Qualitative Fund Research

Yarra Enhanced Income Fund

24 April 2024

RESEARCH IP Rating

RESEARCH IP

The views and opinions in this document are considered valid for one year from the date published.

Qualitative Fund Research Contents

Rating Profile

Research Process Category	Factor Weight	Analyst Score	Maximum Score
Corporate & Investment Governance	15%	3.75	/ 5
Investment Philosophy & Process	20%	3.80	/ 5
People	25%	4.67	/ 5
Portfolio Construction & Implementation	15%	3.67	/ 5
Risk Management	15%	3.80	/ 5
Investment Fees	10%	3.71	/ 5
Overall Average Score		**3.98**	**/ 5**

Meet the Manager

Yarra Capital Management was established in 2017 following the management buyout of Goldman Sachs Asset Management's Australian-focused investment capabilities and operating platform, backed by TA Associates, a global growth private equity firm with a long history of investing in funds management companies.

The Yarra Capital Management Group offers its clients access to two leading businesses: Yarra, offering style-neutral Australian equities and fixed income capabilities including core fixed income, hybrids, credit, macro and RMBS, and Tyndall AM, a dedicated long-only manager specialising in Australian value equities. Through its partnership with the Nikko Asset Management Group, Yarra also provides access to a range of international equity products. Yarra serves the Australian institutional and retail markets, and its Australian investment products are accessed from various international markets, including Japan and New Zealand. Further information on the Manager can be found in its online profile.

Yarra's investment philosophy is dedicated to delivering superior, repeatable investment returns for their investors. Yarra builds trusted and long-term relationships, working with their clients to help them achieve their investment objectives over long time horizons.

Yarra is a signatory to the United Nations Principles of Responsible Investment (UN PRI). ESG principles are ingrained in how they invest and are a mainstream part of the team's ongoing research process.

These funds are managed by a team of 28. The Manager has provided individual bios for the team.

Key Takeouts

The Yarra Enhanced Income Fund ("the Fund") is an Australian domiciled registered managed investment scheme which pools the money of individual investors. The Fund is substantially invested in the Yarra Enhanced Income Pooled Fund of which YFM is also the responsible entity.

The Fund may be suitable to investors that have a 'medium term' investment time frame (i.e. a recommended minimum term of 3 to 5 years), who seek returns that are in line with the objective of the Fund and who have a risk tolerance in line with the Fund's summary risk level.

Research IP Says

"The **Yarra Enhanced Income Fund** has been awarded a "4 IP" rating by Research IP, with a score of 3.98/5."

"The Fund has quite a broad universe of securities available for investment. In practice, it predominantly focuses on a narrower range of fixed income sectors, namely: Cash, Senior, Subordinated, Tier 2, Tier 1, Asset/Mortgage Backed, with the latter being a more opportunistic segment rather than a core holding. In order to be successful in this style of fund, the investment team needs specialised experience in these sectors and a strong network of research and trading relationships with key market players (investment banks, brokers, other investors)."

"In Research IP's opinion, Roy Keenan has a highly developed set of skills in these key sectors (and others) built up over an almost 4-decade career in the markets both at Yarra (32 years) and other notable institutions such as Goldman Sachs. This, along with Yarra's significant size and reach, brings with it a market presence that provides benefits to the investment team such as: ability to provide input (such as pricing) to new-issue deals at their formative stages, "seeing" most of the deals coming to market (whether or not they are investing), achieving workable allocations to oversubscribed transactions, access to issuer management, and access to key research analysts and deal-makers with the issuing syndicate."

"Research IP agrees that the market segments focused on for this Fund tend to be less efficiently priced that the traditional, highly liquid sectors of governments and semis. This means that the heavy emphasis on careful, detailed credit **and** structure analysis can unveil alpha opportunities to the benefit of investors. In our opinion, the Manager's contention that the majority of value-add comes from income and credit spread (90%) is a reasonable one."

The Fund

Fund Details	Yarra Enhanced Income Fund
Fund Code	APIR Code: JBW0118AU
Responsible Entity / Trustee	Yarra Funds Management Limited
Geographic Focus	Australia
Sector / Asset Class	Bonds
Investment Objectives	To earn higher returns than traditional cash management and fixed income investments (over the medium-to-long term) through exposure to a diversified portfolio of hybrid (debt/equity) and fixed income securities.
Benchmark	RBA Cash Rate
Alpha Objective	+ 2.30% to 2.80% (gross of fees)
Management Fee	0.55% p.a.
Performance Fee	No performance fee
Estimate of Total Fund Charges	0.55% (including GST) – 20/03/2023

Using this Fund

The Fund invests in a range of high yielding fixed income and hybrid securities through its investment in the Enhanced Income Pooled Fund.

The underlying assets are predominantly Australian, may be quoted or unquoted, issued by listed or unlisted issuers, denominated in Australian dollars or foreign currencies and acquired in the primary or secondary markets.

