

Yarra Enhanced Income Fund

Gross returns as at 31 December 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	0.92	2.31	9.28	6.48	5.36	5.73	6.28
Yarra Enhanced Income Fund (incl. franking)	0.92	2.34	9.41	6.62	5.45	6.04	6.86
RBA Cash Rate [#]	0.36	1.08	4.36	3.16	1.97	1.78	3.29
Excess return [‡]	0.56	1.26	5.04	3.46	3.48	4.26	3.57

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 December 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	0.87	2.17	8.68	5.90	4.76	5.02	5.50
Yarra Enhanced Income Fund (incl. franking)	0.88	2.20	8.81	6.04	4.84	5.33	6.08
Growth return [†]	0.41	0.78	3.25	0.86	0.53	0.92	0.12
Distribution return [†]	0.46	1.42	5.55	5.17	4.31	4.41	5.96
RBA Cash Rate [#]	0.36	1.08	4.36	3.16	1.97	1.78	3.29
Excess return [‡]	0.51	1.12	4.44	2.88	2.87	3.55	2.78

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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 2.20% (net basis, including franking) over the quarter, outperforming its benchmark by 112 bps. On a 12-month view the Fund returned 8.81% (net basis, including franking), outperforming the RBA Cash Rate by 444 bps.

During the quarter strong demand in primary and secondary markets saw spreads continuing to grind tighter, with our allocation to Tier 2 benefitting from this. We also saw broad based spread tightening across corporate names as robust credit quality has proved attractive for investors. Active movement of our duration position also allowed us to take advantage of the volatility in interest rate expectations.

We were active participants in primary deals during the quarter taking part in a significant number of Tier 2 deals that came to market. A number of the deals that we took part in came from overseas issuers which have slightly more attractive pricing compared to domestic issuers. We continue to actively trade position looking for the best risk-adjusted returns.

Market review

The final quarter of 2024 proved to be significant for global markets as the US election saw President Trump re-elected to the White House. The election result has seen fixed income markets moving with caution, with the prospect of inflationary policies seeing a more conservative rhetoric from Federal

Open Market Committee (FOMC) members. The FOMC cut rates by 50 bps during the quarter, bringing the lower cash rate band to 4.25%. With unemployment rate moving to 4.2% and the November CPI read coming in at +2.7%, data continues to show the Fed walking the narrow path to a soft landing. The US yield curve was steeper over the quarter with the 10-year yield closing at 4.57%.

Across other developed economies we saw the Bank of England continue to cut rates, with the cash rate sitting at 4.75%. The Bank of Japan kept rates at 0.25%, with inflation continuing to climb. During the quarter we also saw several economic stimulus packages from the People's Bank of China while the policy rate was adjusted to 3.1%. The European Central Bank also continued to cut rates as economic data for the eurozone deteriorated further.

Domestically, the Reserve Bank of Australia (RBA) continued to hold rates at 4.35% during the quarter. With consistent sentiment from the RBA over the course of the year, RBA Governor Bullock's final press conference seemed to indicate a shift in thinking. The latest monthly CPI indicator showed an annualised rate of 2.1% and the prior quarterly CPI read showed an annualised rate of 2.8%, giving the RBA further confidence that inflation is moderating into the target 2-3% band. Notably, employment data has still managed to remain strong with the most recent unemployment rate sitting at 3.9% (y/y). During the quarter the yield curve steepened 7 bps with the 3-year yield selling off to 3.82% and the 10-year yield selling off to 4.36%.

There was no shortage of issuance for the final quarter of the year, with 2024 proving to be a record-breaking year for Australian corporate issuance. During the quarter we saw further substantial spread tightening as both Australian Investment Grade and Subordinated debt spreads remain attractive in a global context. Offshore investors have added further surplus demand to the domestic market as robust corporate balance sheets continue to give confidence to investors. With strong credit conditions in Australia, we should continue to see investment grade credit perform well and in the context of rate cuts, sub investment grade credit should also perform well as we begin to see improving economic conditions. During the quarter, the Australian Prudential Regulation Authority (APRA) confirmed its decision to remove AT1 hybrids as a source of bank funding, with any remaining Tier 1 debt to be included in Tier 2 capital after January 2027. The Australian ITraxx closed slightly wider for the quarter at 69 bps.

