YARRA
CAPITAL MANAGEMENT

Investment Commentary
Quarter to 30 September 2026

Yarra Enhanced Income Fund

Gross returns as at 30 September 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception^ % p.a.
Yarra Enhanced Income Fund	-0.27	0.43	3.91	7.41	6.03	6.02	6.22
Yarra Enhanced Income Fund (incl. franking)	-0.26	0.45	4.03	7.53	6.15	6.26	6.77
RBA Cash Rate#	0.35	1.08	4.00	4.13	3.29	2.13	3.34
Excess return‡	-0.61	-0.63	0.03	3.40	2.86	4.12	3.42

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. Returns inclusive of franking credits are calculated by attributing a cash value to each franking credit, and assuming that amount is re-invested, along with all other distributions. Figures including franking credits should not be relied upon as an exact indication of performance or be compared to returns of other managed funds which do not include amounts for franking credits. The level of franking of distributions may vary.

Net returns as at 30 September 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception^ % p.a.
Yarra Enhanced Income Fund	-0.31	0.30	3.35	6.82	5.45	5.35	5.45
Yarra Enhanced Income Fund (incl. franking)	-0.30	0.31	3.46	6.94	5.57	5.58	6.00
Growth return†	-0.77	-0.89	-2.42	0.99	0.20	0.96	0.04
Distribution return†	0.47	1.20	5.88	5.95	5.37	4.62	5.96
RBA Cash Rate#	0.35	1.08	4.00	4.13	3.29	2.13	3.34
Excess return‡	-0.65	-0.77	-0.54	2.81	2.28	3.45	2.65

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^ Inception date Yarra Enhanced Income Fund: June 2003.
† Growth returns are measured by the movement in the Yarra Enhanced 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. Returns inclusive of franking credits are calculated by attributing a cash value to each franking credit, and assuming that amount is re-invested, along with all other distributions. Figures including franking credits should not be relied upon as an exact indication of performance or be compared to returns of other managed funds which do not include amounts for franking credits. The level of franking of distributions may vary.
# 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 Enhanced Income Fund returned 0.31% (net basis, including franking) over the quarter, underperforming its benchmark by 77 bps. On a 12-month view the Fund returned 3.46% (net basis, including franking), underperforming the RBA Cash Rate by 54 bps.

The Fund delivered a positive return over the September quarter, supported primarily by strong income generation and generally resilient credit market conditions. Carry remained the largest contributor to performance throughout the period, with the Fund's high running yield helping offset periods of bond market volatility and higher interest rate expectations. Credit spreads generally tightened during July before moving slightly wider through August and September off the back of strong supply and risk off sentiment. Overall, credit spread movements contributed positively to performance, however, our duration exposure detracted from performance as markets increasingly priced a more aggressive interest rate path amid persistent inflation concerns and sustained geopolitical uncertainty.

Subordinated debt exposures across both financials and corporates were among the strongest contributors to performance, benefiting from strong income generation and supportive credit market conditions. We remained active across both primary and secondary markets throughout the quarter, participating in transactions including the NextEra

Energy subordinated deal, Anglian Water's inaugural senior secured transaction and the Macquarie Bank Tier 2 deal. We continue to identify opportunities across the market that offer compelling risk-adjusted returns.

Market review

Geopolitical developments in the Middle East remained the dominant driver of global markets throughout the September quarter. Following a brief ceasefire between the United States and Iran at the end of June, hostilities intensified during July and persisted through August and September, contributing to higher energy prices, rising inflation expectations and elevated market volatility. Brent crude oil prices moved progressively higher through the quarter, briefly surpassing US$100 per barrel in September as markets increasingly focused on the inflationary consequences of the ongoing conflict.

Against this backdrop, major central banks adopted a more hawkish tone. The Federal Open Market Committee (FOMC) left the federal funds rate unchanged at 3.50%-3.75% in July despite market expectations of further tightening. During August, attention turned to comments from Federal Reserve Chair Kevin Warsh at Jackson Hole, where he reinforced the need to return inflation to target and strengthened market expectations of additional policy tightening. These expectations were validated in September when the FOMC unanimously increased the federal funds target range by 25 bps to 3.75%-4.00%, citing persistent inflationary pressures and a desire to accelerate the return to its 2% inflation objective. Bond markets experienced significant volatility as investors reassessed the outlook for interest rates. The yield on the US 10-year Treasury increased steadily through the quarter, rising 75 bps to 5.21% by the end of September, in addition to the 30-year Treasury yield reaching its highest level since 2002. Strong consumer spending, elevated energy prices and concerns regarding long-term inflation all contributed to higher yields.

