

# Yarra Enhanced Income Fund

## Gross returns as at 30 Nov 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	1.30	1.73	8.07	5.04	4.71	5.51	6.07
Yarra Enhanced Income Fund (incl. franking)	1.30	1.78	8.22	5.13	4.85	5.85	6.68
RBA Cash Rate <sup>#</sup>	0.35	1.02	3.76	1.62	1.29	1.59	3.24
Excess return <sup>‡</sup>	0.96	0.75	4.45	3.52	3.56	4.26	3.44

**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 Nov 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	1.25	1.59	7.48	4.47	4.06	4.77	5.28
Yarra Enhanced Income Fund (incl. franking)	1.26	1.64	7.63	4.56	4.20	5.11	5.88
Growth return <sup>†</sup>	0.69	0.06	1.72	0.22	0.16	0.63	-0.09
Distribution return <sup>‡</sup>	0.57	1.58	5.90	4.34	4.03	4.48	5.97
RBA Cash Rate <sup>#</sup>	0.35	1.02	3.76	1.62	1.29	1.59	3.24
Excess return <sup>‡</sup>	0.91	0.61	3.86	2.94	2.91	3.52	2.65

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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 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.

<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 1.26% (net basis, including franking) over the month, outperforming its benchmark by 91 bps. On a 12-month view the Fund returned 7.63%, outperforming the RBA Cash Rate by 386 bps (net basis, including franking).

Tightening spreads – particularly across Senior and Tier 2 securities – led to strong outperformance. With the substantial 10-year yield rally and with the market pricing in a cutting cycle for early next year, fixed rate securities saw the greatest positive price movement. Carry continued to be a meaningful contributor to positive performance.

During the month we reduced our futures position to capture some profits. We were extremely active in primary markets,

taking part in the inaugural Judo Tier 1 deal. While investors in the space remain eager to partake in new issuance there currently is a premium to get deals away in the market. Consistent with this thematic, we were active participants in both of Westpac's Tier 1 and Tier 2 deals which launched at attractive levels.

We expect that outright yields will remain strong going into 2024, and continue to actively trade to position for the best possible risk-adjusted returns.

### Market review

Fixed income markets enjoyed a positive month, following tentative signs of economic moderation and falling inflation across developed markets. Broadly negative data, in conjunction with easing geopolitical tensions, supported the

view that central banks have reached their peak in this tightening cycle, with markets now pricing in rate cuts earlier than previously expected. As a result, the US 10-year yield tightened significantly following the highs of October, closing the month at 4.33%.

The Reserve Bank of Australia raised rates to 4.35% in early November following stronger than expected domestic data. However, post this rate hike, data released suggested the Australian economy has slowed and that rate hikes have been effective. The unemployment rate rose to 3.7% in line with expectations, while CPI data released came in well below expectations at 4.9%. In line with global peers, the Australian market is beginning to price in cuts for next year. The Australian 10-year yield movement tightened 51bps to close the month at 4.41%.

Corporate credit and hybrid spreads traded tighter over the month as the appetite for risk picked up again. Given the rally and a favourable rate outlook, fixed rate securities saw the best price movement. Senior and Tier 2 spreads tightened substantially from the prior month, contributing heavily to strong performance.

Primary deal flow was still strong, with Judo Bank coming to market with its inaugural Tier 1 deal. Westpac also came to market with a Tier 1 deal that was three-times oversubscribed, confirming there is still a strong appetite for new issuance. We also saw Australian Unity come to the market with a Senior deal that was well received. The Australian iTraxx index tightened significantly, ending the month at 76 bps.

## Outlook

With the RBA choosing to hold for the beginning of December and markets pricing rate cuts for early 2024, it looks as if we maybe at the peak of the rate cycle. While there could be some strong economic data in the retail space off the back of Black Friday sales, data released in November suggests that the economic slowdown is here, and that rate rises have had their desired effect. We expect fixed income securities to perform well throughout any rate cutting cycle and for carry to continue to be a meaningful contributor to performance.

