

Yarra Enhanced Income Fund

Gross returns as at 31 December 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	1.73	3.29	9.53	5.34	4.92	5.55	6.14
Yarra Enhanced Income Fund (incl. franking)	1.75	3.33	9.69	5.43	5.04	5.88	6.74
RBA Cash Rate [#]	0.36	1.05	3.87	1.74	1.34	1.60	3.24
Excess return [‡]	1.39	2.28	5.81	3.70	3.71	4.28	3.50

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 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	1.68	3.14	8.93	4.76	4.27	4.81	5.34
Yarra Enhanced Income Fund (incl. franking)	1.70	3.19	9.09	4.86	4.39	5.15	5.95
Growth return [†]	1.13	1.52	2.78	0.41	0.42	0.77	-0.03
Distribution return [†]	0.57	1.67	6.30	4.44	3.97	4.38	5.98
RBA Cash Rate [#]	0.36	1.05	3.87	1.74	1.34	1.60	3.24
Excess return [‡]	1.34	2.14	5.21	3.12	3.05	3.54	2.70

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: 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 3.19% (net basis, including franking) over the quarter, outperforming its benchmark by 214 bps. On a 12-month view the Fund has returned 9.09%, outperforming the RBA Cash Rate by 521 bps (net basis, including franking).

A late year rally saw strong performance across markets in November and December, helping to support strong quarterly performance. Spread tightening saw all security types perform well, with Tier 2 and Senior securities providing the strongest price movement. With the Reserve Bank of Australia (RBA) moving rates to 4.35%, outright yields moved higher, with carry also continuing to offer substantial downside protection.

There was a substantial amount of activity in primary markets, particularly in Tier 2 securities. CBA issued a Tier 2 deal in October, that was oversubscribed. Judo Bank responded with their own inaugural Tier 1 deal, while Westpac also came to the market with Tier 1 and Tier 2 deals. Beyond banks, The Hollard Insurance Company also issued a Tier 2 deal.

Market review

The quarter started with a tumultuous time in global markets. Conflicts in Gaza drove an initial sell-off, pushing US 10-year yields above 5%. Hawkish commentary from the FMOC, RBA and BoE kept markets wary and saw further rate hikes priced in. By mid-quarter, stronger evidence of futures rate cuts from weaker data and easing geopolitical tensions saw the

beginning of a rally that moved into December. US 10-year yields tightened substantially, closing out the year at 3.88%

Locally, the RBA increased the cash rate to 4.35%. However, softer than expected November CPI data (4.3% y/y vs. expectations for 4.4%) and weaker employment figures diminish the likelihood of further hikes to come. The Australian 10-year yield tightened, closing the year at 3.96%

Corporate credit and hybrid spread generally moved tighter. Coupled with higher bond yields, outright returns appeared very attractive by period end. While issuance did slow towards the back end of the quarter due to the Christmas period, more deals are expected as refinancing pressures continue. The Australian iTraxx index tightened 6 bps to 70 bps.

Outlook

The RBA opted to keep interest rates unchanged at the beginning of December. While some observers entertain the possibility of an early 2024 rate hike, a subsequent increase now seems improbable. Weakening economic data from Europe and, to a lesser extent the United States, coupled with Australia's lagging position, suggests a more cautious approach to further rate adjustments.

Despite a stabilisation in inflation metrics, it is anticipated that the RBA will likely follow the lead of the US Federal Reserve, initiating a cycle of rate cuts toward the latter part of 2024. Considering this, a positive trajectory is anticipated for fixed-rate securities throughout the year.

Despite recent credit spread tightening, the appeal of the Australian corporate and hybrid markets remains strong. While deal flow tapered during the Christmas period, a resurgence in issuance is expected, with Tier 1 deals likely taking the lead prior to any regulatory alterations by APRA post their discussion paper.

