

Yarra Enhanced Income Fund (Direct)

Gross returns as at 29 February 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 (Direct)	0.57	3.06	9.04	5.10	4.94	5.56	6.37
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.57	3.08	9.25	5.17	5.05	5.88	6.95
RBA Cash Rate [#]	0.34	1.07	4.07	1.97	1.43	1.63	3.31
Excess return [‡]	0.23	2.02	5.18	3.21	3.62	4.25	3.64

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 29 February 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 (Direct)	0.47	2.75	7.74	3.86	3.55	4.02	4.69
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.48	2.78	7.96	3.93	3.66	4.34	5.27
Growth return [†]	0.18	1.60	3.17	0.25	0.11	0.63	-0.03
Distribution return [†]	0.30	1.18	4.79	3.68	3.54	3.71	5.29
RBA Cash Rate [#]	0.34	1.07	4.07	1.97	1.43	1.63	3.31
Excess return [‡]	0.14	1.71	3.88	1.96	2.23	2.71	1.96

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.

[^] Inception date Yarra Enhanced Income Fund (Direct): August 2002.

[†] 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 (Direct) returned 0.48% (net basis, including franking) over the month, outperforming its benchmark by 14 bps. On a 12-month view the Fund has returned 7.96%, outperforming the RBA Cash Rate by 388 bps (net basis, including franking).

During the month, strong carry contributed most significantly to an overall positive return. While at a top-level price performance was positive, this was due to the contribution of a few names. With demand strong for credit, floating rate securities across all sectors had the greatest positive impact on the portfolio.

During the month we took part in a number of primary deals including the record-breaking Macquarie Bank Tier 2 deal and the NAB Tier 2 deal. Furthermore, we were active participants in the Perth Airport and Ampol Senior deals increasing our exposure to non-financial names.

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 widened over the month. Expectations for the US Federal Reserve to cut interest rates in March and May fell, following US non-farm payrolls surging

and stronger than expected January inflation numbers. Similarly, the Eurozone lost ground over the month after the release of stronger than expected inflation data. The US 10-year yield closed the month 29 bps wider at 4.24%.

Across to Australia, the RBA continued to retain its tightening bias, refusing to rule out further rate hikes. However, data released during the month continues to show evidence of a weakening economy. Retail sales month on month came in at 1.1% missing consensus (1.5%) and Unemployment came out slightly higher than expected at 4.1% (4% Consensus). With the increased strain on the consumer, higher interest rates are having the desired effect. The Australian 10-year yield closed 13bps wider on the month at 4.14%.

Corporate credit and hybrid spreads traded tighter over the month. Tier 2 debt saw the greatest of the broad-based tightening, with energy and utility senior debt also contributing to a strong month. Reporting season highlighted strong balance sheets and a resilient corporate earnings backdrop which brought around a flurry of new issuance. In a record-breaking month of over-subscription, Macquarie issued the largest ever Tier 2 deal in the Australian market which closed 4 times oversubscribed. Notably, after strong post COVID demand, domestic airport deals are being well received with Perth, Melbourne and Brisbane Airport all coming to the primary market. Secondary markets again remained active as investors moved to switch into new primary deals. The Australian iTraxx tightened to 64.7.

Outlook

The Reserve Bank of Australia (RBA) is poised to keep interest rates on hold during March. With data displaying weakness in the economy and inflation trending down, we expect the RBA to follow their counterparts and keep rates steady. However, we expect that it will take some time before the RBA enters a rate cutting cycle to avoid any spikes of inflation. Given this, we expect there to be good levels of carry moving forward for 2024.

Results from Australia's corporate earnings season demonstrated resilient balance sheets however, revenue and margin growth were muted. Given the stability of earnings on the backdrop of a weakening Australian consumer, the level of primary market activity has been significant. With substantial deal flow in February, we expect more corporates to continue coming to market over the coming months. The strong level of demand for primary deals should see momentum continue even in the event of deteriorating economic conditions. In this context, a constructive outlook is maintained, supported by elevated outright yields and robust carry which will continue to offer substantial downside protection.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.29
Option Adjusted Spread	212
Average weighted issue credit rating	BBB
Average weighted ESG Rating	A
Estimated yield to maturity (%)	5.93
Fund duration (yrs)	1.39
Spread duration (yrs)	3.47
Number of securities	123
Listed	25
Unlisted	98

Sector allocation

	Portfolio %
Asset Backed	-
Banks	47.66
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Finance	6.00
Energy	3.31
Health Care	2.35
Industrials	7.36
Information Technology	0.39
Insurance	16.82
Materials	0.29
Mortgage Backed	-
Real Estate	4.26
Utilities	4.11
Cash & Other	7.46

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0084828	2.70
ANZ Bank	AU3FN0084026	2.62
National Australia Bank	AU3FN0055224	2.38
Challenger Life Company	AU3CB0292324	2.30
Commonwealth Bank of Australia	AU3FN0067989	2.19
Lloyds Banking Group	AU3CB0302115	2.13
Resolution Life	AU3FN0057691	2.06
QBE Insurance	AU3FN0082384	2.05
Bank of Queensland	AU3FN0064408	1.85
Macquarie Bank	AU3FN0085171	1.84

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	10.18
Callable	74.41
At Maturity	7.95

Security profile

	Portfolio %
Floating rate	60.05
Fixed rate	32.49
Cash & Other	7.46

Credit rating profile

	Portfolio %
AA-	7.46
A+	0.49
A	0.76
A-	1.34
BBB+	31.65
BBB	22.98
BBB-	22.82
BB+	5.50
BB	3.31
BB-	1.35
B+	2.34
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\$930.0 mn as at 29 February 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

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.

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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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