Yarra Higher Income Fund

Gross returns as at 30 June 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.96	2.54	6.59	8.71	6.70	5.77
RBA Cash Rate#	0.35	1.04	3.84	4.11	3.07	2.23
Excess return‡	0.61	1.50	2.75	4.60	3.62	3.54

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 30 June 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.90	2.38	5.91	8.01	6.01	5.09
Growth return†	-0.17	0.37	0.12	1.86	0.11	-0.19
Distribution return†	1.08	2.01	5.78	6.15	5.90	5.28
RBA Cash Rate#	0.35	1.04	3.84	4.11	3.07	2.23
Excess return‡	0.55	1.34	2.07	3.90	2.93	2.86

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 including franking and the RBA Cash Rate.

Portfolio review

The Yarra Higher Income Fund returned 2.38% (net basis) over the quarter, outperforming the RBA Cash Rate by 134 bps. On a 12-month view the Fund returned 5.91% (net basis), outperforming the RBA Cash Rate by 207 bps.

The Fund delivered strong returns over the quarter, supported by duration, spread compression and carry. Tier 2 was the top performer over the quarter, recovering after the sell-off when the conflict in the Middle East began. Warehousing and syndicated loans also performed well and remained the largest contributors to cash income received during the quarter. As risk sentiment improved and investors became increasingly comfortable looking through the ongoing geopolitical uncertainty, credit spreads tightened, contributing positively to returns.

While bond markets initially sold off in April amid concerns that higher energy prices could reignite inflationary pressures, sentiment improved over the final two months of the quarter. Weaker economic data and a more balanced stance from the Reserve Bank of Australia (RBA), including a pause in its tightening cycle, led markets to moderate expectations for further rate rises. This supported a broad rally across fixed income markets, contributing positively to portfolio returns.

The Fund's long position in 90-day Bank Accepted Bill futures also contributed strongly, benefiting from the rally in rates, while income remained a consistent source of return throughout the quarter.

We remained active across both primary and secondary markets, focusing on opportunities that offered attractive risk-adjusted returns while continuing to diversify issuer exposure. Notable transactions we participated in during the quarter included CDC Data Centres subordinated debt, APA Infrastructure subordinated debt, Verizon subordinated debt, Liberty Financial senior notes, Barclays AT1, QBE Insurance AT1 and NAB Tier 2.

Market review

Geopolitical tensions in the Middle East remained a key market focus over the June quarter, with intermittent ceasefires and renewed hostilities between the United States and Iran creating periods of volatility. Despite disruptions to shipping through the Strait of Hormuz driving spikes in oil prices, markets gradually became less reactive to developments, with oil ending the quarter near pre-escalation levels. Against this backdrop, the Federal Reserve kept the federal funds rate unchanged at 3.50%–3.75%, despite inflation rising on the back of higher energy prices. The unemployment rate held broadly steady at 4.3% across the quarter, while the US 10-year Treasury yields finished the quarter 13 bps higher at 4.47%.

Elsewhere, central banks generally remained attentive to the inflationary implications of higher energy prices. The Bank of England and Bank of Canada both left rates unchanged, while the European Central Bank and Bank of Japan raised rates by 25 bps citing energy-driven inflation concerns. China continued to show signs of economic weakness, with retail sales growth turning negative in May for the first time since 2022, underscoring the fragility of its recovery.

The RBA raised the cash rate by 25 bps to 4.35% in May before holding rates unchanged in June, citing concerns over capacity constraints and elevated energy prices outweighed softer consumer confidence. Quarterly inflation rose 10 bps to 3.5% in March, while labour market softened, with unemployment rising 10 bps to 4.4% over the period. The May Federal Budget focused on cost-of-living relief and fiscal repair, introducing a range of property and tax reforms. Bond yields were volatile, but declined over the quarter, with 3-year bond and 10-year bond yields ending June at 4.35% and 4.76% respectively. The yield curve steepened as expectations for further RBA tightening moderated and markets began pricing in rate cuts next year.

Australian credit markets recovered over the quarter as risk sentiment improved following the volatility of the March quarter. Credit spreads tightened in April after the announcement of a US-Iran ceasefire, widened modestly in May amid concerns over the impact of elevated energy costs on global growth, and then resumed their tightening trend in June as investors grew more comfortable looking through ongoing geopolitical uncertainties.

Primary issuance remained robust, with strong issuance from both domestic and foreign issuers despite periods of market volatility. Bank funding was a key theme, with deals from Macquarie Bank, Bank of China, UBS, AMP Bank, Bendigo and Adelaide Bank, Beyond Bank, ANZ, Suncorp, Royal Bank of Canada and Société Générale. Corporate issuance was also well supported, including notable transactions from NextDC, CDC Data Centres, Qantas, Stockland, Downer, Investa Commercial Property Fund, Worley, Engie and Liberty Financial. Demand remained strong throughout the quarter, with most deals heavily oversubscribed and supported by strong both domestic and Asian investors. Reflecting the improved market backdrop, the Australian iTraxx index tightened materially over the quarter closing 23.9 bps lower at 67.8 bps as the risk premium associated with the Middle East tensions was progressively unwound.