Derivatives may be used to manage investment risk and gain or reduce exposure to relevant markets in an efficient manner whilst still remaining within allowable asset allocation ranges.

Allocations to cash may include investments in fee-free classes of other managed investment schemes issued or operated by the Yarra Capital Management Group.

Factor	Lower Limit	Upper Limit	Target
No. of securities in universe			Hundreds
Typical number of holdings	80	125	
Expected Portfolio Turnover			Market dependent
Cash	3%	5%	

Funds Under Management

Fund currency	AUD
Current size of the Fund ($)	$929,563,625
Current FUM in the strategy, including mandates ($)	$1,637,771,667
Current total FUM of the Manager ($)	$21,455,561,260

Quantitative Tear Sheet - https://portal.research-ip.com/63512162

Platform is FREE to access via registration – performance data updated monthly.

Factsheet ***Report*** ***PDS*** ***Articles / Views***

For important Fund Facts view the RIPPL Effect

This is General Advice only and should be read in conjunction with the Disclaimers, Disclosures and Warnings at the end of this document.

What the Manager Says

Who holds accountability for the fund's outcomes and actions? How relevant is the work / career history of the investment team to the management of the funds?

Manager Statement:

The Fund is managed by Roy Keenan, co-head of the Australian Fixed Income team. Roy is supported by senior portfolio manager, Phil Strano, and the broader Australian Fixed Income team. Roy has over 30 years' investment experience both in asset management and trading, specialising in credit products since 1995. He has been part of the investment management team for the Yarra Enhanced Income Funds since the Funds' inception in 2002 and continues to manage these Funds.

The broader investment team comprises 28 professionals across equities, fixed income, and multi-asset strategies, with an average 19 years' investment experience across multiple market cycles.

The management of all Yarra Capital Management's (YCM) portfolios is team based, with investment decisions taken collectively, following thorough discussion and debate.

For this reason, our investment team shares responsibility for portfolio management initiatives, including portfolio positioning, risk potential, construction, monitoring portfolio's adherence to investment guidelines and daily trading activity. The Portfolio Manager is ultimately responsible for balancing multiple ideas from team members and translating these ideas into the context of a portfolio. The Portfolio Manager is also ultimately accountable for all aspects of the management of the portfolio, and it is integral to their role to ensure that the portfolio is being managed as effectively as possible.

Research IP Opinion:

The Fund has quite a broad universe of securities available for investment. In practice, it predominantly focuses on a narrower range of fixed income sectors, namely: Cash, Senior, Subordinated, Tier 2, Tier 1, Asset/Mortgage Backed, Bank Loans, with the latter being a more opportunistic segment rather than a core holding. In order to be successful in this style of fund, the investment team needs specialised experience in these sectors and a strong network of research and trading relationships with key market players (investment banks, brokers, other investors).

In Research IP's opinion, Roy Keenan has a highly developed set of skills in these key sectors (and others) built up over an almost four-decade career in the markets both at Yarra (32 years) and other notable institutions such as Goldman Sachs. This, along with Yarra's significant size and reach, brings with it a market presence that provides benefits to the investment team such as: ability to provide input (such as pricing) to new-issue deals at their formative stages, "seeing" most of the deals coming to market (whether or not they are investing), achieving workable allocations to oversubscribed transactions, access to issuer management, and access to key research analysts and deal-makers with the issuing syndicate.

Keenan has a sizable team of experienced PMs and analysts whose expertise crosses (with some overlap) a wide variety of sectors and research areas. This is important for a fund that needs to optimise its investments in a number of less generic (and in some cases) esoteric segments of the market. In Research IP's opinion, this is an appropriate approach that is further enhanced by the team sharing a variety of responsibilities, which brings more collegiate collaboration, as opposed to siloed behaviour.

Research IP notes that investment decisions are taken collectively, following thorough discussion and debate. The team shares responsibility for portfolio positioning, risk potential, construction, monitoring Fund adherence to investment guidelines and daily trading activity. The Portfolio Manager is ultimately responsible for balancing multiple ideas from team members and translating these ideas into the context of the Fund. Attached to this is specific accountability for all aspects of the process, and in particular, the risk/return outcomes for the clients.

Has the CIO/ PM / Investment Team personally invested in the Fund? Do they have the same fee / cost structure as other investors?

Manager Statement:

Investment professionals at Yarra are encouraged but are not required to invest in the strategies they manage. While they may do so from time to time, our strategy is generally aimed at firmwide involvement either through management equity and/or profit share arrangements – we can confirm that members of the Fixed Income Team are management equity owners in the Firm.

Research IP Opinion:

As a standard principle, Research IP favours the practice of an investment team "putting its money where its mouth is" by investing alongside the clients in the funds it manages. This is considered best practice, however, we recognise that it may not be achievable or practical in all instances. Yarra may like to consider whether there are additional steps they can take to strengthen the encouragement of co-investment.

Research IP notes that Yarra has other useful elements of alignment that relate to equity participation by the staff. This is discussed further on in this report.

