

Yarra Enhanced Income Fund (Direct)

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 (Direct)	1.73	3.28	9.53	5.33	4.92	5.55	6.35
Yarra Enhanced Income Fund (Direct) (incl. franking)	1.75	3.33	9.74	5.40	5.02	5.87	6.94
RBA Cash Rate [#]	0.36	1.05	3.87	1.74	1.34	1.60	3.30
Excess return [‡]	1.39	2.28	5.87	3.66	3.68	4.27	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 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 (Direct)	1.63	2.97	8.23	4.09	3.52	4.01	4.67
Yarra Enhanced Income Fund (Direct) (incl. franking)	1.65	3.02	8.44	4.15	3.62	4.33	5.25
Growth return [†]	1.13	1.52	3.76	0.49	0.20	0.68	-0.05
Distribution return [†]	0.52	1.50	4.68	3.66	3.42	3.65	5.30
RBA Cash Rate [#]	0.36	1.05	3.87	1.74	1.34	1.60	3.30
Excess return [‡]	1.29	1.97	4.56	2.41	2.28	2.73	1.95

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 (Direct) returned 3.02% (net basis, including franking) over the quarter, outperforming its benchmark by 197 bps. On a 12-month view the Fund has returned 8.44%, outperforming the RBA Cash Rate by 456 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	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.

Website www.yarracm.com

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com

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.

Yarra Funds Management Limited (ABN 63 005 885 567, AFSL 230 251) ('YFM') is the issuer and responsible entity of a range of registered managed investment schemes, which includes those named in this document ('Funds'). YFM is not licensed to provide personal financial product advice to retail clients. The information provided contains general financial product advice only. The advice has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before acting on any advice, you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. Prior to investing in any of the Funds, you should obtain and consider the product disclosure statement ('PDS') and target market determination ('TMD') for the relevant Fund by contacting our Investor Services team on 1800 034 494 or from our website at www.yarracm.com/pdsupdates/. The information set out has been prepared in good faith and while Yarra Funds Management Limited and its related bodies corporate (together, the "Yarra Capital Management Group") reasonably believe the information and opinions to be current, accurate, or reasonably held at the time of publication, to the maximum extent permitted by law, the Yarra Capital Management Group: (a) makes no warranty as to the content's accuracy or reliability; and (b) accepts no liability for any direct or indirect loss or damage arising from any errors, omissions, or information that is not up to date. No part of this material may, without the Yarra Capital Management Group's prior written consent be copied, photocopied, duplicated, adapted, linked to or used to create derivative works in any form by any means.

YFM manages the Fund and will receive fees as set out in each PDS. To the extent that any content set out in this document discusses market activity, macroeconomic views, industry or sector trends, such statements should be construed as general advice only. Any references to specific securities are not intended to be a recommendation to buy, sell, or hold such securities. Past performance is not an indication of, and does not guarantee, future performance. Information about the Fund, including the relevant PDS, should not be construed as an offer to any jurisdiction other than in Australia. With the exception of some Funds that may be offered in New Zealand from time to time (as disclosed in the relevant PDS), we will not accept applications from any person who is not resident in Australia or New Zealand. The Fund is not intended to be sold to any US Persons as defined in Regulation S of the US federal securities laws and have not been registered under the U.S. Securities Act of 1933, as amended.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. Holdings may change by the time you receive this report. Future portfolio holdings may not be profitable. The information should not be deemed representative of future characteristics for the strategy. There can be no assurance that any targets stated in this document can be achieved. Please be advised that any targets shown are subject to change at any time and are current as of the date of this document only. Targets are objectives and should not be construed as providing any assurance or guarantee as to the results that may be realized in the future from investments in any asset or asset class described herein. If any of the assumptions used do not prove to be true, results may vary substantially. These targets are being shown for informational purposes only.

© Yarra Capital Management, 2024.