

Yarra Enhanced Income Fund

Gross returns as at 30 September 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception [^] % p.a.
Yarra Enhanced Income Fund	0.72	2.81	10.32	6.05	5.10	5.71	6.24
Yarra Enhanced Income Fund (incl. franking)	0.73	2.83	10.47	6.18	5.17	6.03	6.83
RBA Cash Rate [#]	0.35	1.08	4.34	2.80	1.79	1.74	3.28
Excess return [‡]	0.38	1.75	6.13	3.38	3.38	4.29	3.55

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 September 2024

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception [^] % p.a.
Yarra Enhanced Income Fund	0.67	2.67	9.71	5.47	4.48	4.99	5.46
Yarra Enhanced Income Fund (incl. franking)	0.69	2.69	9.86	5.60	4.56	5.31	6.04
Growth return [†]	0.29	1.46	4.01	0.66	0.38	0.88	0.09
Distribution return [†]	0.40	1.24	5.85	4.94	4.18	4.43	5.96
RBA Cash Rate [#]	0.35	1.08	4.34	2.80	1.79	1.74	3.28
Excess return [‡]	0.34	1.61	5.53	2.80	2.77	3.57	2.76

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[^] Inception date Yarra Enhanced Income Fund: June 2003.

[†] 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 returned 2.69% (net basis, including franking) over the quarter, outperforming its benchmark by 161 bps. On a 12-month view the Fund returned 9.86% (net basis, including franking), outperforming the RBA Cash Rate by 553 bps.

During the quarter strong demand in primary and secondary markets saw spreads continuing to tighten, with our allocation to Tier 2 benefitting from this. As interest rate expectations moved to price in an easing cycle, our allocation to fixed rate senior paper also saw strong price performance.

We were active participants in primary deals during the quarter

taking part in a significant number of Tier 2 deals that came to market. We also took part in the ANZ (NZ Holding Company) Subordinated debt deal, which has seen significant spread tightening upon pricing. Other notable issuance during the quarter was the Macquarie Group Tier 1 deal, and Qantas returning to the market with a Senior deal. We continue to actively trade, targeting the best available risk adjusted return.

Market review

During the quarter there was notable movements from Central Banks, with interest rates lowered across most major developed economies. The People's Bank of China (PBoC) also released a major stimulus package of rate cuts along with the

relaxing of deposit requirements for second home buyers. Both the Reserve Bank of New Zealand (RBNZ) and Bank of England (BoE) cut rates during the quarter while the Bank of Japan (BoJ) moved interest rates from negative territory to 0.25% as Japan's inflation neared 2%. The Federal Open Market Committee (FOMC) also began its rate cutting cycle with a 50 bps cut in the fed funds rate.

Domestically, the Reserve Bank of Australia (RBA) has continued to hold rates at 4.35% during the quarter, with inflation remaining above the target band. While progress is being made to bring inflation back to target, we are lagging other major economies. RBA governor Michelle Bullock and the board have remained adamant that there will be no rate cuts this calendar year, with the beginning of the easing cycle likely moving into 2025.

While inflation readings as measured by Consumer Price Index (CPI) have not yet moved enough for the RBA to consider rate cuts, (albeit the latest monthly read came in at 2.7% (y/y)) weakness is showing in other parts of the economy, with real GDP remaining at near recessionary levels.

We continued to observe strong issuance during the quarter as corporate debt issuance appears to be on pace for a record-breaking year. There were a few key events in the Australian corporate credit market during the quarter. Both reporting season and APRA's announcement regarding Tier 1 bank hybrids were significant. The bulk of reporting from investment grade corporates met expectations, with companies maintaining strong balance sheets and earnings. Supportive of current valuations, the quality of Australian investment grade debt remains attractive to local and international investors.

In September APRA released its proposed changes to the Additional Tier 1 bank capital. In short, APRA is proposing to phase out AT1 Bank hybrids by 2032, with any Tier 1 debt after 2027 to be included as Tier 2 capital. It remains to be seen how the banks will react to the proposed changes, and what impact there will be on Tier 2 ratings.

Outlook

While the RBA maintained rates at 4.35% during the month, it does appear that CPI is trending in the right direction based on the monthly indicator. Weakness in the employment market and further downward inflation pressure should lead the RBA to follow the rest of the world in cutting rates. We expect that the RBA will remain focused on the quarterly CPI read and the unemployment forecast to indicate timings for any future rate cuts. With the market pricing in several rates cuts by May next year we see there being a chance the RBA could begin cutting before the end of 2024 on weaker data and lower inflation prints.

