Yield a snapshot, *not the full picture*

by Ryno Oosthuizen

Clients often ask us for the current yield of the Granate BCI Multi Income Fund (what we report as its yield to maturity, or YTM), as it provides a good snapshot of the return they can expect from the fund at a given point in time. However, despite it being a useful yardstick to gauge what a fund may deliver over the next 12 months, it may not tell the full story.

Assessing a fund's yield is a bit like taking a photo with an old analog camera. It captures the subject in front of you, but you won't see the final image until the film is developed. Any single photo will also differ from the one before, as changing conditions shape the outcome. So while framing your shot can be a useful guide, it won't tell you how the final picture comes together.

What is a fund's yield?

A fund's yield is actually its YTM. This is the income the fund is currently generating and is the return investors could expect to earn from its underlying investments over the next 12 months if there are no market movements and no changes to the fund. It is therefore a point-in-time estimate - one that assumes a static market, no changes to fund composition, and that every instrument runs to maturity. It considers interest payments due from the bonds or other fixed income securities the fund holds, as well as capital gains (or losses) that would result from differences in current instrument prices and the face values at which they would mature. It also assumes that any interest payments received are reinvested at the YTM rate.

Why the yield won't provide the full picture

When using the YTM as a proxy for the return investors are expecting, there is a lot that is missing.

Returns in fixed income comprise income (interest payments) as well as capital growth or loss, achieved when the market value of an instrument increases or decreases. Both are influenced by similar factors. Prevailing market interest rates provide the basis for income returns, while changes in interest rates impact capital returns: When rates rise, security prices fall, as investors can lock in the new, higher rate elsewhere. (The opposite is also true.) Considerations such as an issuer's perceived credit quality and the liquidity of its instruments (how widely and easily they trade) will impact the interest rates attached to its debt, with investors demanding higher rates for riskier or less liquid investments. The capital gains or losses that result from changes to interest rates are impacted by duration; a measure of interest-rate sensitivity (with a higher duration resulting in a more pronounced capital movement).

As active managers, we are constantly on the look-out for opportunities to enhance fund returns, while also monitoring for risks and ways to reduce these. For example, if we believe that an interest rate cutting cycle will be deeper than the market is pricing in, we will buy fixed-rate instruments to achieve capital returns when interest rates fall further. Similarly, if we believe that credit spreads (the additional yield above a risk-free rate that investors require to hold an issuer's debt) are wide and likely to narrow, we will be buyers. The opposite may also be true and will see us reduce duration if we believe that there is upside risk to interest rates.

Is yield still a useful indicator?

The chart below compares the YTM of the Granate BCI Multi Income Fund with its 12-month rolling return. (YTM numbers have been lagged by 12 months, as the measure provides a forward-looking estimate). You'll notice that reported YTM numbers move broadly in line with rolling 12-month returns, though will, at times, both over- and undershoot.

Over roughly 9 years until the end of May 2026, there were about 22 months in which rolling 12-month returns were lower than the YTM reported 12 months prior. For the months where the fund's rolling return fell below the current yield the negative deviations fell in a range of -2.12% - 0.04%, with the median difference being -0.65%. Over the entire measurement period the 12-month returns were higher than the expected YTM 80% of the time.

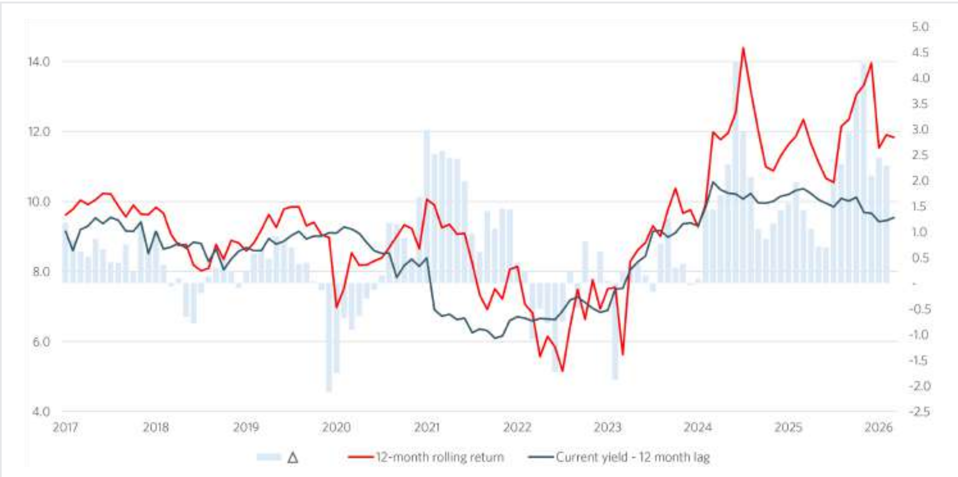

Figure 1
Granate BCI Multi Income Fund: 12-month rolling return
Source: Morningstar, Granate

So how should investors interpret a fund's yield?

If yield is the single frame you capture in the moment, total return is the full story that emerges once your photo develops. The yield can therefore be used as an intuitive guide to understanding what the expected return of a fund may be, but it cannot be relied on as a predictor of total future return. We continue to seek out opportunities and monitor risks in aiming to deliver attractive, risk-adjusted returns that help our clients achieve the outcomes they need.

Granate is a people business.
We are committed to creating a rich and rewarding culture through our shared values. Granate is configured thoughtfully and intentionally so that our team can thrive for the benefit of our clients. We care about the same things you do and are *relentlessly committed to protect and grow your savings.*