

# Yarra Higher Income Fund

## Gross returns as at 31 October 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Higher Income Fund	1.03	2.60	9.97	5.93	4.52	4.46
RBA Cash Rate	0.34	1.02	3.64	1.50	1.25	1.25
Excess return <sup>‡</sup>	0.69	1.58	6.32	4.43	3.28	3.22

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 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Higher Income Fund	0.98	2.43	9.26	5.25	3.85	3.79
Growth return <sup>†</sup>	0.34	0.77	4.08	-0.29	-1.01	-1.05
Distribution return <sup>†</sup>	0.64	1.66	5.17	5.54	4.86	4.84
RBA Cash Rate	0.34	1.02	3.64	1.50	1.25	1.25
Excess return <sup>‡</sup>	0.63	1.41	5.61	3.75	2.60	2.54

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<sup>^</sup> Inception date Yarra Higher Income Fund: October 2018.

<sup>†</sup> 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.

<sup>‡</sup> 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 0.98% (net basis) in October, outperforming the RBA Cash Rate by 63 bps. On a 12-month view the Fund returned 9.26%, outperforming the RBA Cash Rate by 561 bps (net basis).

Carry continues to underpin positive Fund performance and is providing strong downside protection in volatile markets. As spreads tightened during the month, we have seen modest performance from Tier 1 and Tier 2 securities. This month we took part in the Australian Finance Group RMBS deal along with the QBE Tier 2 deal. We also added exposure to the CBA Subordinated deal which was priced at attractive levels in the market.

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 FMO, 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.

Spreads generally traded tighter in the month, despite a significant increase in primary deal flow during the period. Issuance in the securitization market was \$8.7bn in October, the highest level of outright issuance since 2007. There was also significant activity in the hybrid market from mid-month across both Tier 1 and Tier 2 securities. With most deals being oversubscribed, investors appear 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
Current yield (%)	6.37
Credit spread	308
Average weighted issue credit rating	BBB
Average weighted ESG rating	A-
Yield to expected maturity (%)	7.34
Fund duration (years)	0.35
Spread duration (years)	2.17
Number of securities	89

### Sector allocation

	Portfolio %
Asset Backed Securities	0.70
Banks	29.69
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	7.00
Energy	2.71
Health Care	0.47
Industrials	8.64
Information Technology	-
Insurance	6.40
Materials	1.29
Mortgage Backed Securities	17.45
Private Debt	5.44
Real Estate	6.60
Syndicated Loans	3.98
Utilities	3.13
Cash and Other (incl. derivatives)	6.50

### Security allocation

	Portfolio %
Tier 1	10.16
Tier 2	25.33
Subordinated	5.79
Mortgage Backed	17.45
Asset Backed	0.70
Senior	24.65
Private Debt	5.44
Syndicated Loans	3.98
Cash and Other (incl. derivatives)	6.50

## Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	3.20
Aurizon Finance	AU3CB0278380	3.08
Firstmac	AU3FN0076923	2.33
Macquarie Bank.	US556079AF83	2.05
QBE Insurance Group	AU3FN0078747	1.84
Commonwealth Bank of Australia	AU3FN0080396	1.81
Commonwealth Bank of Australia	AU3FN0082251	1.80
Lloyds Banking Group	AU3CB0302115	1.79
Peet	AU3FN0060638	1.77
UBS Group AG	CH0488506673	1.71

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

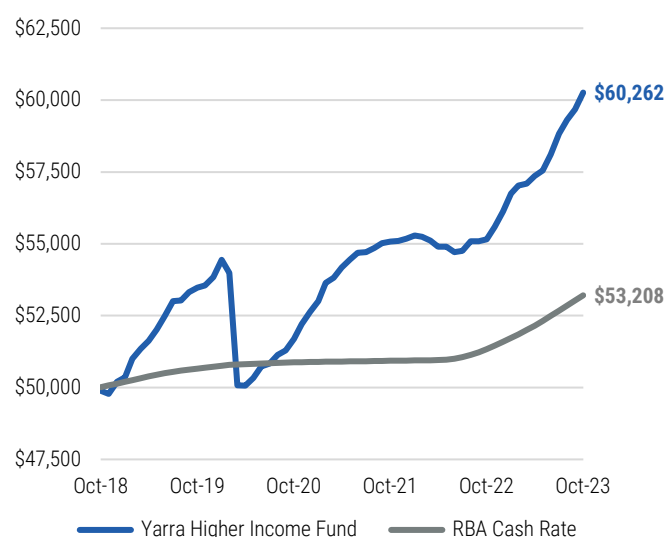
	Portfolio %
AA+	0.00
AA	5.53
AA-	9.75
A+	0.52
A	5.58
A-	0.00
BBB+	16.69
BBB	22.20
BBB-	15.08
BB+	6.32
BB	10.33
BB-	5.37
B+	2.59
B	0.00
B-	0.00
NR or Below	0.02

## 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	Fund A\$56.2 mn as at 31 October 2023	
Estimated management cost	0.65% p.a.	
Buy/sell spread	+/- 0.10%	
Distribution frequency	Monthly	
Platform availability	Hub24	Netwealth Macquarie Wrap

## Investment performance comparison of \$50,000

After fees, since inception of the Yarra Higher Income Fund, October 2018 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 Absolute Credit Fund is \$10,000.

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## Applications and contacts

Investment into the Yarra Higher 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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