RMBS and ABS issuance was subdued in April, amid global uncertainty, before rebounding strongly in May and June with over $8 billion issued in each month. Issuers included Macquarie, Judo Bank, ANZ, AMP Bank, Resimac, alongside inaugural transaction from a non-bank lender, Resi. Spreads were largely unchanged over the quarter, remaining near historical tight levels, while warehousing opportunities continued to offer attractive risk-adjusted returns.

Outlook

Market expectations have shifted meaningfully, with the prospects for further RBA rate hikes diminishing and rate cuts increasingly being priced over the year ahead. Inflation has eased and is now tracking below the RBA's forecasts, while the softer economic conditions are expected to further weight on labour market. Although the RBA has maintained a tightening bias and noted that further rate increases remain possible, we believe the RBA is likely to leave policy unchanged, given the growing downside risks to growth and employment.

Investor confidence has steadily recovered since the sell-off associated with the Middle-East conflict. With fuel prices retracing to pre-conflict levels, pressure on corporate earnings should begin to ease, particularly for investment-grade issuers which have generally absorbed the short-term increase in costs well. While credit spreads and bond yields have both moved modestly lower, primary market demand remains robust, underpinned by strong offshore participation and Australia's ongoing demand for income generating assets. Although issuance has slowed as the financial year draws to a close, momentum in the Australian credit market remains intact. We expect primary market activity to build again post corporate reporting season, supported by healthy funding requirements and continued investor demand.

We continue to remain constructive on Australian credit, supported by resilient fundamentals, attractive income characteristics and sustained investor demand.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	7.12
Credit spread (bps)	281
Average weighted issue credit rating	BBB-
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	7.06
Effective duration (yrs)	1.79
Spread duration (yrs)	2.80
Number of securities	187

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

Sector allocation

	Portfolio %
Asset Backed Securities	0.57
Banks	21.38
Communication Services	3.71
Consumer Discretionary	0.96
Consumer Staples	-
Diversified Financials	6.23
Energy	3.95
Health Care	0.83
Industrials	6.81
Information Technology	-
Insurance	5.71
Materials	0.32
Mortgage-Backed Securities	2.15
Private Debt	12.25
Real Estate	8.36
Syndicated Loan	16.17
Utilities	3.17
Cash & Other	7.44

Security allocation

	Portfolio %
Tier 1	9.44
Tier 2	16.62
Subordinated	18.95
Mortgage Backed	2.15
Asset Backed	0.57
Senior	16.41
Private Debt	12.25
Syndicated Loan	16.17
Cash & Other	7.44

Top 10 holdings

Issuer	ISIN	Portfolio%
ATI Global	XXAU0ATIF012	2.17
TEEG	XXAU0TEEG027	1.95
Lendlease Finance	AU3CB0327351	1.90
QBE Insurance	AU3FN0110086	1.84
Barclays	XS3298830863	1.75
Project Toastie	XXAU0ARGYL10	1.73
Nextera Energy Capital	AU3CB0322691	1.71
Daintree Bidco Proprietary	XXAU0DAINT19	1.64
National Australia Bank	AU3CB0328235	1.48
Verizon Communications	AU3CB0332229	1.34

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

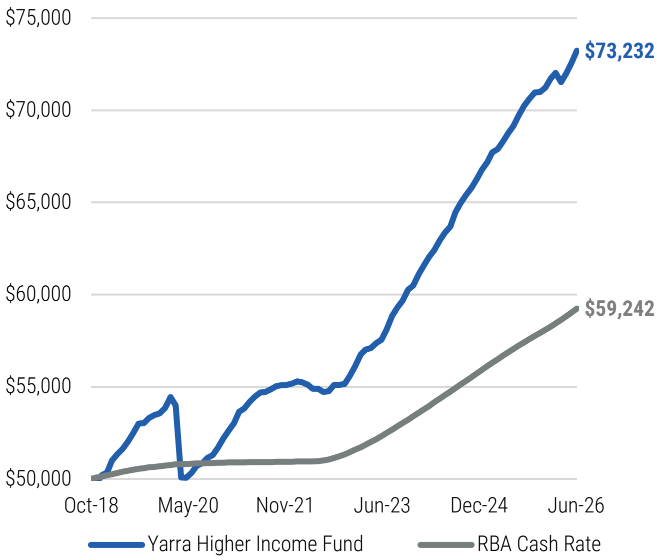
	Portfolio %
AA	2.77
AA-	8.54
A+	0.08
A	1.64
A-	6.00
BBB+	7.58
BBB	20.55
BBB-	19.24
BB+	4.55
BB	11.22
BB-	6.43
B+	5.81
B	5.47
B-	0.11
NR or Below	-

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$466.5 mn as at 30 June 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 June 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.

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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