YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 August 2026

Yarra Higher Income Fund

Gross returns as at 31 August 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.32	1.94	5.82	8.28	6.82	5.78
RBA Cash Rate#	0.36	1.08	3.94	4.12	3.22	2.28
Excess return‡	-0.04	0.86	1.88	4.16	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 August 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.26	1.78	5.14	7.58	6.13	5.09
Growth return†	-0.24	-0.32	-0.81	1.36	0.14	-0.20
Distribution return†	0.51	2.10	5.95	6.22	5.99	5.30
RBA Cash Rate#	0.36	1.08	3.94	4.12	3.22	2.28
Excess return‡	-0.10	0.70	1.20	3.46	2.91	2.82

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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 0.26% (net basis) over the month, underperforming the RBA Cash Rate by 10 bps. On a 12-month view the Fund returned 5.14% (net basis), outperforming the RBA Cash Rate by 120 bps.

Performance for the month was driven by income. The Fund's high running yield provided protection from marginally wider spreads. Our duration exposure detracted from performance as the market moved to price in further rate hikes as inflationary pressures remain persistent in the economy. Our allocation to syndicated loans and warehousing were the standout contributors during the month. Separately, our allocation to Tier 1 and subordinated debt also contributed meaningfully continuing to produce strong income. The fund participated in a number of primary deals during the month alongside rolling one of our warehouse facilities. We were also active in deploying capital in secondary markets where we identified the most attractive risk adjusted returns.

Market review

Another month of volatility was punctuated by 2 key events in the US. The first was Treasury Secretary Scott Bessant's attempt to control the long end of the US yield curve in response to the 30-year bond yield reaching levels not seen since 2007. While the initial reaction saw bond yields rally marginally, the gains did not last and reverted back the following session. The second key event was Kevin Warsh's first speech at Jackson Hole, the annual central bankers conference. Warsh reiterated the need to take further action to bring inflation back under control, prompting markets to price in US rate hikes in September. The yield on the 10-year treasuries closed 9 bps higher at 4.78%. In other developed economies, the Bank of Japan has raised its inflation forecasts because of the conflict in the Middle East, with the market pricing in a higher chance of rate hikes. Additionally in New Zealand, the market continues to price in the expectation of a significant tightening cycle with a hike in September on the back of elevated inflation pressures.

Domestically, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 4.35% citing upside risks to inflation. The updated set of forecasts show trimmed mean inflation moving back to the midpoint of the target band by the end of 2027 with the unemployment rate only rising marginally to 4.7%. While the updated forecast and policy decision didn't impact markets significantly, the monthly CPI print which was stronger than expected saw bonds sell off. The month of July saw headline CPI come in at 3.5% with domestic travel, fuel and audio, visual and computing equipment being the strongest contributors. After this release the market moved quickly to price in an increased chance of a September rate hike with several bank economists changing their view to bring rate hikes forward. During the month the latest unemployment rate came out at 4.5%. Both 3-year and 10-year bond futures sold off during the month with the curve flattening marginally reflecting a more aggressive tightening bias in the market. The 3-year yield closed at 4.66% following an increase of 11 bps and the 10-year yield closed at 5.10% following an increase of 7 bps.

Credit spreads widened marginally during the month as a combination of macro-economic factors and supply impacted the market. Secondary markets widened as investors rotated out of existing lines to make space for Alphabet's inaugural $A issuance. The $5.5 billion issuance across several tenors was the first hyperscaler issuance in the domestic market. The deal attracted over $18 bn in bids and has potentially paved the way for issuances by other AI hyperscaler. While spreads did move slightly wider this did not stop a plethora of other issuers coming to market. Notably, Newcastle Coal Infrastructure Group attracted $1.8 bn in bids for their $200 mn issuance showing a shift in sentiment towards coal names. During the month we also saw Tier 2 issuance from domestic banks return to the market alongside NextEra returning with another subordinated debt transaction. Domestic reporting season saw volatility in the equity market, however, there was less excitement in the corporate bond market with most investment grade corporates remaining well positioned with robust balance sheets. The Australian credit market has continued to attract strong demand from offshore investors as it firmly establishes itself as an important funding market for global issuers. The Australian iTraxx was 1 bp tighter at 71.5 bps.

