Yarra Enhanced Income Fund

Genium Investment Partners

28 APRIL 2025

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Recommended
Genium

APIR Code/ASX Ticker	JBW0018AU	Inception Date	30/06/2003
Asset Class	Australian Bonds	Strategy FUM (AUD)	$2.1 Bn
Sub-Asset Class	Investment Grade Credit	Fund FUM (AUD)	$2.1 Bn
Manager Benchmark	RBA Cash Rate	Fee	0.55%

Key Things You Need To Know

- Monthly income payment with the opportunity for some franking credits
- Provides opportunistic exposure to low duration credit, as it seeks higher than cash return
- Leverages one of the larger fixed income teams in the market
- Historically they have been prepared at times to take on meaningful single name credit positions, this has reduced in recent times
- Primarily low duration but willing at times to take opportunistic duration positions

Role in Portfolio

This is a low duration fixed income holding and will form part of a broad fixed income allocation.

Risks

- Credit risk in the portfolio may not always have a positive payout
- Rising FUM can impact ability to take large credit positions

Asset Management Firm
Yarra Capital Management

Portfolio Manager/s
Roy Keenan & Phil Strano (Deputy PM)

Interest Rate Duration
-2 to 3.5 years

Credit Spread Duration
3 to 4 years (Typically)

Analyst
Justin Walsh

Head of Research
Tim Murphy, CFA, CAIA

Genium's View

A deeply experienced and capable team adopting a disciplined relative value approach are key advantages for the Yarra Enhanced Income Fund. Roy Keenan the portfolio manager and co-head of fixed income, is a veteran of Yarra and its former firm, JB Were Goldman Sachs Funds Management. He's built an attractive track record targeting a return of the RBA Cash rate plus 2.3 to 2.8% (before fees) together with Head of Credit Research and deputy portfolio manager Phil Strano. They have been willing to take meaningful positions in below investment grade securities, which has reduced over time, plus taking opportunistic duration positions can lead to some volatility at times. As funds under management have increased this positioning can become more of a challenge. Nonetheless, this approach has paid dividends for investors.

Keenan started with the firm back in 2003 and was one of the founders in the Yarra buyout while Strano, formerly with Victorian Funds Management Corporation, joined in 2017. The pair have worked well together and while the fund does take on a meaningful credit and interest rate risk at times, however, they have proven adept at managing this.

An important part of their approach is their thorough internal credit analysis together with their portfolio positioning which is guided by their macroeconomic analysis. Their internal credit ratings assess the financial, business and market profile of a credit, with the ESG assessment crucial for non-investment grade securities – that is, those with notable ESG issues are not investible. The result of this analysis is the thoughtful formulation of coherent buy and sell rationales within the prevailing market environment. Tim Toohey, Yarra's Head of Macro and Strategy plays a key role, providing insight into monetary policy, inflationary expectations, international capital flows and the risk appetite of the market generally. Importantly, Yarra will at times take on meaningful credit risk which has been well managed and it has enabled them to comfortably meet and often exceed their return target.

Yarra was a result of a management buyout in 2016 which was backed by the private equity firm TA Associates. It acquired the Australian business of Nikko Asset Management in 2021. Current ownership is 40% staff, 40% TA Associates and 20% Nikko. Since the takeover of Nikko there has been some unplanned departures from the fixed income team with Chris Rands relocating to Singapore and a number of staff leaving. However there have been replacements found, ensuring that all aspects are well covered.

The fund has a higher return target than many competitors but the credit positioning and macro overview have provided a competitive outcome to date. While the size of the funds under management is becoming significant, for those seeking a meaningful income option in their portfolio at a reasonable fee, this fund is a fine option.

ESG

Genium ESG Assessment
Aware

ESG assessments of credit have been integrated into the investment process since 2017. The team score all securities, and for below investment grade ratings a poor ESG scoring credit can't be held. They screen out a number of sectors such as thermal coal, gaming and payday lending. An ESG rating of Aware is appropriate.

