YARRA CAPITAL MANAGEMENT



# Yarra Income Plus 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 Income Plus Fund | 0.34 | 0.76 | 7.45 | 4.47 | 3.69 | 4.49 | 6.17 |
| Bloomberg AusBond Bank Bill Index | 0.38 | 1.12 | 4.47 | 3.19 | 1.98 | 1.95 | 3.86 |
| Excess return‡ | -0.04 | -0.36 | 2.98 | 1.28 | 1.70 | 2.54 | 2.31 |

**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.

## 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 Income Plus Fund | 0.28 | 0.59 | 6.72 | 3.77 | 2.99 | 3.78 | 5.41 |
| Growth return† | -0.25 | 0.06 | 3.09 | 0.54 | 0.15 | 0.46 | 0.71 |
| Distribution return† | 0.53 | 0.53 | 3.64 | 3.23 | 2.83 | 3.33 | 4.70 |
| Bloomberg AusBond Bank Bill Index | 0.38 | 1.12 | 4.47 | 3.19 | 1.98 | 1.95 | 3.86 |
| Excess return‡ | -0.10 | -0.53 | 2.25 | 0.58 | 1.00 | 1.84 | 1.55 |

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* Inception date of Yarra Income Plus Fund: May 1998.
† The Growth Return is measured by the movement in the Fund's unit price, ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders by way of income distribution in a 12-month period. It does not include distribution amounts deemed as capital distributions.
‡ Excess Return: The excess return figures shown represent the difference between the Fund's return and the benchmark return.

### Portfolio review

The Yarra Income Plus Fund returned 0.59% (net basis) over the quarter, underperforming its benchmark by 53 bps. On a 12-month view the Fund returned 6.72% (net basis), outperforming the Bloomberg AusBond Bank Bill Index by 225 bps.

The overall positive return on the portfolio was largely due to the Cash sleeve of the fund. The Diversified Credit and Hybrid sleeves also contributed to performance as higher running yields across the sleeve provided meaningful carry. The Fixed Income sleeve also contributed well, with the REIT and Infrastructure sleeve being the only detractor of performance for the portfolio during the quarter.

We also slightly adjusted the Tactical Allocation on the portfolio moving further underweight in the REIT/Infrastructure and the Hybrids sleeve. We increased our allocations to Fixed Income, Diversified Credit and Cash.

### 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.

## Sector review

### Listed Property, Infrastructure and Utilities

The S&P/ASX 200 A-REIT index declined during the quarter, returning -6.04% for the period while the broader S&P/ASX 200 returned -0.80%. The S&P/ASX 300 Custom Infrastructure and Utilities index rose 2.17%.

### Hybrids

Hybrids continued to perform well during the quarter. Higher for longer rates has seen strong outright yields continue. Demand for hybrids securities has seen further spread tightening which has contributed to performance. During the quarter we took part in the Ampol Subordinated debt deal.

### Diversified Credit

There was strong issuance in the corporate credit market 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. The Australian iTraxx index moved to 69 bps.

### Fixed Income

With the RBA beginning to sound more dovish, the market has begun to price in the chance of February rate cuts. The sleeve has continued to see good returns as we move towards a rate cutting cycle.

### Cash

The RBA has continued to hold the cash rate at 4.35%. The sleeve continues to offer reasonable returns, making it sustainable to hold while we look for new opportunities.

## Asset allocation

| | Target %* | Neutral position %§ | Strategy |
|---|---|---|---|
| A-REITs, Infrastructure & Utilities | 10.0 | 15.0 | Underweight |
| Hybrid and FRNs | 9.5 | 15.0 | Underweight |
| Diversified Credit† | 15.5 | 10.0 | Overweight |
| Fixed interest | 26.0 | 20.0 | Overweight |
| Cash | 39.0 | 40.0 | Underweight |

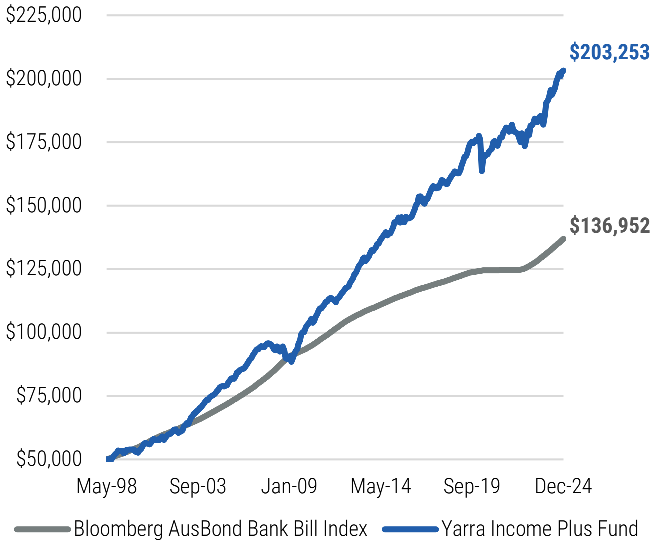
Source: Yarra Capital Management. Portfolio holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.
§ Neutral position is calculated by Yarra Capital Management and is believed to be the optimal asset allocation for this portfolio over the long term.
* Projected estimation as at the date of this commentary.
† Effective 25 October 2018 the Fund's asset allocation was modified, with Diversified Credit replacing Global High Yield. Further information in relation to this change can be found here.

## Features

| | |
|---|---|
| Investment objective | To provide regular income and to achieve medium term capital growth through exposure to cash, money market products, domestic fixed interest and a range of high yielding investments, including domestic hybrid investments, property, infrastructure and utilities securities and international fixed interest assets. In doing so, the aim is to outperform the Bloomberg AusBond Bank Bill Index over rolling 3-year periods. |
| Benchmark | Bloomberg AusBond Bank Bill Index |
| Fund inception | May 1998 |
| Fund size | A$67.6 mn as at 31 December 2024 |
| APIR code | JBW0016AU |
| Estimated management cost | 0.68% p.a. |
| Buy/sell spread | +/- 0.10% |
| Distribution frequency | Quarterly |
| Platform availability | Hub24<br>IOOF Wrap<br>Macquarie Wrap<br>Mason Stevens<br>MLC Navigator<br>Netwealth<br>Praemium<br>Xplore Wealth |

## Investment performance comparison of $50,000

After fees, since inception of the Yarra Income Plus Fund, May 1998 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 Bloomberg AusBond Bank Bill Index is for comparative purposes only.

## Applications and contacts

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

**Website** www.yarracm.com

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