YARRA
CAPITAL MANAGEMENT

Investment Commentary
Month to 31 October 2026

Yarra Enhanced Income Fund

Gross returns as at 31 October 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	0.29	0.16	3.70	7.43	6.01	5.97	6.21
Yarra Enhanced Income Fund (incl. franking)	0.32	0.21	3.83	7.56	6.14	6.21	6.76
RBA Cash Rate#	0.38	1.10	4.08	4.15	3.37	2.16	3.35
Excess return‡	-0.06	-0.89	-0.25	3.41	2.77	4.05	3.41

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 31 October 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	0.25	0.02	3.14	6.84	5.43	5.30	5.44
Yarra Enhanced Income Fund (incl. franking)	0.28	0.07	3.27	6.97	5.55	5.54	5.99
Growth return†	-0.22	-1.27	-2.72	1.02	0.14	0.87	0.03
Distribution return†	0.50	1.33	5.98	5.95	5.41	4.67	5.96
RBA Cash Rate#	0.38	1.10	4.08	4.15	3.37	2.16	3.35
Excess return‡	-0.11	-1.03	-0.82	2.82	2.19	3.38	2.64

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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 0.28% (net basis, including franking) over the month, underperforming its benchmark by 11 bps. On a 12-month view the Fund returned 3.27% (net basis, including franking), underperforming the RBA Cash Rate by 82 bps.

The Fund performed reasonably well over the month despite heightened market volatility, supported by carry and our duration exposure. Consistent and strong income returns helped provide protection against the broad-based widening in credit spreads as risk-off sentiment re-emerged following the AI-related technology sell-off, which flowed through to corporate credit markets. The subsequent flight to safety supported a rally in bonds, while weaker labour market data also contributed to lower bond yields during the month. Our allocations to Tier 2 and senior debt were the strongest performers over the period. With limited primary public issuance during the month, we only participated in the Boral senior note deal. However, we remained active in the secondary market. Notably, we purchased NextDC subordinated notes at attractive levels following their large sell-off, having elected not to participate in the primary deal as the issuance margin did not offer attractive risk-adjusted returns. We continue to remain active in markets, identifying opportunities as they present during this period of volatility.

Market review

Strikes on commercial ships and tankers in the Strait of Hormuz increased during October, with Brent crude rising to around US$118 a barrel, its highest level since the end of April. As in previous months, the ongoing conflict contributed to heightened market volatility, however, there has been some relief to markets with a resolution to the war looking closer. Towards the end of the month, US Treasuries rallied amid a flight to safety following a sharp sell-off in mega-cap AI and technology stocks, as concerns grew over whether significant AI-related investment would generate sufficient returns. Additionally, with the US midterm elections taking place, the prospect of a sweep by either party may influence markets and drive differing reactions across asset classes. The Federal Open Market Committee (FOMC) voted 10-2 to keep the federal funds rate target range unchanged at 3.75% to 4.00%, noting that inflation remained elevated while economic activity continued to expand at a solid pace. The unemployment rate increased 10 bps to 4.2% in September. Real GDP increased at an annual rate of 3.4% in Q3. The yield on the 10-year US Treasury fell 28 bps over the month to 4.93%.

Elsewhere, the European Central Bank kept policy rates unchanged, with unemployment remaining low and economic activity continuing to grow despite ongoing headwinds, while higher energy prices added to inflationary pressures. The Bank of Japan kept its policy rate unchanged, in line with expectations, following its 25 bps increase a month earlier. Surprisingly, the Reserve Bank of New Zealand also left its cash rate unchanged in a 4-3 decision, with greater concern around the outlook for New Zealand's economic recovery than the near-term inflationary impact of higher oil prices. In contrast, the Bank of Canada raised its policy rate by 25 bps to 2.50%, reflecting resilient economic growth and concerns that inflation may prove higher and more persistent than previously expected.

The Reserve Bank of Australia (RBA) raised the cash rate by 25 bps to 4.85% on Melbourne Cup Day, amid concerns that the ongoing conflict in the Middle East could keep energy prices elevated for longer than initially expected as well as tighter than anticipated domestic capacity pressures contributing to higher prices. The RBA has updated their Statement on Monetary Policy forecasts showing headline and trimmed mean inflation not returning to the band until December 2027, with the unemployment rate expected to grow. The monthly CPI rose 0.8%, with inflation over the 12 months to September 2026 increasing to 4.3%, up from the previous month, but broadly in line with expectations. The unemployment rate continued to rise, increasing to 4.7% in September, faster than the RBA's initial forecasts. Following the softer labour market data, bonds rallied modestly through the middle of the month, before rallying again towards month-end as the sell-off in US technology stocks flowed through to the Australian market and prompted a broader move towards safer assets. Yields on both 3-year and 10-year bond futures declined over the month, with the curve flattening as markets reflected the impact of tighter monetary policy alongside increased safe-haven demand. The 3-year yield closed at 4.81%, down 13 bps, while the 10-year yield closed at 5.13%, down 25 bps.

