

# Yarra Enhanced Income Fund

## Gross returns as at 31 October 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Enhanced Income Fund	0.23	1.43	7.80	4.87	4.43	5.39	6.03
Yarra Enhanced Income Fund (incl. franking)	0.25	1.47	7.94	4.96	4.57	5.73	6.64
RBA Cash Rate	0.34	1.02	3.64	1.50	1.25	1.57	3.23
Excess return <sup>‡</sup>	-0.09	0.46	4.29	3.46	3.33	4.16	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 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Enhanced Income Fund	0.18	1.29	7.21	4.30	3.78	4.65	5.24
Yarra Enhanced Income Fund (incl. franking)	0.20	1.33	7.35	4.38	3.92	4.99	5.84
Growth return <sup>†</sup>	-0.30	-0.09	1.78	0.14	0.01	0.57	-0.12
Distribution return <sup>†</sup>	0.50	1.43	5.57	4.24	3.91	4.42	5.96
RBA Cash Rate	0.34	1.02	3.64	1.50	1.25	1.57	3.23
Excess return <sup>‡</sup>	-0.14	0.31	3.70	2.88	2.67	3.42	2.61

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<sup>^</sup> Inception date Yarra Enhanced Income Fund: July 2003.

<sup>†</sup> 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.

<sup>‡</sup> 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 0.20% (net basis, including franking) over the month, underperforming its benchmark by 14 bps. On a 12-month view the Fund returned 7.35%, outperforming the RBA Cash Rate by 370 bps (net basis, including franking).

Carry continues to underpin positive Fund performance and is providing strong downside protection in volatile markets. While credit spreads moved favourably in most categories, sell offs globally caused unfavourable movement in the yield curve contributing to negative price performance. The strongest performance came from our futures positions, however, Health Care and Industrial sectors proved to be the sectors that saw the most positive contribution to return. The Industrials sector

proved to be the biggest detractor from performance. During the month we took part in the Commonwealth Bank Tier 2 deal which was trading at attractive levels. The strength in CBA's T2 led to a number of corporates launching similar deals.

Primary market volumes picked up during the period and presented some attractive opportunities to capture elevated levels of outright yield. We continue to actively trade to position for the best possible risk-adjusted returns.

### Market review

Global markets were subjected to broad sell offs in October. Increased fear of outright war involving multiple nations in Gaza, coupled with weaker data globally, perpetuated further selling off. In the US, 10-year yields moved above 5% and with hawkish commentary from the FMOC, RBA and BoE

continuing to lead markets to price in multiple further rate hikes across the major economies. Bearish sentiment globally around economic conditions and Middle Eastern tensions has seen oil prices remain elevated. Inflation continued to remain sticky in the US, defying market expectations.

Domestically, the RBA remained on hold during October. However, the market correctly backed an RBA rate hike to 4.35% at the start of November. This reflects resilience in Australia's economy compared to the rest of the world, as evidenced through month-on-month retail sales beating expectations by 0.6%. CPI figures from the third quarter of the calendar year were released during the period and printed at 5.4% (y/y). This was in line with expectations and confirmed a downward trend in inflation (y/y). As with most major economies, inflation remains underpinned by fuel costs with sustained higher WTI Crude prices and elevated services inflation. Also worth noting is that housing pressures are still increasing with rents rising 7.6% on an annual basis.

Corporate credit and hybrid spreads generally traded tighter over the month. Tier 2 securities continued to be a key driver of positive performance, whereas ASX listed Tier 1s detracted from returns. Primary deal flow increased significantly following CBA's Tier 2 deal mid-month. Investors in the sector remain eager to get significant scale in newly issued deals. The Australian iTraxx index was volatile during the month, before closing at 97 bps.

## Outlook

With inflation seemingly on the way down, but with the economy remaining resilient in the face of household pressures, the RBA has decided to break away from the herd and raise rates when most advanced economies remain on hold. Irrespective of whether further hikes occur, it is apparent that cracks will begin to show in consumer numbers reflecting Australian households being under significant pressure.