Resilient balance sheets provide a buffer, meaning credit spreads will likely remain robust in the event of any economic slowdown impacting corporate earnings. We maintain a constructive outlook, with elevated outright yields and robust carry offering substantial downside protection.

We were active in new deals in the primary markets during the quarter and remain well positioned moving into 2024. With outright yields at attractive levels, we continue to actively trade to position for the best available risk-adjusted returns.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.54
Option Adjusted Spread	242
Average weighted issue credit rating	BBB
Average weighted ESG Rating	A-
Estimated yield to maturity (%)	6.15
Fund duration (yrs)	1.58
Spread duration (yrs)	3.50
Number of securities	118
Listed	26
Unlisted	92

Sector allocation

	Portfolio %
Asset Backed	-
Banks	46.56
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Finance	7.01
Energy	3.83
Health Care	2.82
Industrials	8.09
Information Technology	0.33
Insurance	17.61
Materials	0.35
Mortgage Backed	-
Real Estate	4.17
Utilities	4.51
Cash & Other	4.72

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	2.87
Commonwealth Bank of Australia	AU3FN0067989	2.63
Lloyds Banking Group	AU3CB0302115	2.49
Resolution Life	AU3FN0057691	2.43
Ausnet Services	AU3FN0056594	2.18
Westpac Banking Corporation	AU3CB0300358	2.14
Westpac Banking Corporation	AU3CB0304376	2.11
Bank of Queensland	AU3FN0064408	2.06
Downer Group	AU3CB0262673	2.06
Challenger Life Company	AU3CB0292324	2.05

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	12.50
Callable	75.14
At Maturity	7.64

Security profile

	Portfolio %
Floating rate	59.61
Fixed rate	35.68
Cash & Other	4.72

Credit rating profile

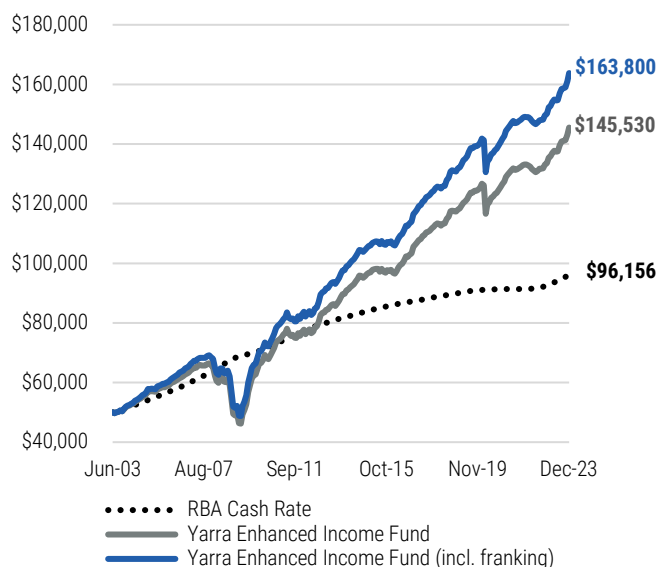
	Portfolio %
A+	0.47
A	0.91
A-	1.59
BBB+	30.23
BBB	22.16
BBB-	25.11
BB+	6.38
BB	4.09
BB-	1.61
B+	2.73
B	-
B-	-
Not rated or below	-
Cash and Derivatives	4.72

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\$777.3 mn as at 31 December 2023	
APIR code	JBW0018AU	
Estimated management cost	0.55% p.a.	
Buy/sell spread	+/- 0.10%	
Platform availability	Asgard Ausmaq BT Panorama BT Super Wrap GrowWrap Hillross Pcare Hub24 Macquarie Wrap Mason Stevens MLC Wrap Navigator	Netwealth North Oasis OneVue Powerwrap Praemium Pursuit Select uXchange Wealth02 Xplore Wealth

Investment performance comparison of \$50,000

After fees, since inception of the Yarra Enhanced Income Fund, July 2003 to December 2023.



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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