

# Yarra Higher Income Fund

## Gross returns as at 31 May 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*	0.86	0.93	6.24	8.74	6.60	5.71
RBA Cash Rate <sup>#</sup>	0.36	1.02	3.80	4.10	3.00	2.21
Excess return <sup>†</sup>	0.50	-0.09	2.45	4.63	3.60	3.50

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 May 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*	0.80	0.76	5.56	8.03	5.91	5.02
Growth return <sup>†</sup>	0.30	-0.56	0.23	2.04	0.07	-0.17
Distribution return <sup>†</sup>	0.51	1.32	5.32	5.99	5.85	5.19
RBA Cash Rate <sup>#</sup>	0.36	1.02	3.80	4.10	3.00	2.21
Excess return <sup>†</sup>	0.45	-0.26	1.76	3.93	2.91	2.81

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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.

<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 including franking and the RBA Cash Rate.

### Portfolio review

The Yarra Higher Income Fund returned 0.80% (net basis) over the month, outperforming the RBA Cash Rate by 45 bps. On a 12-month view the Fund returned 5.56% (net basis), outperforming the RBA Cash Rate by 176 bps.

The Fund delivered strong performance over the month, supported by strong income returns and a broad-based rally in bonds. Following the interest rate hike, which had largely been priced in by markets, bonds rallied over the period amid weaker labour market data and tighter financial conditions. With our duration running a little higher than in previous months, as we locked in long positions in the 90-day Australian Treasury bill futures, the rally contributed meaningfully to performance. Although, credit spreads widened marginally during the period, this reflected a modest repricing of risk.

During the month, the Fund participated in several new issues, including the Barclays AT1, QBE AT1, Liberty Financial Senior, NAB Tier 2 and Judo Bank ABS deals. We also participated in a

new warehouse and two new syndicated loans, which contributed nicely to the Fund's running yield. Our allocations to warehousing and syndicated loans continued to provide strong income returns.

### Market review

During the month, US President Trump met with Chinese President Xi Jinping in Beijing, with discussions spanning trade, developments in the Middle East and Taiwan. Both parties characterised the talks as constructive and a positive step in ongoing engagement.

In the Middle East, hostilities resumed, as the United States and Iran continued negotiations towards a potential peace agreement. A resolution is yet to be reached. Global markets have become increasingly desensitised to swings in oil prices and the continuous news stream from the Gulf region.

In the United States, Kevin Warsh was sworn in as Chair of the Federal Reserve (Fed) on 22 May, replacing Jerome Powell who, unlike previous chairs, remains on the Fed board for now.

Inflationary pressures remain evident, with the Personal Consumption Expenditures (PCE) Price Index rising 3.8% over the 12 months to April 2026, up 0.4% from the previous month. This was driven by higher consumer spending on gasoline and other energy-related products, alongside increases in housing and utility costs. Economic growth moderated, with real GDP rising 1.6% in the first quarter of 2026, revised down from initial estimates. Labour market conditions remain relatively stable, with unemployment unchanged at 4.3% in April 2026. Treasury yields moved higher over the month, with the 10-year yield increasing by 8 bps to 4.45%, as markets priced in the expectation of higher inflation if the conflict in the Middle East persists.

Elsewhere, the Reserve Bank of New Zealand (RBNZ) left its official cash rate (OCR) unchanged (at 2.25%) at its May meeting, noting the uncertain global economic backdrop. The RBNZ indicated that the OCR may need to rise sooner and by more than previously anticipated at its February meeting. New Zealand's inflation remained elevated, with CPI rising 3.1% (y/y) to March 2026, above the RBNZ's target range.

The Australian Federal Budget was announced on May 12. The budget focused on cost-of-living relief and fiscal repair headlined by major property and tax reform and changes to the National Disability Insurance Scheme (NDIS). Key measures include changes to the capital gains tax, removal of negative gearing on investment property for existing dwellings and the introduction of a 30% tax rate on discretionary trust distributions. The legislation remains subject to parliamentary approval, which typically occurs by the end of June.

The Reserve Bank of Australia (RBA) met on May 4-5 and decided – in an 8 to 1 majority – to increase the cash rate by 25 bps to 4.35%. This marked the third consecutive meeting in which the RBA raised rates. While acknowledging softer consumer confidence and some concerns around the growth outlook, the decision was primarily driven by the RBA's concern over capacity constraints in the economy along with elevated energy prices potentially leading to higher future inflation expectations.

The RBA believes monetary policy is restrictive, however to which extent remains uncertain. Inflation moderated slightly over the month, with the Consumer Price Index (CPI) rising 4.2% over the 12 months to April 2026, 0.4% lower than the 12 months to March. Transport and housing remained the largest contributors to inflation.

The labour market began to show the first signs of deterioration, with the unemployment rate rising to 4.5% in April after having held steady at 4.3% for the past couple of months. This is 18 months earlier than the RBA's forecast.

Following the three consecutive cash rate increases, yields on Australian government bond futures declined over the month, with the yields on 10-year Australian Treasury bond futures (down 24 bps to 4.85%) and 3-year futures (down 30 bps to 4.48%) both falling. This resulted in a modest steepening of the yield curve. Despite a relatively hawkish RBA, markets are beginning to temper their bets on further hikes as financial conditions have tightened, and domestic demand shows signs

of moderating.

