YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 July 2026

Yarra Higher Income Fund

Gross returns as at 31 July 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.65	2.49	6.32	8.48	6.82	5.80
RBA Cash Rate#	0.36	1.08	3.88	4.12	3.15	2.25
Excess return‡	0.29	1.42	2.44	4.36	3.67	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 31 July 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.60	2.32	5.64	7.78	6.13	5.11
Growth return†	0.09	0.21	-0.23	1.59	0.19	-0.17
Distribution return†	0.51	2.11	5.87	6.19	5.94	5.29
RBA Cash Rate#	0.36	1.08	3.88	4.12	3.15	2.25
Excess return‡	0.24	1.25	1.76	3.66	2.98	2.86

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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.
^ 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 0.60% (net basis) over the month, outperforming the RBA Cash Rate by 24 bps. On a 12-month view the Fund returned 5.64% (net basis), outperforming the RBA Cash Rate by 176 bps.

Outperformance in July was supported by carry and spread compression. With the conflict in the Middle East escalating once more, inflation concerns re-emerged, resulting in a broad-based sell-off in bond markets. As such, our duration exposure detracted from returns. Credit spreads tightened over the period, keeping outright yields relatively stable and offsetting the effects of the duration exposure. Income generation remained robust and continued to contribute positively to performance, with our warehousing and syndicated loan exposures being the largest contributors to income. Syndicated loans and offshore AT1 securities were the strongest-performing securities over the month, with offshore AT1 securities continuing to recover from the sell-off that occurred when the conflict began.

While we did not participate in any new primary market issuance during the month, we remained active in secondary markets, deploying capital where we identified the most attractive risk-adjusted returns.

Market review

An escalation in Middle East hostilities drove a sell-off in bonds, as concerns over higher energy prices and inflation dominated the market.

In the United States, the Federal Open Market Committee (FOMC) decided to hold the target range for the federal funds rate at 3.5-3.75%, despite markets pricing in a rate rise. The FOMC cited that economic activity is expanding at a solid pace. The committee noted that inflation remains elevated above their 2% goal, with the PCE price index rising 3.7% in the 12 months to June 2026, stating this reflects in part the supply shock which has driven energy prices higher. The US unemployment rate for June 2026 came in at 4.2%, little changed from the prior month. The yields on US 10-year Treasuries rose 21 bps to 4.67%.

Elsewhere, the Bank of England also held its cash rate constant, citing inflation had fallen by more than expected with CPI coming in at 2.6% (y/y) for June 2026. Likewise, the Bank of Canada, European Central Bank and Bank of Japan held their policy interest rates constant. However, the Reserve Bank of New Zealand raised its official cash rate by 25 bps to 2.50%, with concern over near-term inflationary pressures resulting from the energy price shock.

In Australia, there was no Monetary Policy Board meeting in July for the Reserve Bank of Australia (RBA). The cash rate remains at 4.35%. The Consumer Price Index (CPI) rose 3.8% for the 12 months to June 2026, which was lower than both the RBA's forecast and market consensus. Housing remained the largest contributor to annual inflation and Transport was surprisingly the lowest contributor to annual inflation (adding only 10 bps).

The unemployment rate was unchanged at 4.4% for June 2026. Labour market conditions changed little from the previous month, although this softer data has emerged earlier than the RBA had forecast. During the month, bonds sold off following escalation in the Middle East. The yield on 3-year Treasury bond futures rose 20 bps to 4.55%, while the yield on 10-year Treasury bond futures rose 28 bps to 5.03%. As a result, the yield curve steepened slightly amid concern over higher energy prices.

Credit spreads tightened marginally over the month, with outright yields relatively stable. The lack of new corporate issuance in July was the primary driver of spread compression; investors continue to view Australian credit markets favourably in the wake of geopolitical uncertainty, albeit spreads were more volatile as investors sought to adjust positions with more liquid lines in secondary markets. Outright yields remain attractive and while primary issuance for the month was quiet, as we head into company reporting season, Australian credit continues to be supported by strong demand from domestic and foreign investors particularly from Asia.

Of the deals that came to market during the month, senior issuance dominated the market. Notable deals included CDC Data Centres senior, Challenger Life senior, NAB senior and CBA senior. The Australian iTraxx index closed the month 4.7 bps wider at 72.5 bps.

There was only one public RMBS deal to price during the month, which came from Pepper prime. However, RMBS issuance for the year has been strong, with almost $50 billion in issuance, only $4 billion shy of RMBS issuance for the whole of 2025. RMBS/ABS credit spreads remained largely unchanged over the month. Warehouse financing continues to offer attractive risk-adjusted returns.