Structured finance deals picked up speed this month with both RMBS and ABS transaction volumes increasing from the July lull. Securitisation deals remain on pace for another record year of issuance, despite this, deals remain well supported. Spreads in the sector remained broadly stable for the month. RMBS and ABS warehouse financing also continues to perform providing attractive risk adjusted returns.

Outlook

There appears to be little sign of tensions in the Middle East abating and with persistent inflation pressures most central banks appear to be poised for further rate hikes. Facing similar challenges domestically, the market has moved to price in an increased chance of a September rate hike with 1.5 hikes priced into the curve. We expect that the RBA is likely to follow market pricing in hiking in order to move trimmed mean inflation back to the midpoint of the target bank. However, we remain focused on the downside risks to employment and economic growth as data continues to show a sluggish domestic economy.

While the domestic reporting season showed that investment grade balance sheets remain robust several companies have flagged that they expect earnings to slow going forward. With the outlook remaining uncertain in the face of higher financing costs and ongoing macro-economic pressures we expect that there will be some volatility in spreads. However, with the significant depth within the Australian market and its development into an important global funding market investor demand should be able to continue to absorb supply.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	7.12
Credit spread (bps)	267
Average weighted issue credit rating	BBB-
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	7.26
Effective duration (yrs)	1.74
Spread duration (yrs)	3.40
Number of securities	191

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

Sector allocation

	Portfolio %
Asset Backed Securities	0.49
Banks	22.14
Communication Services	3.94
Consumer Discretionary	5.65
Consumer Staples	2.98
Diversified Financials	7.66
Energy	1.89
Health Care	1.71
Industrials	9.46
Information Technology	1.93
Insurance	5.22
Materials	0.61
Mortgage-Backed Securities	1.89
Real Estate	7.44
Utilities	6.40
Warehouse - RMBS	6.90
Warehouse - Other	4.67
Cash & Other	9.02

Security allocation

	Portfolio %
Tier 1	10.00
Tier 2	16.24
Subordinated	20.30
Mortgage Backed	1.89
Asset Backed	0.49
Senior	16.07
Private Debt	11.56
Syndicated Loan	14.43
Cash & Other	9.02

Top 10 holdings

Issuer	Portfolio%
Barclays	2.00
Syndicated Loan 1	1.93
BNP Paribas	1.92
QBE Insurance	1.81
Syndicated Loan 2	1.73
Lendlease Finance	1.71
Syndicated Loan 3	1.54
Nextera Energy Capital	1.52
Syndicated Loan 4	1.46
Cimic Finance	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.

Credit rating profile

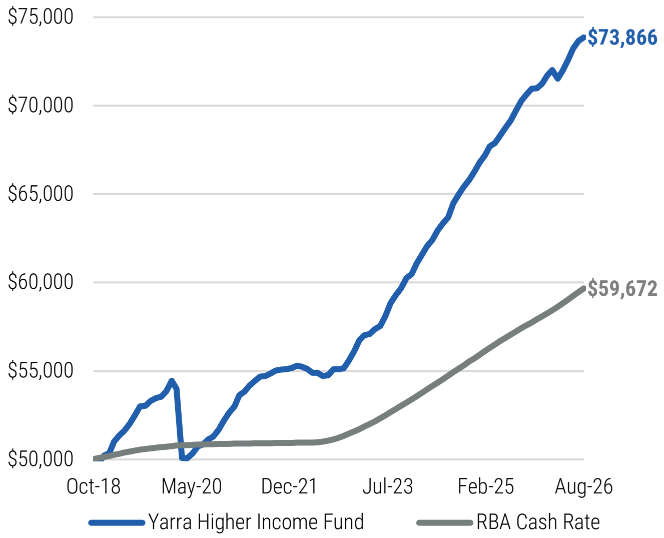
	Portfolio %
AA	2.67
AA-	9.97
A+	0.07
A	1.56
A-	6.00
BBB+	6.68
BBB	20.76
BBB-	21.18
BB+	4.48
BB	10.56
BB-	5.83
B+	5.20
B	4.94
B-	0.10
NR or Below	-

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$520.4 mn as at 31 August 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 August 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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