

Yarra Enhanced Income Fund (Direct)

Gross returns as at 30 June 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception ^A % p.a.
Yarra Enhanced Income Fund (Direct)	0.50	1.70	10.19	5.13	4.84	5.46	6.39
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.51	1.74	10.35	5.22	4.89	5.78	6.97
RBA Cash Rate [#]	0.35	1.07	4.27	2.44	1.62	1.69	3.32
Excess return [‡]	0.16	0.67	6.08	2.78	3.27	4.09	3.64

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 June 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception ^A % p.a.
Yarra Enhanced Income Fund (Direct)	0.40	1.40	8.88	3.89	3.48	3.95	4.72
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.42	1.44	9.04	3.98	3.53	4.26	5.29
Growth return [†]	-0.07	0.17	3.79	0.12	-0.04	0.54	0.00
Distribution return [†]	0.49	1.27	5.24	3.86	3.57	3.71	5.29
RBA Cash Rate [#]	0.35	1.07	4.27	2.44	1.62	1.69	3.32
Excess return [‡]	0.07	0.37	4.76	1.54	1.91	2.57	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.

^A Inception date Yarra Enhanced Income Fund (Direct): August 2002.

[†] 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.

[#] 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 including franking and the RBA Cash Rate.

Portfolio review

The Yarra Enhanced Income Fund (Direct) returned 1.44% (net basis, including franking) over the quarter, outperforming its benchmark by 37 bps. On a 12-month view the Fund has returned 9.04% (net basis, including franking), outperforming the RBA Cash Rate by 476 bps.

Strong levels of demand in both primary and secondary markets saw spread compression during the quarter. Tier 1 and Tier 2 securities were the strongest performers in the portfolio over the period as major bank debt continued to see positive price performance. Carry was also a meaningful contributor as our allocation to floating rate securities continues to benefit from high running yields.

During the quarter we were active in the primary and secondary

markets. We took part in a significant number of senior corporate fixed deals as we incrementally increased our duration exposure. We were also active participants in the NAB and Suncorp Tier 1 deals that came to market. We continue to actively trade position looking for the best risk adjusted return.

Market review

During the quarter the Swiss Central bank cut interest rates for the second time this year. France and the UK continued to see some volatility in their sovereign treasuries as political uncertainty was a focus during the quarter. Central banks have

erred on the side of caution when discussing the easing of rates. While the European Central Bank and Bank of Canada have cut rates, rhetoric from those institutions has been consistent, suggesting that the inflation battle will not be a linear one.

The US Fed has continued to keep rates on hold until they can see a sustained decrease in inflation. However, with unemployment increasing to 4% and weakness showing within their housing and manufacturing sectors there are some signs of a weakening economy. In the latest read, monthly Core PCE grew 0.1% m/m and Core CPI grew 0.2% m/m. US 10-Year yield widened 17 bps over the quarter to 4.37%.

Domestically, the Reserve Bank of Australia (RBA) kept rates on hold during the quarter. With Michelle Bullock maintaining that the RBA will consider all options as it also seeks to see a sustainable reduction in CPI. With the May monthly CPI indicator coming in at 4% markets have continued to increase the probability of another rate hike and further push an easing cycle out into 2025.

While monthly CPI indicators may continue to show the ongoing battle with inflation, like most developed economies, weakness is showing in other areas. During the quarter the seasonally adjusted unemployment rate moved above 4% for both April and May while GDP also continued to slow. The Australian 10-year Yield widened 34 bps over the quarter to 4.31%. The Australian 3-year Yield widened 47 bps over the quarter to 4.09% with the curve flattening.

There was strong issuance in corporate credit and hybrid markets with broad based spread tightening continuing. High demand for quality credit in the 'higher for longer' rate environment has given issuers confidence that deals will continue to be well funded. During the quarter major bank issuance was strong as we saw several Tier 1 and Tier 2 deals come to market.

While balance sheets have remained strong, there has been an increase in companies downgrading guidance prior to reporting season as the impact of higher interest rates continues to flow through the economy. The Australian iTraxx index widened 6 bps to 70 bps.

Outlook

With the RBA remaining steadfast in their goal to reduce inflation into their 2-3% target it is likely we will continue to see interest rates on hold. While the May CPI read did come in higher than expected we expect the RBA to hold rates at 4.35% moving forward despite the market increasing the probability of an August rate hike.

The volatility in data that has been seen over the past months has seen the market react in its expectations on both timing and magnitude of rate cuts. In our opinion the data continues to show a weakening consumer and that inflation is generally trending in the right direction, however, we remain vigilant to the prospects of an upside surprise.

Credit spreads have continued to tighten with demand remaining high as investors chase outright yields. Australian

credit spreads remain attractive to domestic and foreign investors given the quality of the corporate debt markets. While corporate balance sheets are generally in good shape, 'higher for longer' interest rates are likely to start impacting the credit quality of companies further down the credit rating spectrum.

However, we do expect strong demand to continue to outweigh supply across much of the Australian corporate credit and hybrid markets with liquidity in the secondary market to remain 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) (%)	6.29
Option Adjusted Spread	197
Average weighted issue credit rating	BBB+
Average weighted ESG Rating	A+
Estimated yield to maturity (%)	5.99
Fund duration (yrs)	1.59
Spread duration (yrs)	3.73
Number of securities	150
Listed	30
Unlisted	120

Sector allocation

	Portfolio %
Asset Backed	-
Banks	45.90
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Finance	7.95
Energy	2.80
Health Care	2.26
Industrials	10.15
Information Technology	0.28
Insurance	14.42
Materials	0.20
Mortgage Backed	-
Real Estate	4.98
Utilities	5.34
Cash & Other	5.72

Top 10 holdings

Issuer	ISIN	Portfolio %
Macquarie Bank	AU3FN0085171	2.50
ANZ Bank	AU3FN0084026	2.29
Insurance Australia Group	AU3FN0082640	2.10
Westpac Banking	AU3CB0304376	2.08
National Australia Bank	AU3FN0084828	1.96
National Australia Bank	AU3FN0055224	1.83
HSBC Holdings	AU3CB0307890	1.78
Lloyds Banking Group	AU3CB0302115	1.76
Challenger Life	AU3CB0292324	1.61
Commonwealth Bank	AU3FN0067989	1.58

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	9.18
Callable	72.47
At Maturity	12.62

Security profile

	Portfolio %
Floating rate	56.80
Fixed rate	37.47
Cash & Other	5.72

Credit rating profile

	Portfolio %
A+	0.34
A	1.38
A-	24.47
BBB+	19.68
BBB	24.53
BBB-	13.63
BB+	4.52
BB	2.71
BB-	1.45
B+	1.58
B	-
B-	-
Not rated or below	-
Cash and Derivatives	5.72

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\$1,296.6 mn as at 30 June 2024
APIR code	JBW0118AU
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.

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

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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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