While there has been some slight tightening in corporate credit spreads, the hybrid market remains compelling and deal flow remains strong. With risk-off sentiment starting to become more broadly based spreads are being driven wider, enhancing the sector's value proposition. Interest rate hikes have potential to increase outright returns. With the possibility of risk off events occurring in the US, macro-economic conditions are expected to play a substantial role for the last quarter of 2023. We expect carry to continue to drive strong performance as move towards 2024.

## Portfolio profile

### Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.37
Option Adjusted Spread	250
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	7.02
Fund duration (yrs)	1.56
Spread duration (yrs)	3.43
Number of securities	115
Listed	89
Unlisted	26

### Sector allocation

	Portfolio %
Asset Backed	0.00
Banks	45.33
Communication Services	0.00
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Finance	9.07
Energy	4.18
Health Care	2.62
Industrials	7.82
Information Technology	0.35
Insurance	15.96
Materials	0.37
Mortgage Backed	0.00
Real Estate	5.58
Utilities	4.87
Cash & Other	3.84

## Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	3.13
Commonwealth Bank of Australia	AU3FN0067989	2.85
Resolution Life Australasia	AU3FN0057691	2.69
Bank of Queensland	AU3FN0064408	2.27
Westpac Banking	AU3CB0300358	2.25
Downer Group Finance	AU3CB0262673	2.19
Challenger Life Company	AU3CB0292324	2.18
QBE Insurance	AU3FN0078747	2.05
Cooperatieve Rabobank UA	AU3CB0293348	2.00
Ampol	AU3FN0064739	1.89

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	13.43
Callable	75.24
At Maturity	11.33

## Security profile

	Portfolio %
Floating rate	54.63
Fixed rate	34.92
Cash & Other	10.45

## Credit rating profile

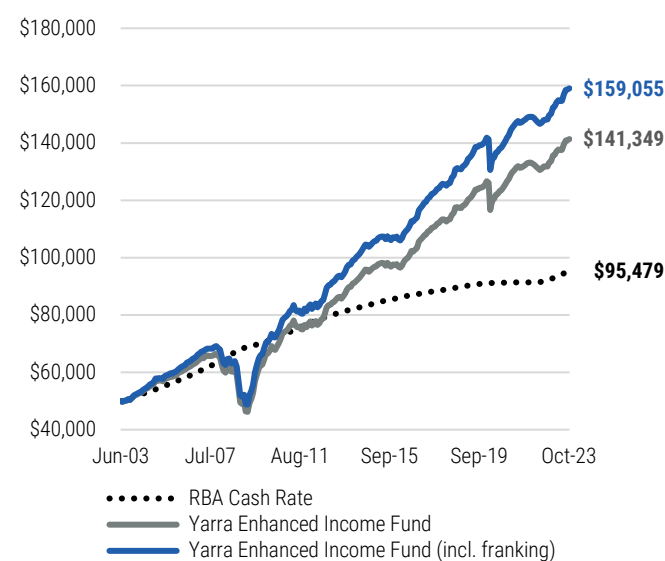
	Portfolio %
A+	0.50
A	0.14
A-	2.43
BBB+	30.95
BBB	20.90
BBB-	24.53
BB+	7.60
BB	5.65
BB-	1.76
B+	1.71
B	0.00
B-	0.00
Not rated or below	0.00
Cash and Derivatives	3.84

## 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	July 2003
Fund size	Pooled Fund A\$716.2 mn as at 31 October 2023
APIR code	JBW0018AU
Estimated management cost	0.55% p.a.
Buy/sell spread	+/- 0.10%

## Investment performance comparison of \$50,000

After fees, since inception of the Yarra Enhanced Income Fund, July 2003 to October 2023.



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.

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## Applications and contacts

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

Website [www.yarracm.com](http://www.yarracm.com)

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) [IST@yarracm.com](mailto:IST@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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