

# Yarra Enhanced Income Fund

## Gross returns as at 31 January 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Enhanced Income Fund	1.51	2.95	2.39	2.89	4.33	5.61	6.02
Yarra Enhanced Income Fund (incl. franking)	1.52	2.98	2.54	2.94	4.56	5.97	6.65
RBA Cash Rate <sup>#</sup>	0.26	0.75	1.53	0.63	0.90	1.49	3.21
Excess return <sup>‡</sup>	1.26	2.23	1.02	2.31	3.66	4.48	3.44

**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 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Enhanced Income Fund	1.46	2.81	1.83	2.29	3.64	4.85	5.22
Yarra Enhanced Income Fund (incl. franking)	1.48	2.84	1.98	2.34	3.87	5.21	5.84
Growth return <sup>†</sup>	1.07	1.91	-1.99	-1.09	0.14	0.81	-0.12
Distribution return <sup>†</sup>	0.40	0.92	3.97	3.43	3.73	4.39	5.96
RBA Cash Rate <sup>#</sup>	0.26	0.75	1.53	0.63	0.90	1.49	3.21
Excess return <sup>‡</sup>	1.22	2.09	0.45	1.71	2.97	3.72	2.63

**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.

<sup>^</sup> Inception date Yarra Enhanced Income Fund: July 2003.

<sup>†</sup> 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.

<sup>#</sup> The Fund is a floating rate fund and is not confined to purchasing securities of a particular index, making other benchmarks unsuitable. The Fund uses the RBA Cash Rate as a benchmark as the cash rate is most closely aligned with the investment style of the Fund.

<sup>‡</sup> 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 1.46% (net basis) over the month, outperforming its benchmark by 122 bps. On a 12-month view the Fund has returned 1.83%, outperforming the RBA Cash Rate by 45 bps (net basis, including franking).

Performance in January was driven by high carry the Fund is generating, tighter credit spreads and the fall in interest rates across the yield curve. While the Fund did not participate in new issuance, we were active in the secondary market. Strong retail investor buying of bank hybrids enabled us to rotate up the bank capital structure into securities offering better risk adjusted returns. We still see compelling value on offer across

much of the corporate credit and hybrid market reflecting elevated outright yields and strong downside protection.

## Market review

Long end sovereign yields fell amidst improving risk sentiment, and a downward shift in the pace the US Federal Reserve raised the benchmark interest rate. The Fed Reserve lifted the cash rate by 25 bps to 4.75%. The European Central Bank and Bank of England also hiked, bringing their policy rates to 2.5% and 4.0% respectively. Despite signs of easing inflation, with economic data revealing slower activity and producer-level inflation, central bankers continue to anticipate further hikes will be appropriate.

Post month-end, the Reserve Bank of Australia increased the cash rate by a further 25 bps to 3.35% and announced further interest rate increases are expected over the coming months to ensure that inflation returns to target. In seeking to return to its 2-3% inflation target, the RBA notes "the path to achieving a soft landing remains a narrow one."

Prior to the latest monetary decision in Australia, the headline inflation print fell a little below the RBA's 8.0% forecast, to 7.8%. The labour market also remains tight, despite unemployment rising 10 bps to 3.5%.

Corporate credit and hybrid spreads moved tighter over the period, driven by improving risk sentiment, falling long term interest rates and a high level of cash sitting on the sidelines. Retail and institutional investors continue to be attracted to high income paying hybrid securities. Investor appetite remains strong, despite a slight pickup in new issuance in January. We expect to see corporates return to the market post reporting season. The Australian iTraxx index closed the period 11 bps lower at 82 bps.

## Outlook

Central bankers continue to stress the need for further rate hikes as labour markets prove resilient to tightening conditions. However, leading indicators still paint a bleak picture for global economic conditions in 2023. We expect a deterioration in conditions will materialise throughout the year, making weaker corporate earnings seem all but inevitable. Inflation appears set to surprise to the downside, typically a key catalyst for a change in policy maker tone.

While domestic conditions will worsen, in our view, tight labour markets and strong corporate and household balance sheets will underpin a less severe domestic downturn. We expect the RBA is near the verge of pausing to assess the impact of the cumulative load of hikes already pushed through.

Credit markets appear to be pricing much of the downside, presenting attractive entry points across the market. The strong running yield of corporate credit and hybrids now offers significant downside protection. As such, we expect strong performance through 2023.

## Portfolio profile

### Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	5.66
Option Adjusted Spread	271
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.16
Fund duration (yrs)	1.47
Spread duration (yrs)	3.18
Number of securities	95
Listed	24
Unlisted	71

### Sector allocation

	Portfolio %
Asset Backed	0.16
Banks	45.58
Communication Services	0.57
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Finance	8.03
Energy	3.57
Health Care	1.95
Industrials	9.65
Information Technology	0.55
Insurance	15.57
Materials	0.59
Mortgage Backed	0.00
Real Estate	3.43
Utilities	3.92
Cash & Other	6.42

## Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	4.28
National Australia Bank	AU3FN0055224	3.40
Challenger Life	AU3CB0292324	3.39
Bank of Queensland	AU3FN0064408	3.38
Cooperatieve Rabobank U.A	AU3CB0293348	3.18
ANZ Bank	AU3CB0292472	2.81
Westpac Bank	AU3FN0058129	2.44
Commonwealth Bank of Australia	AU3FN0062600	2.44
Commonwealth Bank of Australia	AU3FN0073029	2.12
Resolution Life	AU3FN0057691	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	12.00
Callable	72.80
At Maturity	15.20

## Security profile

	Portfolio %
Floating rate	68.97
Fixed rate	24.61
Cash & Other	6.42

## Credit rating profile

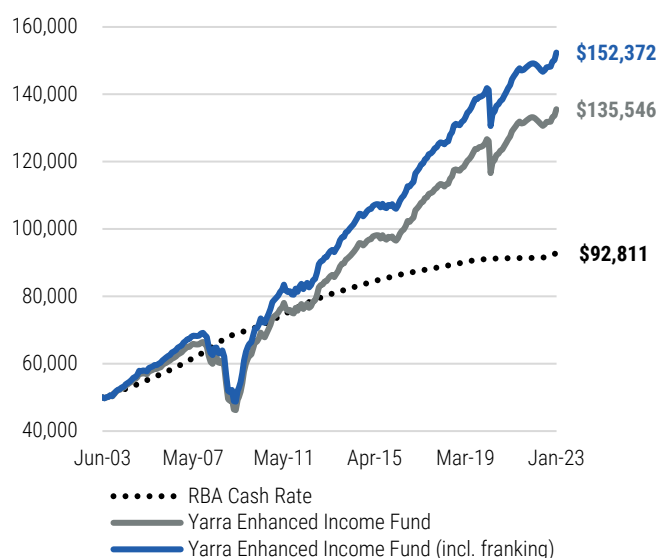
	Portfolio %
A+	1.00
A	0.21
A-	1.54
BBB+	28.58
BBB	21.17
BBB-	22.26
BB+	9.18
BB	6.25
BB-	0.66
B+	2.71
B	0.00
B-	0.00
Not rated or below	0.01
Cash and Derivatives	6.42

## 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\$463.8 mn as at 31 January 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 WealthO2 Xplore Wealth

## Investment performance comparison of \$50,000

After fees, since inception of the Yarra Enhanced Income Fund, July 2003 to January 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](http://www.yarracm.com)

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

---

---

### 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.

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/](http://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 the 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 has 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, 2023.