

# Yarra Enhanced Income Fund

## Gross returns as at 28 February 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	0.24	2.14	2.79	3.09	4.39	5.61	6.01
Yarra Enhanced Income Fund (incl. franking)	0.25	2.17	2.95	3.14	4.63	5.97	6.63
RBA Cash Rate <sup>#</sup>	0.25	0.77	1.77	0.69	0.92	1.49	3.21
Excess return <sup>‡</sup>	0.00	1.40	1.18	2.45	3.70	4.48	3.42

**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 28 February 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	0.20	2.00	2.23	2.49	3.71	4.86	5.21
Yarra Enhanced Income Fund (incl. franking)	0.20	2.03	2.39	2.54	3.94	5.21	5.83
Growth return <sup>†</sup>	-0.22	0.94	-1.77	-1.04	0.12	0.78	-0.13
Distribution return <sup>†</sup>	0.42	1.09	4.15	3.58	3.82	4.44	5.96
RBA Cash Rate <sup>#</sup>	0.25	0.77	1.77	0.69	0.92	1.49	3.21
Excess return <sup>‡</sup>	-0.04	1.26	0.61	1.85	3.01	3.72	2.62

**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 0.20% (net basis) over the month, underperforming its benchmark by 4 bps. On a 12-month view the Fund has returned 2.39%, outperforming the RBA Cash Rate by 61 bps (net basis, including franking).

Positive performance in February was attributable to modest tightening in spreads and substantial carry, led by our exposure to Tier 2 which continues to outperform Tier 1 following weak relative performance in 2022. During the period we participated in a new Tier 1 deal from ANZ, launched at an attractive new issuance premium and pricing that we expect will converge toward secondary Tier 1 market levels.

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

Hawkish commentary from central bankers and resilient economic data again spooked markets through February. Increasingly, market conjecture moved away from an impending 'hard-landing' to interest rates remaining higher for longer. The lagged nature of monetary policy tightening will likely soon become apparent in key data releases. Among the month's market moving prints were strong US retail sales and PPI prints, and an upside surprise in services PMIs in Europe and the UK. Financial market fixation on each data print led to

some sizable moves during the period. Both short and long-ends sovereign yields were volatile, ultimately ending the period higher.

The Reserve Bank of Australia (RBA) raised the cash rate 25 bps to 3.35% in February and stressed that further rate hikes were likely to be required in response to a surprise December quarter inflation print (7.8% (y/y) – vs 7.5% expected). Post month-end, the RBA stayed true to its word, hiking rates by a further 25 bps, to 3.60%.

Labour market data began to show signs of some deterioration, with the unemployment rate increasing to 3.7% following two consecutive downside surprises. Wages also printed softer than expected at 0.8% for the December quarter (vs forecasts for a 1.0% rise).

Corporate credit and hybrids were modestly tighter over the period. Lack of new issuance continues to create a tightening bias across the market. We did, however, see a new Telstra deal which was well supported by a market starved of new corporate deals. As bank funding costs continue to climb, we expect to see more corporates tapping the local market.

## Outlook

Economic data has proved resilient to date, much to the surprise of many market participants. However, looking under the surface, cracks are becoming clear. We expect a deterioration to materialise throughout 2023 and, inevitably, for weaker corporate earnings to begin to flow through. While central banks globally have maintained a hawkish tone, we expect this will shift as both inflation and labour market conditions soften.

Domestically, we continue to see modest economic growth through 2023, underpinned by strong household balance sheets and high levels of employment.

Elevated credit and hybrid spreads continue to look attractive in the context of the strength we are seeing in corporate balance sheets. We remain active buyers given the healthy level of outright yield and expect the running yield across the market will make for positive performance through 2023.

## Portfolio profile

### Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	5.83
Option Adjusted Spread	260
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.51
Fund duration (yrs)	1.47
Spread duration (yrs)	3.18
Number of securities	97
Listed	25
Unlisted	72

## Sector allocation

	Portfolio %
Asset Backed	0.16
Banks	44.97
Communication Services	0.56
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Finance	7.72
Energy	3.47
Health Care	1.87
Industrials	10.52
Information Technology	0.52
Insurance	15.81
Materials	0.57
Mortgage Backed	0.00
Real Estate	3.50
Utilities	4.15
Cash & Other	6.19

## Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	4.16
National Australia Bank	AU3FN0055224	3.30
Bank of Queensland	AU3FN0064408	3.24
Challenger Life	AU3CB0292324	3.24
Cooperatieve Rabobank	AU3CB0293348	3.03
ANZ Bank	AU3CB0292472	2.68
Ausnet Services	AU3FN0056594	2.54
Westpac Bank	AU3FN0058129	2.37
Commonwealth Bank of Australia	AU3FN0062600	2.34
Downer Group	AU3CB0262673	2.07

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	12.66
Callable	73.12
At Maturity	14.22

## Security profile

	Portfolio %
Floating rate	68.70
Fixed rate	25.11
Cash & Other	6.19

## Credit rating profile

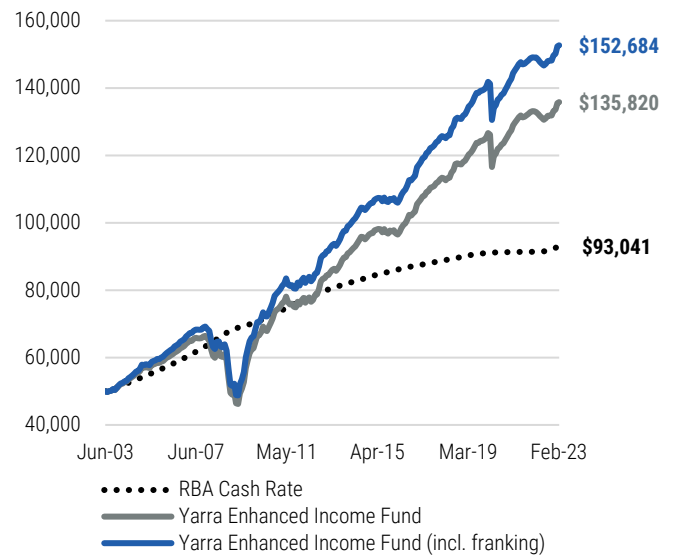
	Portfolio %
A+	0.53
A	0.21
A-	1.16
BBB+	28.14
BBB	23.18
BBB-	22.21
BB+	8.91
BB	6.22
BB-	0.63
B+	2.62
B	0.00
B-	0.00
Not rated or below	0.01
Cash and Derivatives	6.19

## 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\$482.7 mn as at 28 February 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 February 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.