Outlook

There is little sign of a peace deal in the near-term and, as such, concerns around higher oil prices remain. Central banks globally continue to monitor the situation closely, with particular focus on energy costs and the potential secondary effects that could place renewed upward pressure on prices.

While inflation remains an important consideration, we are more focused on the implications for economic growth. Following three consecutive interest rate increases, we see growth as a key risk in the months ahead. March quarter GDP rose just 0.3%, while GDP per hour worked fell 0.6%, highlighting ongoing weakness in productivity. The unemployment rate has remained relatively stable, but with growth slowing and cost pressures still elevated, we expect increasing strain on businesses that could ultimately lead to softer labour market conditions.

While market expectations for a further rate hike re-emerged following an escalation in the Middle East conflict, we believe the RBA is better positioned to leave the cash rate on hold. This reflects recent economic data being softer than expected, with both trimmed mean and headline inflation remaining below the most recent Statement on Monetary Policy forecast.

We expect a more cautious risk backdrop to emerge as markets assess the implications of sustained energy price pressures. Higher input costs and weakening economic conditions, coupled with tighter financial conditions in the wake of higher rates, is likely to pressure corporate earnings.

However, we expect investment grade companies in Australia will continue to show their defensive qualities (i.e. robust balance sheet management and disciplined financial policy). Higher outright yields are likely to persist in the near term, continuing to support investor demand for credit. As reporting season concludes, issuance activity is likely to gather momentum, supported by corporate funding requirements and ongoing strong demand for Australian credit.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	7.21
Credit spread (bps)	272
Average weighted issue credit rating	BBB-
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	7.23
Effective duration (yrs)	1.77
Spread duration (yrs)	3.41
Number of securities	187

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

Sector allocation

	Portfolio %
Asset Backed Securities	0.53
Banks	21.63
Communication Services	3.85
Consumer Discretionary	1.21
Consumer Staples	-
Diversified Financials	6.13
Energy	2.00
Health Care	1.76
Industrials	7.80
Information Technology	-
Insurance	4.72
Materials	0.30
Mortgage-Backed Securities	2.02
Private Debt	11.74
Real Estate	7.88
Syndicated Loan	15.36
Utilities	5.15
Cash & Other	7.92

Security allocation

	Portfolio %
Tier 1	10.62
Tier 2	15.76
Subordinated	19.13
Mortgage Backed	2.02
Asset Backed	0.53
Senior	16.93
Private Debt	11.74
Syndicated Loan	15.36
Cash & Other	7.92

Top 10 holdings

Issuer	ISIN	Portfolio%
Barclays	XS3298830863	2.12
ATI Global	XXAU0ATIF012	2.08
BNP Paribas	FR0014014MD4	2.02
QBE Insurance	AU3FN0110086	1.87
TEEG	XXAU0TEEG027	1.86
Lendlease Finance	AU3CB0327351	1.80
Project Toastie	XXAU0ARGYL10	1.66
Nextera Energy Capital	AU3CB0322691	1.63
Cimic Finance	USQ24249AA42	1.56
Daintree Bidco Proprietary	XXAU0DAINT19	1.53

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

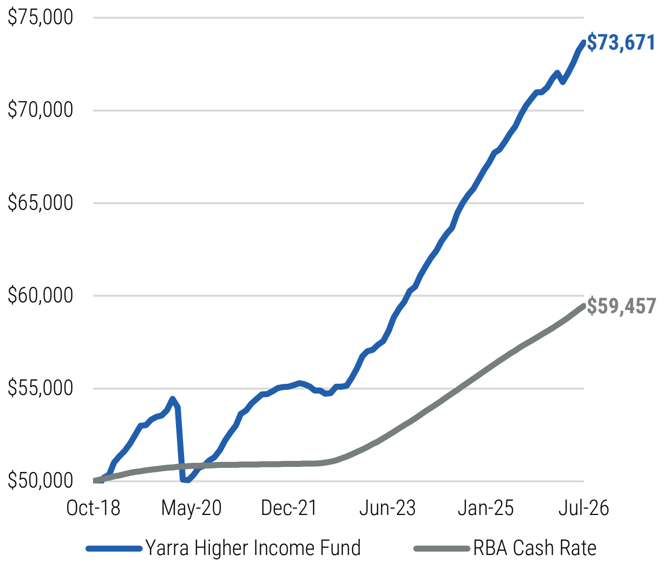
	Portfolio %
AA	2.63
AA-	8.96
A+	0.08
A	1.56
A-	5.68
BBB+	7.17
BBB	19.60
BBB-	21.34
BB+	4.77
BB	11.10
BB-	6.22
B+	5.57
B	5.23
B-	0.10
NR or Below	-

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$491.6 mn as at 31 July 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 July 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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