Australian credit markets experienced a modest widening in credit spreads over the month, keeping outright yields at elevated levels. The modest widening reflected softer risk appetite, with concerns that higher energy costs may weigh on corporate earnings. May primary issuance was strong, with several domestic and international issuers coming to the market despite ongoing volatility. Australian credit continues to offer attractive outright yields with deals often oversubscribed. Participation from Asian investors remained solid, particularly in senior issuance. Notable transactions during the month included Qantas Senior, Barclays AT1, BPCE Senior and Tier 2 bonds, as well as a number of domestic bank Senior and Tier 2 transactions. The Australian iTraxx index closed the month 5 bps tighter at 72 bps.

RMBS/ABS issuance was strong during May after a period of subdued issuance following escalation of the US-Iran conflict. Notable Australian public securitisation deals came from La Trobe Financial, Resimac, Bluestone, Judo Bank and ANZ, with this being ANZ's first RMBS deal of the year. RMBS/ABS credit spreads edged tighter over the month, supported by strong demand for securitised assets. Warehouse financing continues to offer attractive risk-adjusted returns.

## Outlook

Inflation remains elevated above the RBA's target range, and trimmed mean inflation is not forecast to return within the band until mid-2027. With no Middle East peace agreement in place, energy prices are expected to remain elevated in the near term, keeping inflationary pressures high. If the conflict persists, we expect this to continue weighing on consumer confidence and, in turn, both global and domestic demand.

Following three consecutive interest rate increases, we see economic growth as a key risk in the coming months. Employment has remained stable, however, with growth slowing and cost pressures elevated, we expect this will place strain on companies and may lead to a softening in labour market conditions. The RBA remains focused on delivering price stability and full employment, reiterating that it will act as required to achieve these objectives. We believe the RBA is better positioned to hold rates at its next meeting, as recent data has proven to be softer than previously forecast.

A more cautious risk sentiment is evident in the market amid concerns around elevated energy prices. If energy prices remain elevated, we would expect to see this weigh on earnings with several corporates already signalling downgrades to the market. However, investment grade balance sheets remain robust with the ability to absorb the impact of short-term earnings volatility. Higher outright yields are expected to persist into the near term, which should continue to support demand for Australian credit.

The proposed budget has prompted a reassessment of investment positioning, with income-generating securities appearing more attractive. In this context, we believe this shift in sentiment will be constructive for increased domestic demand for credit.

## Portfolio profile

### Portfolio characteristics

	Portfolio
Current yield (%)	7.10
Credit spread (bps)	281
Average weighted issue credit rating	BBB-
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	7.20
Effective duration (yrs)	1.73
Spread duration (yrs)	2.65
Number of securities	179

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

### Sector allocation

	Portfolio %
Asset Backed Securities	0.64
Banks	22.63
Communication Services	-
Consumer Discretionary	1.05
Consumer Staples	-
Diversified Financials	6.45
Energy	4.19
Health Care	0.06
Industrials	7.95
Information Technology	-
Insurance	6.27
Materials	0.35
Mortgage-Backed Securities	2.52
Private Debt	10.67
Real Estate	8.29
Syndicated Loan	18.21
Utilities	3.50
Cash & Other	7.24

### Security allocation

	Portfolio %
Tier 1	10.22
Tier 2	18.77
Subordinated	15.99
Mortgage Backed	2.75
Asset Backed	0.40
Senior	15.74
Private Debt	10.67
Syndicated Loan	18.21
Cash & Other	7.24

### Top 10 holdings

Issuer	ISIN	Portfolio %
ATI Global	XXAU0ATIF012	2.39
TEEG	XXAU0TEEG027	2.14
QBE Insurance	AU3FN0110086	2.03
Barclays	XS3298830863	1.92
Project Toastie	XXAU0ARGYL10	1.91
Daintree Bidco Proprietary	XXAU0DAINT19	1.80
Nextera Energy Capital	AU3CB0322691	1.69
National Australia Bank	AU3CB0328235	1.62
Project Pineapple	XXAU0PJPIN10	1.56
Lendlease Finance	AU3CB0327351	1.40

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

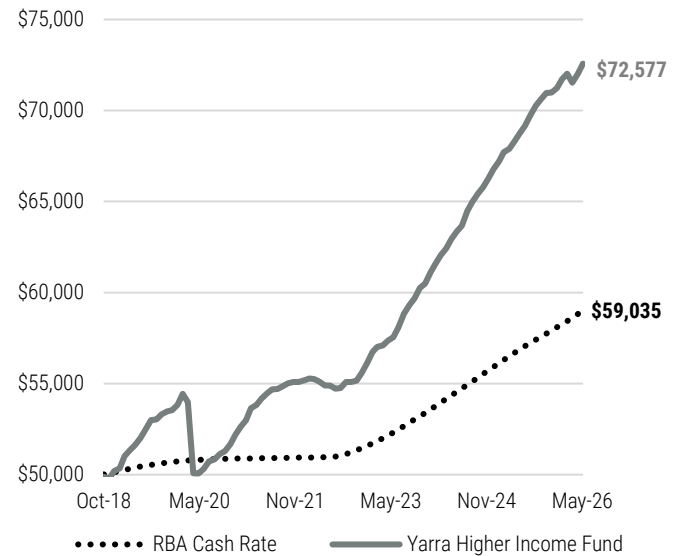
	Portfolio %
AA	2.76
AA-	7.24
A+	0.09
A	1.77
A-	6.60
BBB+	9.14
BBB	20.68
BBB-	16.64
BB+	6.57
BB	10.64
BB-	5.88
B+	5.88
B	6.00
B-	0.12
NR or Below	-

## 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\$420.1 mn as at 31 May 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

## Investment performance comparison of \$50,000

After fees, since inception of the Yarra Higher Income Fund, October 2018 to May 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)

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