Outlook

While the RBA has maintained rates at 4.35% for all of 2024, the shift in rhetoric from Governor Bullock and the board has signalled to the market that interest rate cuts are not far away. In the context of slowing economic growth and falling CPI, we would expect rate cuts to begin in the first quarter of 2025 barring any upside data surprises. The unemployment rate will likely be the key figure that will decide how sharp any moves in the cash rate will be.

With credit conditions remaining favourable for investors, we expect tightening of spreads to continue. However, we remain vigilant to any potential risk-off events from the unstable geopolitical backdrop. The domestic investment grade market remains robust, with balance sheets in good shape and companies further down the credit rating spectrum set to benefit from any rate cuts in 2025. We expect strong demand, both domestically and internationally for Australian credit.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.32
Option Adjusted Spread	177
Average weighted issue credit rating	BBB+
Average weighted ESG Rating*	BBB+
Estimated yield to maturity (%)	5.73
Fund duration (yrs)	1.41
Spread duration (yrs)	3.75
Number of securities	172
Listed	32
Unlisted	140

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

Sector allocation

	Portfolio %
Asset Backed	-
Banks	46.07
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Finance	8.52
Energy	5.49
Health Care	1.71
Industrials	12.34
Information Technology	0.21
Insurance	13.03
Materials	0.14
Mortgage Backed	-
Real Estate	4.50
Utilities	2.43
Cash & Other	5.56

Top 10 holdings

Issuer	ISIN	Portfolio %
ANZ Banking	AU3CB0311561	2.71
ANZ Banking	AU3FN0091583	2.63
Westpac Banking	AU3CB0304376	2.01
Macquarie Bank	AU3FN0085171	1.92
Commonwealth Bank	AU3CB0315638	1.84
BNP Paribas	AU3FN0090353	1.66
Insurance Australia Group	AU3FN0082640	1.64
Origin Energy	AU3CB0313625	1.64
Westpac Banking	AU3CB0311140	1.46
Lloyds Banking Group	AU3FN0090866	1.35

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	9.05
Callable	71.32
At Maturity	14.07

Security profile

	Portfolio %
Floating rate	54.15
Fixed rate	40.29
Cash & Other	5.56

Credit rating profile

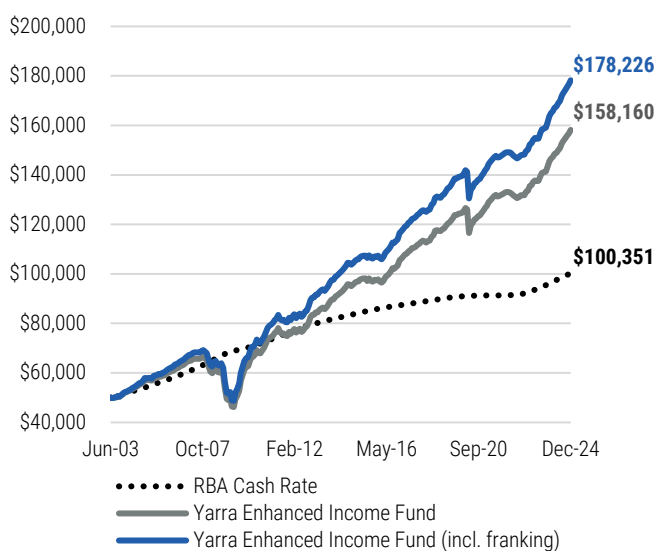
	Portfolio %
A+	0.23
A	1.03
A-	19.36
BBB+	16.71
BBB	37.23
BBB-	11.91
BB+	3.01
BB	3.16
BB-	0.66
B+	0.85
B	0.29
B-	-
Not rated or below	-
Cash and Derivatives	5.56

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\$1,963.0 mn as at 31 December 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 NavigatorNetwealth 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 December 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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