YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 31 October 2026

Yarra Higher Income Fund

Gross returns as at 31 October 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.49	0.58	4.91	7.76	6.76	5.69
RBA Cash Rate#	0.38	1.10	4.08	4.15	3.37	2.32
Excess return‡	0.10	-0.52	0.83	3.62	3.39	3.37

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 October 2026

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	0.43	0.42	4.24	7.07	6.07	5.00
Growth return†	-0.08	-1.11	-1.88	0.96	-0.02	-0.31
Distribution return†	0.51	1.53	6.11	6.11	6.09	5.31
RBA Cash Rate#	0.38	1.10	4.08	4.15	3.37	2.32
Excess return‡	0.05	-0.68	0.15	2.92	2.70	2.68

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 and the RBA Cash Rate.

Portfolio review

The Yarra Higher Income Fund returned 0.43% (net basis) over the month, outperforming the RBA Cash Rate by 5 bps. On a 12-month view the Fund returned 4.24% (net basis), outperforming the RBA Cash Rate by 15 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 syndicated loans and warehousing were the strongest performers over the period continuing to provide strong, consistent income. 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 also participated in two syndicated loan deals during the month, which added nicely to the Fund's running yield. 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.

RMBS issuance was extremely strong over the month of October. There was over $13 billion issued across 21 deals in Australian securitisation primary markets. This follows on from the previous month which was a record-breaking month of issuance. This unprecedented volume of supply has weighed on both primary and secondary markets resulting in spreads to widen. RMBS and ABS warehouse financing continues to perform, providing attractive risk-adjusted returns.

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
Current yield (%)	7.59
Credit spread (bps)	300
Average weighted issue credit rating	BBB-
Average weighted ESG rating*	BBB+
Yield to expected maturity (%)	7.88
Effective duration (yrs)	1.82
Spread duration (yrs)	3.30
Number of securities	200

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

Sector allocation

	Portfolio %
Asset Backed Securities	0.43
Banks	21.57
Communication Services	3.94
Consumer Discretionary	7.93
Consumer Staples	2.69
Diversified Financials	6.96
Energy	0.67
Health Care	1.90
Industrials	11.17
Information Technology	1.79
Insurance	5.65
Materials	0.56
Mortgage-Backed Securities	1.69
Real Estate	7.44
Utilities	6.52
Warehouse – RMBS	7.56
Warehouse – Other	5.86
Cash & Other	5.67

Security allocation

	Portfolio %
Tier 1	9.15
Tier 2	17.04
Subordinated	18.40
Mortgage Backed	1.69
Asset Backed	0.43
Senior	17.76
Private Debt	13.42
Syndicated Loan	16.44
Cash & Other	5.67

Top 10 holdings

Issuer	Portfolio%
Syndicated Loan 1	1.79
Barclays	1.77
Syndicated Loan 2	1.77
Australian Auto Loans Trust	1.76
BNP Paribas	1.70
QBE Insurance	1.67
Syndicated Loan 3	1.60
Lendlease Finance	1.53
Syndicated Loan 4	1.43
Syndicated Loan 5	1.42

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

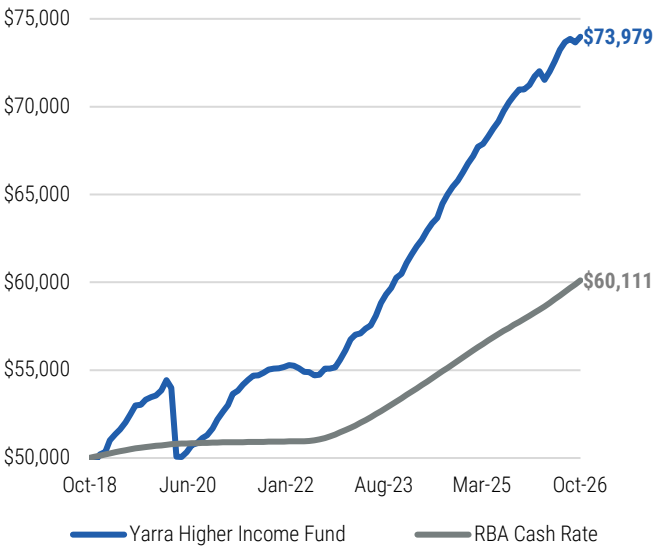
	Portfolio %
AA	2.44
AA-	6.55
A+	0.71
A	1.52
A-	6.12
BBB+	9.17
BBB	20.75
BBB-	17.93
BB+	5.16
BB	10.96
BB-	5.73
B+	6.58
B	6.30
B-	0.09
NR or Below	-

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$568.3 mn as at 31 October 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 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 Higher Income Fund is $10,000.

Applications and contacts

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

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