Outside the United States, central banks generally remained focused on inflation risks associated with higher energy costs. The Reserve Bank of New Zealand increased its official cash rate by 25 bps in both July and September, while the Bank of Japan raised inflation forecasts during August before increasing its policy rate by 25 bps in September to its highest level since 1995. In contrast, the Bank of England and Bank of Canada left policy settings unchanged throughout the quarter, preferring to assess the economic implications of the evolving geopolitical environment.

Domestically, the Reserve Bank of Australia (RBA) maintained their cautious stance throughout the quarter. The cash rate remained unchanged at 4.35% in July and August, although policymakers consistently highlighted upside risks to inflation arising from higher energy prices and resilient economic activity. In September, the RBA responded to the changing inflation outlook by raising the cash rate 25 bps to 4.60%. The Board noted that higher oil prices and the materialisation of upside inflation risks warranted a further move into restrictive territory, despite evidence that previous rate increases were beginning to slow economic activity. Headline CPI came in at 4.0% in the 12 months to August up from 3.5% in the 12 months to July. More of note was the month on month increases which prompted the RBA's hike in September with a 1% and 0.4% increase in the months of July and August respectively. The labour market remained relatively resilient, although conditions did begin to soften. The unemployment rate increased from 4.4% in June to 4.6% in August. While employment conditions remained broadly stable, labour market weakness emerged earlier than forecasted by the RBA.

Australian bond markets experienced a significant sell-off over the quarter as investors priced in a higher terminal cash rate and reduced expectations for near-term easing. The yield curve steepened over the quarter with the yield on the 3-year bond futures rising 59 bps to 4.94% and the yield on the 10-year bond futures increasing 62 bps to 5.37%. Yield curve movements were volatile throughout the quarter as markets balanced concerns over rising global energy prices and slowing domestic growth against an increasingly inflation-focused central bank.

Australian credit markets remained relatively resilient despite the challenging macroeconomic backdrop. While geopolitical uncertainty, higher bond yields and concerns regarding inflation contributed to periods of volatility, strong investor demand continued to underpin the market. Credit spreads generally traded within a relatively narrow range throughout the quarter. Limited corporate issuance in July supported spread compression, while August saw increased primary market activity and modest widening as investors repositioned portfolios to accommodate for new transactions. Market sentiment softened further in September as higher rates and broader risk aversion encouraged some selling in more liquid securities. Nevertheless, underlying credit fundamentals across the domestic debt market remained broadly robust, with reporting season showing investment grade corporates in good financial health.

Primary issuance remained active despite periods of volatility. Notable transactions during the quarter included Alphabet's inaugural Australian dollar bond issuance, which attracted exceptionally strong investor demand and highlighted the growing importance of the Australian market as a funding source for global issuers. Other notable issues included CDC Data Centres senior, NextEra subordinated, Newcastle Coal Infrastructure Group senior, Anglian Water senior and Tier 2 issuance from a number of domestic banks. Demand from international investors, particularly those based in Asia, remained a key theme throughout the quarter. This continued support helped offset risk aversion and reinforced the attractiveness of Australian credit relative to other global markets.

The Australian iTraxx index widened modestly over the quarter, closing September at approximately 72.3 bps, reflecting a marginally more cautious risk environment yet continuing to trade materially tighter than levels observed earlier in the year.

Outlook

Tensions in the middle east continue to place inflationary pressures on economies around the globe, with several central banks maintaining a hawkish stance. With the domestic cash rate at its highest level since 2011, the RBA has acknowledged the restrictive nature of the current policy setting. While the market has further hikes priced in, with the unemployment rate (4.6%) now sitting above the RBA's forecasts, we expect the RBA to be more cautious in delivering additional tightening. The combination of a higher-than-expected unemployment rate and a slowing economy has the potential to expose Australia to increased downside risks.