Credit spreads have continued to tighten with demand remaining high. Off the back of resilient balance sheets and attractive outright yields, we expect investor demand to remain robust. Given the RBA's easing cycle is lagging the rest of the world there could also be an increase in offshore demand for new issuance, further driving domestic spreads

lower. In general terms, we expect credit markets to remain buoyant as demand continues to outweigh supply.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.24
Option Adjusted Spread	203
Average weighted issue credit rating	BBB+
Average weighted ESG Rating*	BBB+
Estimated yield to maturity (%)	5.50
Fund duration (yrs)	0.84
Spread duration (yrs)	3.77
Number of securities	161
Listed	32
Unlisted	129

* Please note that the ESG ratings are YCM internal ratings.

Sector allocation

	Portfolio %
Asset Backed	-
Banks	47.59
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Finance	6.77
Energy	4.31
Health Care	1.90
Industrials	10.53
Information Technology	0.25
Insurance	13.99
Materials	0.16
Mortgage Backed	-
Real Estate	5.02
Utilities	3.87
Cash & Other	5.61

Top 10 holdings

Issuer	ISIN	Portfolio %
ANZ Banking	AU3FN0091583	2.58
ANZ Banking	AU3CB0311561	2.36
Westpac Banking	AU3CB0304376	2.36
Macquarie Bank	AU3FN0085171	1.92
Insurance Australia Group	AU3FN0082640	1.90
Origin Energy	AU3CB0313625	1.89
BNP Paribas	AU3FN0090353	1.70
Westpac Banking	AU3CB0311140	1.67
Lloyds Banking Group	AU3FN0090866	1.55
National Australia Bank	AU3FN0084828	1.50

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	9.67
Callable	71.37
At Maturity	13.35

Security profile

	Portfolio %
Floating rate	53.66
Fixed rate	40.73
Cash & Other	5.61

Credit rating profile

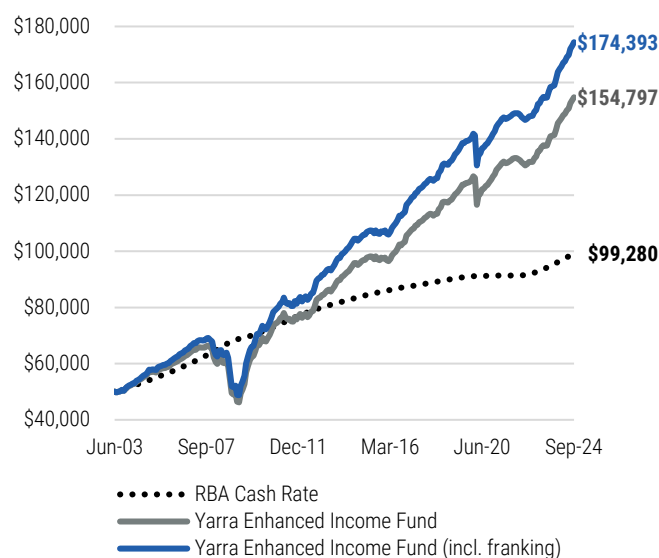
	Portfolio %
A+	0.27
A	1.09
A-	22.34
BBB+	19.58
BBB	30.95
BBB-	11.57
BB+	4.28
BB	1.78
BB-	1.11
B+	1.41
B	-
B-	-
Not rated or below	-
Cash and Derivatives	5.61

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	June 2003	
Fund size	Pooled Fund A\$1,689.2 mn as at 30 September 2024	
APIR code	JBW0018AU	
Estimated management cost	0.55% p.a.	
Buy/sell spread	+/- 0.10%	
Platform availability	AMP North Asgard BT Panorama CFS First Choice Hub24 IOOF Wrap Macquarie Wrap Mason Stevens MLC Wrap MLC Navigator	Netwealth Praemium Powerwrap uXchange (DASH) Xplore Wealth

Investment performance comparison of \$50,000

After fees, since inception of the Yarra Enhanced Income Fund, June 2003 to September 2024.



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.

Applications and contacts

Investment into the Yarra Enhanced Income Fund can be made by Australian resident investors only.

Website www.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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