

# Yarra Enhanced Income Fund (Direct)

## Gross returns as at 31 March 2024

	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 (Direct)	0.84	2.15	8.93	5.15	4.93	5.57	6.38
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.86	2.18	9.17	5.23	5.00	5.88	6.96
RBA Cash Rate <sup>#</sup>	0.36	1.07	4.14	2.09	1.48	1.65	3.31
Excess return <sup>‡</sup>	0.50	1.12	5.03	3.14	3.53	4.24	3.65

**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 March 2024

	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 (Direct)	0.74	1.85	7.63	3.91	3.55	4.04	4.71
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.76	1.88	7.87	3.98	3.62	4.35	5.28
Growth return <sup>†</sup>	0.36	0.83	2.94	0.27	0.20	0.70	-0.01
Distribution return <sup>†</sup>	0.40	1.05	4.93	3.72	3.42	3.65	5.29
RBA Cash Rate <sup>#</sup>	0.36	1.07	4.14	2.09	1.48	1.65	3.31
Excess return <sup>‡</sup>	0.40	0.81	3.73	1.90	2.14	2.71	1.97

**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. 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> Inception date Yarra Enhanced Income Fund (Direct): August 2002.

<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 (Direct) returned 1.88% (net basis, including franking) over the quarter, outperforming its benchmark by 81 bps. On a 12-month view the Fund has returned 7.87%, outperforming the RBA Cash Rate by 373 bps (net basis, including franking).

Strong levels of demand in both primary and secondary markets caused broad based spread tightening over the quarter. Tier 2 securities saw the strongest level of performance with corporate subordinated debt also providing high levels of return. Our allocation to floating rate securities continued to show strong income return with the Reserve Bank of Australia (RBA) keeping rates at 4.35%, outright yields

remain high. Carry is also continuing to offer substantial downside protection.

There was a substantial amount of activity in primary markets, particularly in Tier 2 securities. Record breaking deals coming from Macquarie bank and HSBC headlined the quarter. There has been a flurry of activity from Airports around Australia issuing senior securities which received strong demand from investors.

## Market review

The first quarter of 2024 has seen a strong start for fixed income. While most developed markets are still signalling that there will be rate cuts, none have come thus far except for the

Swiss National Bank. Traders have tempered their expectations on the number of interest rate cuts that the US Fed and the RBA will make in 2024.

The US 10 year yield sold off during the quarter moving wider to 4.2%. With inflation sitting at 0.4% (m/m) for March, Fed Chair Jerome Powell signalled to investors that the strict annual 2% inflation target may become more flexible.

In other markets the Bank of Japan moved interest rates from negative territory for the first time in 8 years. This was off the back of agreed wage rises of 5% from some of the largest employers in the country.

Domestically, the Reserve Bank of Australia (RBA) has continued to hold rates steady at 4.35%. The March meeting did see the RBA move towards a more neutral tone, but no indication has been given on when we are likely to see any interest rates cuts.

The GDP print of 0.2% (q/q) continues to show the slowdown of the Australian economy. Private domestic demand growth remained weak which has been reflected in household consumption, while the public and business sector both contributed to growth.

Late in the quarter, ratings house Moody's announced the results of a change in their banking methodology. This resulted in ratings actions on eleven bank ratings. Importantly, the changes saw ANZ, NAB and Westpac's senior debt credit ratings upgraded by one notch and Macquarie's senior debt upgraded by two notches.

Corporate earnings remained strong in the quarter with the reporting season showing robust strength in balance sheets despite a weakness in the consumer. The Australian 10-year yield moved 1 bp wider to 3.97% over the quarter.

## Outlook

The Reserve Bank of Australia (RBA) is likely to keep a neutral stance in May and is becoming increasingly confident that the inflation battle is being won. That being said, we expect the RBA is in no hurry to cut rates, wanting a "soft landing" and is prepared to keep rates steady for longer. In our assessment, the RBA will wait until they have enough assurance that inflation will continue to decline on the desired trajectory before the initial rate cut, which is expected in the second half of 2024.

Credit spreads have continued to tighten significantly despite record level of issuance volumes and is still at top end of normalised range. Australian credit spreads remain attractive relative to USD and EUR spreads, despite stronger domestic fundamentals and the profile of AUD corporates being higher quality. Strong demand continues to outweigh supply across much of the Australian corporate and hybrid markets with liquidity in the secondary market remaining strong. In this context, we continue to expect further tightening in corporate credit and hybrid spreads.

## Portfolio profile

### Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.31
Option Adjusted Spread	212
Average weighted issue credit rating	BBB
Average weighted ESG Rating	A+
Estimated yield to maturity (%)	5.90
Fund duration (yrs)	1.35
Spread duration (yrs)	3.72
Number of securities	131
Listed	28
Unlisted	103

### Sector allocation

	Portfolio %
Asset Backed	-
Banks	47.16
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Finance	6.99
Energy	3.24
Health Care	2.05
Industrials	8.80
Information Technology	0.34
Insurance	16.43
Materials	0.26
Mortgage Backed	-
Real Estate	4.26
Utilities	5.53
Cash & Other	4.94

## Top 10 holdings

Issuer	ISIN	Portfolio %
Macquarie Bank	AU3FN0085171	3.05
National Australia Bank	AU3FN0084828	2.38
ANZ Bank	AU3FN0084026	2.31
National Australia Bank	AU3FN0055224	2.10
Insurance Australia Group	AU3FN0082640	2.08
Challenger Life Company	AU3CB0292324	1.97
Commonwealth Bank	AU3FN0067989	1.93
Victoria Power Networks	AU3CB0307650	1.89
Lloyds Banking Group	AU3CB0302115	1.89
QBE Insurance	AU3FN0082384	1.81

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	9.93
Callable	75.49
At Maturity	9.63

## Security profile

	Portfolio %
Floating rate	61.72
Fixed rate	33.34
Cash & Other	4.94

## Credit rating profile

	Portfolio %
A+	0.43
A	0.67
A-	3.07
BBB+	33.33
BBB	24.40
BBB-	21.70
BB+	5.26
BB	2.92
BB-	1.18
B+	2.10
B	-
B-	-
Not rated or below	-
Cash and Derivatives	4.94

## 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	August 2002
Fund size	Pooled Fund A\$1,058.8 mn as at 31 March 2024
APIR code	JBW0018AU
Estimated management cost	1.20% p.a.
Buy/sell spread	+/- 0.10%

The Yarra Enhanced Income Fund (Direct) is not available for new investment. Where existing reinvestment instructions are in place, distributions may be reinvested.

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## Applications and contacts

The Yarra Enhanced Income Fund (Direct) is no longer available for new investment. The reinvestment of distributions is still allowed where an existing reinvestment instruction is in place.

**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 (Direct) 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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