

Yarra Enhanced Income Fund

Gross returns as at 31 January 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	0.73	3.81	8.70	5.33	5.00	5.58	6.15
Yarra Enhanced Income Fund (incl. franking)	0.74	3.84	8.84	5.43	5.12	5.91	6.75
RBA Cash Rate [#]	0.36	1.07	3.98	1.86	1.39	1.62	3.25
Excess return [‡]	0.37	2.76	4.86	3.57	3.73	4.30	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 January 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	0.69	3.66	8.10	4.76	4.35	4.85	5.36
Yarra Enhanced Income Fund (incl. franking)	0.69	3.69	8.24	4.85	4.47	5.18	5.96
Growth return [†]	0.28	2.12	1.98	0.37	0.42	0.76	-0.02
Distribution return [†]	0.41	1.58	6.26	4.48	4.05	4.42	5.97
RBA Cash Rate [#]	0.36	1.07	3.98	1.86	1.39	1.62	3.25
Excess return [‡]	0.33	2.62	4.26	3.00	3.09	3.56	2.71

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[^] 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 0.69% (net basis, including franking) over the month, outperforming its benchmark by 33 bps. On a 12-month view the Fund returned 8.24%, outperforming the RBA Cash Rate by 426 bps (net basis, including franking).

During the month, strong carry contributed most significantly to an overall positive return. While price movements were favourable during the month some widening in spreads muted the impact of price performance. In line with the broader market, regional banking names and industrials proved to be the strongest contributors.

During the month we took part in the ANZ and BOQ Tier 2 deals which were both priced at an attractive level. We continue to closely monitor credit markets and adjust Fund positioning, to capture the best possible risk adjusted return.

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

Fixed Income markets traded slightly wider on the month. With significant data releases occurring throughout the month there has been noticeable movements from traders repositioning rate cut expectations. US CPI prints came in at 4.1%(y/y)

which was in line with consensus. Less dovish commentary from the US Federal Open Market Committee's (FOMC) first meeting of the year coupled with stronger than expected employment data has led to rate cut expectations being tempered. Consequently, the US 10-year yield rose to 4.05%.

Australia has followed the US with rate cut expectations being pushed further back. Preliminary data from January continues to indicate signs of economic deceleration, with seasonally adjusted unemployment figures remaining 3.9% for December. Australian CPI data came in below what the Reserve Bank of Australia (RBA) had forecast but is still above the target sitting at 4.1% (y/y), this combined with the FOMC keeping rates on hold, led the Australian 10-year yield to widen by 5 basis points, ending the month at 4.01%.

Corporate credit and hybrid spreads saw mixed movements over the month. Industrial and REIT names tightened alongside regional banks and diversified financials. Whereas major and foreign financials saw spreads widen, in particular in Tier 2 versus senior debt. This move was largely driven by the strong primary issuance in financials, which included the largest 10yr non call 5yr Tier 2 deal issued in the domestic market. Secondary markets were also fairly active, driven by an increase in switches to make room for the new primary deals. The Australian iTraxx closed the month level from December end.

Outlook

The Reserve Bank of Australia (RBA) is poised to keep interest rates on hold in February. With inflation data well below the RBA's current expectations, it is more likely that the RBA will follow their American counterparts in keeping interest rates steady. In the US, the Federal Open Market Committee (FOMC) continued with its dovish commentary, though the chairman did confirm that a March cut was not the committee's base case. Considering this likely higher for longer interest rate narrative, we expect that the carry will continue to provide amplified returns throughout 2024. When the RBA enters a cutting cycle, we expect fixed rate securities to perform well.

With Australia's corporate reporting season beginning in February, we expect to see strong balance sheet positions. The corporate and hybrid sector continues to remain attractive despite rallying in recent months and strong carry continues to provide amplified returns. We expect further issuance to come to market, however, it has been a slow start to the year for corporates. In the event of deteriorating economic conditions and corporate earnings decline, we still expect credit spreads to hold firm due to favourable supply/demand. In this context, a constructive outlook is maintained, supported by elevated outright yields and robust carry which offers substantial downside protection.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.47
Option Adjusted Spread	225
Average weighted issue credit rating	BBB
Average weighted ESG Rating	A-
Estimated yield to maturity (%)	6.05
Fund duration (yrs)	1.53
Spread duration (yrs)	3.47
Number of securities	117
Listed	25
Unlisted	92

Sector allocation

	Portfolio %
Asset Backed	-
Banks	47.50
Communication Services	-
Consumer Discretionary	-
Consumer Staples	-
Diversified Finance	6.49
Energy	3.76
Health Care	2.74
Industrials	7.93
Information Technology	0.45
Insurance	16.63
Materials	0.34
Mortgage Backed	-
Real Estate	4.14
Utilities	4.37
Cash & Other	5.64

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	2.76
Commonwealth Bank of Australia	AU3FN0067989	2.53
Lloyds Banking Group	AU3CB0302115	2.43
Resolution Life	AU3FN0057691	2.38
ANZ Bank	AU3FN0084026	2.33
Bank of Queensland	AU3FN0064408	2.16
AusNet Services	AU3FN0056594	2.10
Westpac Banking Corporation	AU3CB0300358	2.09
Westpac Banking Corporation	AU3CB0304376	2.05
Downer Group Finance	AU3CB0262673	2.01

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	11.64
Callable	72.16
At Maturity	10.55

Security profile

	Portfolio %
Floating rate	59.28
Fixed rate	35.07
Cash & Other	5.64

Credit rating profile

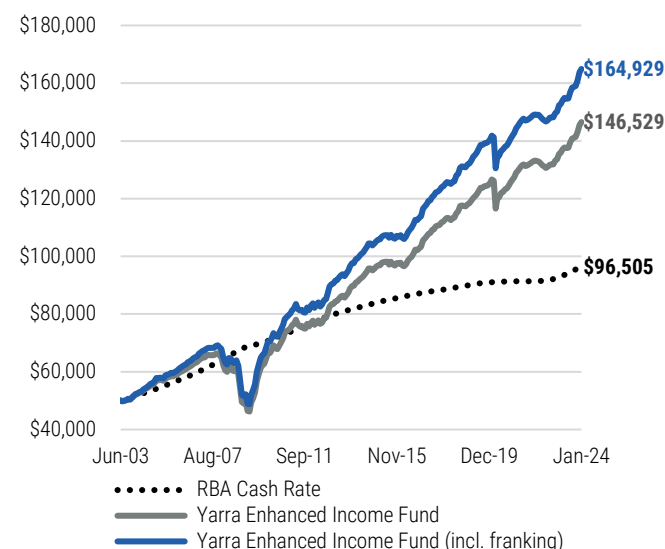
	Portfolio %
AA-	5.64
A+	0.46
A	0.87
A-	1.56
BBB+	31.70
BBB	20.93
BBB-	24.48
BB+	6.18
BB	3.86
BB-	1.58
B+	2.74
B	-
B-	-
Not rated or below	-

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	July 2003	
Fund size	Pooled Fund A\$798.7 mn as at 31 January 2024	
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 January 2024.



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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