CH1485827070	1.54
Challenger	AU3CB0292324	1.49
TEEG	XXAU0TEEG027	1.48
ANZ Banking	AU3FN0091583	1.45
BNP Paribas	FR0014014MD4	1.45

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.

## Features

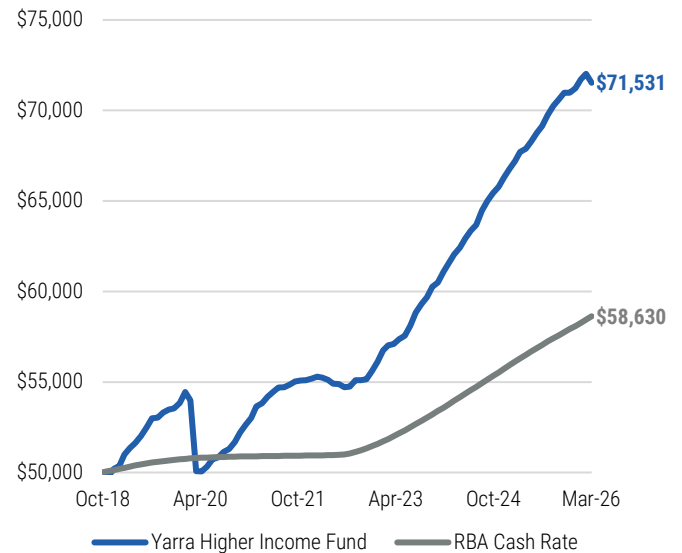
Investment objective	Over the medium-to-long term, the Fund seeks to earn higher returns than traditional fixed income by investing in a highly diversified floating rate portfolio of predominantly Australian domiciled credit securities.	
Fund inception	October 2018	
Fund size	A\$374.3 mn as at 31 March 2026	
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

## Credit rating profile

	Portfolio %
AA+	0.09
AA	2.62
AA-	10.46
A+	-
A	1.23
A-	10.10
BBB+	11.09
BBB	21.68
BBB-	15.80
BB+	3.39
BB	11.24
BB-	4.65
B+	3.61
B	3.91
B-	0.13
NR or Below	-

## Investment performance comparison of \$50,000

After fees, since inception of the Yarra Higher Income Fund, October 2018 to March 2026.



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.

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## Applications and contacts

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

**Website** [www.yarracm.com](http://www.yarracm.com)

**Investor Services Team** 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) [IST@yarracm.com](mailto:IST@yarracm.com)

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