Despite the recent tightening in credit spreads, the Australian corporate and hybrid markets remain attractive. Supply and demand trends remain favourable as evidenced by successive months of oversubscribed issuance. Balance sheets are also broadly in great shape, meaning that even if corporate earnings fall following economic slowdown, we would still expect credit spreads to hold. As such, we remain constructive, given the elevated outright yields and strong carry, offering significant downside protection.

## Portfolio profile

### Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.48
Option Adjusted Spread	256
Average weighted issue credit rating	BBB
Average weighted ESG Rating	A-
Estimated yield to maturity (%)	6.65
Fund duration (yrs)	1.57
Spread duration (yrs)	3.53
Number of securities	117
Listed	26
Unlisted	91

### Sector allocation

	Portfolio %
Asset Backed	0.00
Banks	46.56
Communication Services	0.00
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Finance	7.21
Energy	4.04
Health Care	2.96
Industrials	7.61
Information Technology	0.34
Insurance	16.83
Materials	0.36
Mortgage Backed	0.00
Real Estate	4.31
Utilities	4.05
Cash & Other	5.73

## Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	3.01
Commonwealth Bank of Australia	AU3FN0067989	2.75
Resolution Life Australasia	AU3FN0057691	2.59
Westpac Banking Corporation	AU3CB0300358	2.22
Bank of Queensland	AU3FN0064408	2.16
Downer Group Finance	AU3CB0262673	2.13
Challenger Life Company	AU3CB0292324	2.12
Westpac Banking Corporation	AU3CB0304376	2.10
QBE Insurance Group	AU3FN0078747	1.99
Cooperatieve Rabobank	AU3CB0293348	1.95

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	12.49
Callable	74.47
At Maturity	7.30

## Security profile

	Portfolio %
Floating rate	59.83
Fixed rate	34.44
Cash & Other	5.73

## Credit rating profile

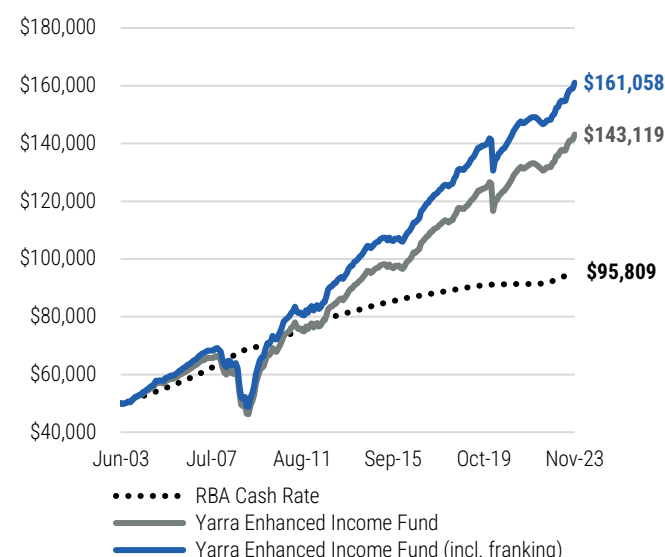
	Portfolio %
AA-	5.73
A+	0.49
A	0.14
A-	1.65
BBB+	30.46
BBB	22.97
BBB-	22.74
BB+	7.18
BB	4.26
BB-	1.68
B+	2.69
B	0.00
B-	0.00
Not rated or below	0.00

## 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\$739.2 mn as at 30 November 2023	
APIR code	JBW0018AU	
Estimated management cost	0.55% p.a.	
Buy/sell spread	+/- 0.10%	
Platform availability	Asgard Ausmaq BT Panorama BT Super Wrap GrowWrap Hillross Pcare Hub24 Macquarie Wrap Mason Stevens MLC Wrap Navigator	Netwealth North Oasis OneVue Powerwrap Praemium Pursuit Select uXchange Wealth02 Xplore Wealth

## Investment performance comparison of \$50,000

After fees, since inception of the Yarra Enhanced Income Fund, July 2003 to November 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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