Corporates in Australia have remained active in debt markets following reporting season despite ongoing volatility. In the face of higher financing costs, we expect corporates with strong hedging policies and robust balance sheets to perform well. While higher base rates continue to place pressure on cash flows, the domestic reporting season demonstrated that many investment grade companies remain well positioned to absorb recent rate rises. We have also continued to see further growth in new issuers entering the domestic market. Combined with the strong outright yields, and Australia's AAA sovereign rating, which continues to attract offshore investors, we expect new issuance to remain reasonably well supported, with investors able to absorb additional supply.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.62
Option Adjusted Spread	186
Average weighted issue credit rating	BBB
Average weighted ESG Rating*	BBB+
Estimated yield to maturity (%)	6.80
Fund duration (yrs)	2.08
Spread duration (yrs)	3.53
Number of securities	213
Listed	37
Unlisted	176

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

Sector allocation

	Portfolio %
Asset Backed	-
Banks	43.92
Communication Services	2.55
Consumer Discretionary	2.49
Consumer Staples	-
Diversified Finance	6.73
Energy	1.67
Health Care	2.05
Industrials	8.37
Information Technology	0.11
Insurance	9.23
Materials	0.31
Mortgage Backed	-
Real Estate	8.45
Utilities	8.65
Warehouse – RMBS	0.81
Cash & Other	4.66

Top 10 holdings

Issuer	ISIN	Portfolio %
ANZ Banking	AU3FN0091583	1.56
Credit Agricole	AU3CB0331320	1.45
Lendlease	AU3CB0327351	1.44
Barclays	XS3298830863	1.40
QBE Insurance	AU3FN0110086	1.36
UBS Group	CH1485827070	1.35
Tabcorp Holdings	AU3CB0328789	1.34
UBS Group	CH1522231294	1.32
National Australia Bank	AU3CB0328235	1.24
BNP Paribas	FR0014014MD4	1.23

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.

Maturity profile

	Portfolio %
Perpetual/Callable	16.79
Callable	63.59
At Maturity	14.96

Security profile

	Portfolio %
Floating rate	42.88
Fixed rate	52.46
Cash & Other	4.66

Credit rating profile

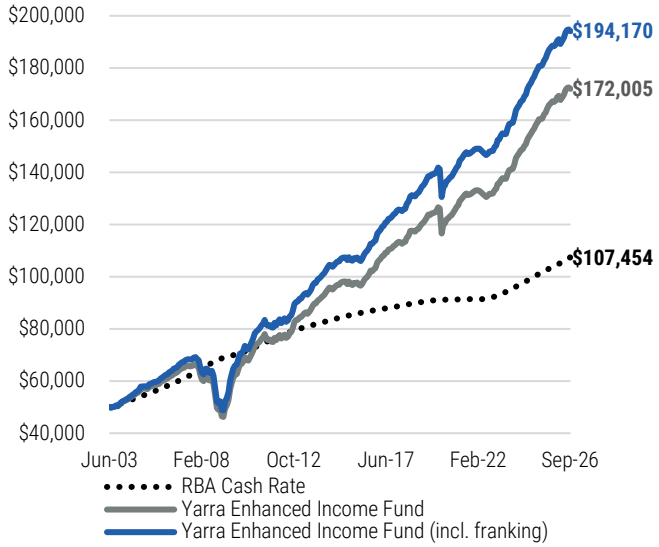
	Portfolio %
AA	0.81
AA-	-
A+	0.84
A	-
A-	13.51
BBB+	16.80
BBB	32.99
BBB-	19.83
BB+	3.48
BB	4.47
BB-	1.85
B+	0.70
B	-
B-	0.07
Not rated or below	-
Cash & Other	4.66

Features

Investment objective	To earn higher returns than traditional cash management and fixed income investments (over the medium-to-long term) by investing in a diversified portfolio of fixed income and hybrid (debt/equity) securities.	
Recommended investment time frame	3 – 5+ years	
Fund inception	June 2003	
Fund size	Pooled Fund A$3,339.8mn as at 30 September 2026	
APIR code	JBW0018AU	
Estimated management cost	0.55% p.a.	
Buy/sell spread	+/- 0.10%	
Platform availability	AMP North Asgard BT Panorama CFS First Choice Hub24 IOOF Wrap Macquarie Wrap Mason Stevens	MLC Wrap MLC Navigator Netwealth Praemium Powerwrap uXchange (DASH) Xplore Wealth

Investment performance comparison of $50,000

After fees, since inception of the Yarra Enhanced Income Fund, June 2003 to September 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 Enhanced Income Fund is $10,000.

Applications and contacts

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

Website www.yarracm.com

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Disclaimers

The Yarra Enhanced Income Fund is substantially invested in the Yarra Enhanced Income Pooled Fund ('Pooled Fund'). References in this document to the underlying assets or investments of the Fund generally relate to the assets held in the Pooled Fund.

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