

Yarra Enhanced Income Fund (Direct)

Gross returns as at 30 September 2023

	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	0.20	2.70	7.63	5.09	4.35	5.47	6.27
Yarra Enhanced Income Fund (incl. franking)	0.22	2.72	7.78	5.14	4.47	5.80	6.86
RBA Cash Rate [#]	0.33	1.02	3.51	1.39	1.20	1.56	3.29
Excess return [‡]	-0.11	1.71	4.27	3.75	3.27	4.24	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 30 September 2023

	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	0.10	2.39	6.35	3.82	2.93	3.92	4.58
Yarra Enhanced Income Fund (incl. franking)	0.12	2.42	6.51	3.87	3.05	4.25	5.17
Growth return [†]	-0.33	1.23	2.60	0.41	-0.19	0.61	-0.12
Distribution return [†]	0.45	1.19	3.90	3.45	3.24	3.64	5.29
RBA Cash Rate [#]	0.33	1.02	3.51	1.39	1.20	1.56	3.29
Excess return [‡]	-0.21	1.40	2.99	2.47	1.85	2.69	1.88

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.

* Note: Due to a Melbourne public holiday, Fund performance in September 2023 was calculated up to 28 September 2023, whereas Benchmark performance is shown to 29 September 2023. Fund performance for 29 September 2023 will be captured in October 2023 month-end performance. Further information relating to Unit Pricing calculations can be found in the Fund PDS.

[^] Inception date Yarra Enhanced Income Fund: July 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 2.42% (net basis, including franking) over the quarter, outperforming its benchmark by 140 bps. On a 12-month view the Fund returned 6.51%, outperforming the RBA Cash Rate by 299 bps (net basis, including franking).

Carry continues to underpin positive Fund performance and is providing strong downside protection in volatile markets. As spreads tightened during the quarter, we have seen particularly strong performance from offshore issuers. The strongest performance came from banking and diversified financial

securities.

Primary market volumes picked up during the period and presented some attractive opportunities to capture elevated levels of outright yield. We continue to actively trade to position for the best possible risk-adjusted returns, and this quarter took part in the Lloyds bank deal and later the WestConnex finance deal.

Market review

In a quarter that saw plenty of volatility in global financial markets, bond and fixed income markets still traded positively.

This quarter saw the “Higher for Longer” mantra from key central banks take shape.

Economic conditions during the quarter saw plenty of key events take place. Most notably, the USA had its Fitch Credit rating downgraded from AAA to AA+. However, unlike when S&P downgraded in 2011, investors were quick to ignore this.

Persistent inflation figures that appear to be holding in most advanced economies have been substantially linked to increased costs in petrol prices. Supply side control measures saw the price of Brent Crude reach close to US\$100/barrel during the quarter. With this being the case, most central banks are keeping in place the possibility for further rate hikes.

In the United States a funding deal was reached, however, it is only a temporary measure until November. With inflation creeping up again – and predicted to increase further – along with strong jobs numbers, sentiment around the Federal Reserve increasing rates appears to be high.

Closer to home, the Reserve Bank of Australia held interest rates at 4.1% through the quarter. The decision to hold has been based on the resilience of the domestic economy. While the August print for inflation did see a slight upward tick, steady employment data has kept rates flat.

Corporate credit and hybrid spread generally moved tighter during the period. Coupled with higher bond yields, outright returns appeared very attractive at quarter end. While issuance did slow towards the back end of September, more deals are expected as refinancing pressures continue. The Australian iTraxx index moved marginally wider to 87 bps.

Spreads contracted over the quarter but remain at wide levels. While borrowers continue to face the challenge of rising rates, stabilising house prices gives us further comfort on the sector. We see value in capturing deals at these levels but continue to closely monitor tightening spreads.

Outlook

The rapid monetary tightening policies of central banks is having a cooling effect on the economy. While interest rates are presently on hold, there’s a growing expectation of additional rate hikes soon, aligning with the “higher for long” mantra. Nevertheless, if inflation does not begin to decline in the coming months, additional rate hikes could indeed be on the horizon. Most advanced economies – including Australia – have left the door ajar for the potential of at least one more rate hike, as reflected in current market pricing. As we move into the final quarter of 2023, consumer sentiment is falling, and while economic conditions have proved resilient, it is expected the effects of recent rate rises will start to show.

While there has been some slight widening in corporate credit spreads, the hybrid market remains compelling. The potential of a risk-off scenario has potential to drive spreads wider, enhancing the sector’s value proposition. Talks of further potential interest rate hikes have potential to increase outright returns. With the possibility of risk-off events occurring in the US, macro-economic conditions are expected to play a

substantial role in the coming quarter. We expect carry will continue to drive strong performance as we look to 2024.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.11
Option Adjusted Spread	2.54
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.48
Fund duration (yrs)	1.51
Spread duration (yrs)	3.34
Number of securities	110
Listed	86
Unlisted	24

Sector allocation

	Portfolio %
Asset Backed	0.00
Banks	43.83
Communication Services	0.00
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Finance	7.01
Energy	2.44
Health Care	2.72
Industrials	9.69
Information Technology	0.37
Insurance	15.38
Materials	0.39
Mortgage Backed	0.00
Real Estate	5.77
Utilities	5.04
Cash & Other	7.37

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	3.25
Commonwealth Bank Of Australia	AU3FN0067989	2.96
Resolution Life Australasia	AU3FN0057691	2.72
Westpac Banking Corporation	AU3CB0300358	2.35
Bank of Queensland	AU3FN0064408	2.31
Challenger Life Company	AU3CB0292324	2.23
Downer Group Finance	AU3CB0262673	2.15
Cooperatieve Rabobank U.A.	AU3CB0293348	2.13
QBE Insurance Group	AU3FN0078747	2.08
Lloyds Banking Group	AU3CB0302115	1.90

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	13.28
Callable	71.59
At Maturity	15.14

Security profile

	Portfolio %
Floating rate	55.52
Fixed rate	33.68
Cash & Other	10.80

Credit rating profile

	Portfolio %
A+	0.00
A	0.15
A-	2.50
BBB+	30.27
BBB	21.46
BBB-	21.91
BB+	7.00
BB	5.74
BB-	1.84
B+	1.75
B	0.00
B-	0.00
Not rated or below	0.00
Cash and Derivatives	10.80

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	July 2003
Fund size	Pooled Fund A\$686.7 mn as at 30 September 2023
APIR code	JBW0018AU
Estimated management cost	1.20% p.a.
Buy/sell spread	+/- 0.10%

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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