Trailing Performance

	Fund	Manager Benchmark
1 Year	8.03%	4.32%
3 Years pa	6.60%	3.50%
5 Years pa	6.59%	2.15%
10 Years pa	5.04%	1.83%

Source: Manager, net of fees as at 31/03/2025

Performance Consistency

Positive Mthly Ret	79.70%
Negative Mthly Ret	20.30%
Positive Monthly Excess Return	70.48%

Source: Manager, net of fees. Since inception as at 31/03/2025

Risk

	Fund	Manager Benchmark
3yr StdDev	1.94%	0.35%
Max Drawdown	-1.91%	0%
Bear Mkt Correlation	N/A	-

Source: Manager, net of fees. Since inception as at 31/03/2025

Associated Funds

APIR/ASX codes

-	-
-	-

Process

The process combines top-down macro analysis and bottom-up credit analysis. The macro analysis focuses on leading economic indicators into the direction of monetary policy, inflationary expectations, international capital flows and market risk appetite. Security selection inputs include fundamental analysis, formulating three to five key factors determining whether a sector and a security will outperform or underperform. Credit risk modelling forecasts internal credit ratings over the next three years. ESG issues are considered, prohibiting investment in sub investment grade bonds with a negative ESG score. Technical and relative value analysis helps determine the attractiveness of new and existing investments. Portfolios are built to minimise potential defaults and impairments while maximising risk adjusted returns, typically holding more than 120 securities. Position size risk limits cover single issuer, sector exposer, credit rating and sovereign rating limits. They target a minimum overall investment grade rating for the fund.

People

Roy Keenan, Co-Head of Fixed Income at Yarra is the portfolio manager. Phil Strano, Head of Credit Research and deputy portfolio manager works closely with Keenan. Tim Toohey, Head of Macro and Strategy, assists with the top-down view. Yarra integrated the former Nikko fixed income team, and the fund relies on Strano's credit team input in formulating positions. There have been a number of departures in the last couple of years however replacements have been found.

Parent

Yarra was formed as a result of a management buyout in 2016 which was backed by the private equity firm TA Associates . It acquired the Australian business of Nikko Asset Management in 2021. Current ownership is 40% staff, 40% TA Associates and 20% Nikko. Importantly, senior Yarra staff including Keenan and Strano are equity owners.

Performance

	2020	2021	2022	2023	2024
Fund	1.01%	5.19%	0.34%	8.94%	8.68%
Manager Benchmark	0.10%	0.32%	1.27%	3.87%	4.35%

Source: Manager, net of fees

The since inception returns for the fund have been within the targeted range of the RBA Cash Rate + 2.3 to 2.8% before fees. From 2015 to 2024, the return has been above this level. The fund has invested in bank hybrids, known as Tier 1, allowing for the fund to receive (and pay out) franking credits. With the ending of Tier 1 issuance, the franking credits earned will decrease over time. From 2020 to 2024 the fund has earned a significant return from its holding in Tier 1 and in particularly Tier 2 debt. Senior and subordinated debt are also important sources of return. While its ability to hold meaningful credit positions can cause drawdowns, the three years to the end of 2024 have been relatively benign.

Price

The fund charges 0.55% which is a reasonable fee level.

Other disclosures, disclaimers and certificates

Research Ratings Definitions

Genium recommends securities as follows:

Highly Recommended - Genium has the highest conviction that the strategy can meet its stated investment objective and exceed its relevant peer group. The strategy has identifiable competitive advantages across most of Genium's assessment criteria.

Recommended - Genium believes the strategy can meet its stated investment objective and exceed its relevant peer group. The strategy has identifiable competitive advantages across several of Genium's assessment criteria.

Investment Grade - Genium believes the strategy can meet its investment objective and match its relevant peer group. The strategy has some identifiable competitive advantages across Genium's assessment criteria, but also some areas for improvement.

Hold - The strategy rating is suspended for a temporary period (up to 12 months) while material changes to the strategy are considered and assessed by Genium. No new investment is advised during this time.

Sell - Genium believes the strategy has significant flaws that may prevent it from meeting its investment objective and matching its relevant peer group. Investors should consider alternative strategies in the sector.

ESG Assessment Definitions

Genium recommends securities as follows:

Leader - ESG factors are a dedicated focus of the investment process, and this can include Impact and ESG thematic strategies. Genium identifies ESG influence as a dominant factor on the portfolio.

Integrated - ESG factors are a discernible input to the investment process. Genium identifies clearly measurable ESG influence on the portfolio.

Aware - The strategy takes consideration of ESG factors in its process, but they aren't a major part of the investment approach. In Genium's assessment they don't alter the end portfolio in a meaningful way.

Low - The strategy has little or no regard for ESG factors.

General disclosures

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