In Australian credit markets, spreads widened broadly, although there was significant tightening in the listed hybrid spreads as they recovered from their sell-off in the previous months. Risk-off sentiment emerged following AI profitability concerns globally as well as domestically. Of note, NextDC saw delay in its power upgrade to its M3 data centre following community push back and its sub-contractor stopping work, as a result it saw roughly $3 billion wiped from its market cap. The subordinated debt deal which had originally priced at 350 bps saw spreads blow out to around 550 bps following the news. With corporates posting quarter end results and holding their annual general meetings, deal flow was relatively quiet compared to previous months. Deals pricing during the month were mainly senior debt transactions. Transactions of note included a senior note from Boral, Challenger Life's annuity-backed notes and MUFG additional tier 1 deal. The Australian credit market continues to attract strong foreign demand particularly from Asia. The Australian iTraxx closed at 77.6 bps, 5.3 bps wider than the previous month following strong risk-off sentiment moving into the market.

Outlook

Markets have moved to price a steadier future for the conflict in the Middle East with oil prices easing over the past week. If the situation continues to improve, we expect that Brent crude prices could fall back below US$100 a barrel, which would help ease inflationary pressures. Following five rate hikes this year, with the cash rate now at its highest level since 2008, we expect that the pressures on the economy will prompt the RBA to reassess its economic forecasts and subsequent path for monetary policy. While the RBA continues to cite excess demand, rising unemployment and the increasingly restrictive monetary policy setting is likely to weigh heavily on consumers and broader economic activity. In this context, we expect economic growth to be sluggish and the risk of a recession to increase.

The higher rate environment has made issuance more expensive, however, with investment grade corporates remaining in good financial health, we do not expect corporate issuance to slow materially as we approach the end of the year. With a resolution to the conflict in the Gulf region appearing closer, we expect an improvement in risk sentiment to support issuance, with a considerable pipeline of deals likely to price ahead of the Christmas period. Investor demand remains strong, with higher outright yields continuing to attract both domestic and offshore investors and provide support for primary market activity.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.72
Option Adjusted Spread	205
Average weighted issue credit rating	BBB
Average weighted ESG Rating*	BBB+
Estimated yield to maturity (%)	6.89
Fund duration (yrs)	2.06
Spread duration (yrs)	3.54
Number of securities	212
Listed	36
Unlisted	176

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

Sector allocation

	Portfolio %
Asset Backed	-
Banks	43.17
Communication Services	3.01
Consumer Discretionary	2.39
Consumer Staples	-
Diversified Finance	6.69
Energy	1.50
Health Care	2.19
Industrials	8.95
Information Technology	0.11
Insurance	9.19
Materials	0.31
Mortgage Backed	-
Real Estate	8.76
Utilities	8.95
Warehouse – RMBS	0.85
Cash & Other	3.92

Security allocation

	Portfolio %
Tier 1	13.20
Tier 2	39.16
Subordinated	22.84
Mortgage Backed	-
Asset Backed	-
Senior	20.03
Private Debt	0.85
Syndicated Loan	-
Cash & Other	3.92

Top 10 holdings

Issuer	ISIN	Portfolio %
ANZ Banking	AU3FN0091583	1.54
Credit Agricole	AU3CB0331320	1.45
Barclays	XS3298830863	1.40
Lendlease	AU3CB0327351	1.40
UBS Group	CH1485827070	1.37
QBE Insurance	AU3FN0110086	1.36
Tabcorp Holdings	AU3CB0328789	1.35
UBS Group	CH1522231294	1.31
National Australia Bank	AU3CB0328235	1.25
BNP Paribas	FR0014014MD4	1.20

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	16.98
Callable	61.92
At Maturity	17.18

Security profile

	Portfolio %
Floating rate	43.17
Fixed rate	52.91
Cash & Other	3.92

Credit rating profile

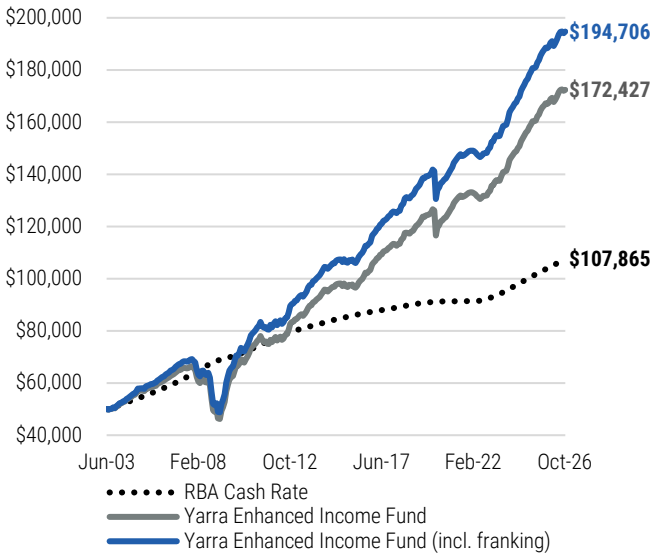
	Portfolio %
AA	0.85
AA-	-
A+	0.85
A	-
A-	12.81
BBB+	16.66
BBB	33.29
BBB-	19.40
BB+	4.64
BB	4.44
BB-	2.39
B+	0.69
B	-
B-	0.07
Not rated or below	-
Cash & Other	3.92

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$3,343.3mn as at 31 October 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 October 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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