

# Yarra Enhanced Income Fund (Direct)

## Gross returns as at 31 May 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)	0.88	2.05	9.77	5.12	4.93	5.52	6.39
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.89	2.09	10.04	5.20	5.01	5.83	6.97
RBA Cash Rate <sup>#</sup>	0.36	1.08	4.25	2.32	1.57	1.68	3.32
Excess return <sup>‡</sup>	0.53	1.01	5.79	2.88	3.44	4.16	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 May 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)	0.78	1.74	8.47	3.87	3.56	3.99	4.72
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.79	1.79	8.73	3.95	3.64	4.31	5.29
Growth return <sup>†</sup>	0.48	0.60	3.50	0.17	0.06	0.58	0.00
Distribution return <sup>†</sup>	0.31	1.18	5.23	3.79	3.57	3.73	5.29
RBA Cash Rate <sup>#</sup>	0.36	1.08	4.25	2.32	1.57	1.68	3.32
Excess return <sup>‡</sup>	0.43	0.71	4.48	1.63	2.07	2.63	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 0.79% (net basis, including franking) over the month, outperforming its benchmark by 43 bps. On a 12-month view the Fund has returned 8.73% (net basis, including franking), outperforming the RBA Cash Rate by 448 bps.

During the month, strong demand continued to put downwards pressure on spreads. With further compression and a strong secondary market, the portfolio had meaningful price return. Carry also continued to provide a positive source of return as well as downside protection.

It was a busy month in primary markets with a number of new deals coming to the market. The fund was extremely active in

primary markets taking part in numerous corporate senior deals alongside NAB and Suncorp Tier 1 deals. We also took part in CBA and NAB Tier 2 deals. We expect that outright yields will remain strong in 2024 and continue to actively trade to position for the best possible risk-adjusted returns.

### Market review

Globally, government bond yields rallied during the month. Most central banks continued their signalling of rate cuts with the European Central Bank (ECB) preparing to cut rates at their June meeting. Japan saw an increase in Core CPI 1.9% (y/y) up from 1.6% (y/y) last month. The US looks poised to keep rates on hold in the near term with the market pricing a 44% chance of a cut by September. Data from the US remained

mostly in line with expectations, with CPI coming in at 3.4% (y/y) and PCE Deflator at 2.7% (y/y). The US 10-year yield moved 18 bps tighter to 4.50%.

Domestically, the Australian 3-10 yield curve flattened with the 3-year bonds selling off and 10-year bonds rallying. The Reserve Bank of Australia (RBA) held the cash rate at 4.35% with Michelle Bullock remaining neutral, reaffirming on the RBA's goal of bringing down inflation. Headlines on the volatility surrounding data releases were prevalent during the month, with CPI data coming stronger than expected at 3.6% (y/y) (3.4% estimate) and retail sales coming in below expectations at 0.1% (m/m) (0.2% estimate). The Australian 10-year yield closed the month 1 bps tighter at 4.41%.

Corporate credit and hybrid spreads continued to tighten on the month. Demand for primary issuance has remained strong with deals often 2-3 times oversubscribed. Secondary markets have also remained active given the level of demand. During the month several new deals came to market, notably NAB came in with a \$A1.25 billion Tier 2 Deal which followed their NABPK Tier 1 issuance. Given recent tightening in spreads we have also seen a more diversified pool of issuers with Flinders Ports, ETSA, Registry Titles (Queensland) and Ausnet all coming to market with deals. The Australian iTraxx moved 7 bps tighter to 65.78.

## Outlook

With the RBA remaining steadfast in their goal to reduce inflation to their 2-3% target it is likely we will continue to see interest rates hold. During the past few months, data has been volatile, and this volatility has been the catalyst for market revisions on both the 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.

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 interest rates for longer 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) (%)	6.23
Option Adjusted Spread	193
Average weighted issue credit rating	BBB+
Average weighted ESG Rating	A+
Estimated yield to maturity (%)	5.95
Fund duration (yrs)	1.47
Spread duration (yrs)	3.67
Number of securities	145
Listed	30
Unlisted	115

### Sector allocation

	Portfolio %
Asset Backed	-
Banks	46.89
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Finance	6.24
Energy	3.04
Health Care	1.81
Industrials	10.03
Information Technology	0.30
Insurance	14.52
Materials	0.22
Mortgage Backed	-
Real Estate	5.41
Utilities	5.50
Cash & Other	6.06

## Top 10 holdings

Issuer	ISIN	Portfolio %
Macquarie Bank	AU3FN0085171	2.72
ANZ Bank	AU3FN0084026	2.45
Westpac Banking	AU3CB0304376	2.21
National Australia Bank	AU3FN0084828	2.09
National Australia Bank	AU3FN0055224	1.95
HSBC Holdings	AU3CB0307890	1.94
Insurance Australia Group	AU3FN0082640	1.85
Challenger Life Company	AU3CB0292324	1.73
Commonwealth Bank	AU3FN0067989	1.69
Lloyds Banking Group	AU3CB0302115	1.66

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	9.66
Callable	73.46
At Maturity	10.82

## Security profile

	Portfolio %
Floating rate	57.03
Fixed rate	36.92
Cash & Other	6.06

## Credit rating profile

	Portfolio %
AA-	6.06
A+	0.37
A	1.47
A-	24.25
BBB+	19.27
BBB	25.77
BBB-	13.75
BB+	4.29
BB	2.14
BB-	1.56
B+	1.07
B	-
B-	-
Not rated or below	-

## 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\$1,208.8 mn as at 31 May 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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