What are the reasons for investing in this fund?

Manager Statement:

Our flexible investment approach lets us identify the most attractive opportunities in the Australian investment grade credit market seeking outperformance through market cycles. Our large investment team focuses exclusively on Australian fixed income. This depth of insight gives us an edge when building conviction in high quality issuers and the best-performing sectors. To increase returns and minimise systemic and company-specific risk, we invest in a highly diversified floating rate, multi-sector portfolio of credit securities across the public and private sectors.

The fund is suitable for investors looking to earn higher returns than traditional cash management and fixed income investments (over the medium-to-long term) through exposure to a diversified portfolio of hybrid (debt/equity) and fixed income securities. The fund is expected to produce less volatile returns than are inherent in equity markets, while offering modest capital growth and some franking credits.

Research IP Opinion:

The Fund has a track record stretching over more than two decades, which is not a common occurrence amongst Australian managed funds. This allows Research IP to assess the Manager's claimed advantages of the Fund against its actual or likely achievements, as shown in the following table.

Claimed Feature	Research IP Comment	Assessment
Regular, stable income	Income distributions paid monthly (may be partially franked).	Valid, but not guaranteed
Lower capital volatility than equities	Not a difficult target to achieve. Most traditional fixed income funds do this	Valid
Targeted cycle return of RBA cash rate + 2.3% to 2.8% (pre fees and including franking)	Fund has achieved this over long time frames (5, 10, 15, 20 years)	Achieved
Product volatility typically 3-6%	Fund has held this range over long time frames. We note vol has been under peer average over 1 and 3 years, and been higher than peer average over 5 and 10 years	Achieved

Tax aware of tax benefits from franking credits and tax deferral	Specific part of the analysis process and portfolio construction is to consider tax effects	Valid
Diversification by asset class: provide diversification to traditional asset classes	Fund focuses on sectors that are less traditional than govts, semis and corporates	Valid
Diversification by holdings: Typically holds 80-120+ different securities	80 to 120 securities is quite effective diversification for a fixed income Fund. We note the top 5 securities by weight are at a higher concentration of around 2-3% each	Valid
Active management	Fund is actively managed for optimal risk/reward outcomes (including tax effect)	Valid
Invests only in credits covered by internal credit research team	The credit research team is of significant size and collaborates/ shares research with the well-resourced Yarra equity team	Valid
Proprietary valuation models and historical databases not easily replicated	The teams' long history in the hybrid, T1, and T2 markets allow them a material information advantage that can support non headline benefits like franking credits and tax deferability	Valid
Deliver consistent income levels above RBA cash rate and term deposit rates	Have consistently outperformed over long periods, with some infrequent, but material, interruptions	Achieved

What are key criteria for the buying and selling decisions of the Fund?

Manager Statement:

All criteria for buying and selling within the fund are based off YCM's investment analysis, which is grounded in fundamental research, with top-down macro analysis meeting bottom-up credit analysis.

Top-Down Macro Strategy: fundamental macroeconomic analysis plays a large part in the overall investment process with particular focus on leading economic indicators, which provides insight into the direction of monetary policy, inflationary expectations, international capital flows and risk appetite of capital markets generally. This analysis is complemented by detailed quantitative analysis of markets, including an appreciation of local near-term market supply and demand dynamics.

Bottom-Up Security Selection Strategy: a broad research platform with access to diversified inputs is key to our investment process. The Australian Fixed Income team employs three distinct inputs to identify attractive investment opportunities, namely:

1. Fundamental analysis;
2. Quantitative analysis (credit risk modelling);
3. Environmental, Social and Governance profiling; and
4. Technical (relative value) analysis.

Following rigorous investment analysis, the Portfolio Manager formulates the risk budget based on the portfolio risk/return objectives via a four-step process:

- Setting the portfolio's risk/return objectives;
- Formulating the portfolio's risk budget based on stated risk/return objectives;
- Constructing a portfolio comprising of the team's best ideas; and
- Ensuring all exposures are compliant with all necessary investor guidelines.

Overall, the security's valuation and its risk reward will determine the level of conviction.

Research IP Opinion:

Research IP notes that Yarra relies on a nuanced balance of research that focusses on two key streams: top-down macro research (20-25% of value-add) and quite technical/specialist credit and security structure research on individual holdings (75-80% of value-add).

The key elements of the macro research (led by the highly qualified and experienced Tim Toohey) focus on

- Growth
- Inflation
- Monetary Policy
- Risk Appetite
- Market Flow (buying and selling pressure)

This work is a valuable input to the duration and sector allocation decisions the PMs take for the Fund.

Research IP notes that an important positive feature at the security research level is the cooperation and collaboration between the credit analysts and the equity analysts. An analyst from each team typically attends important managements updates or 'roadshow' presentations. They have access to each other's research via a centralised email research portal. Both teams are of significant size and experience as compared to other fund managers. They regularly converse and 'swap notes' on key names under their coverage.

This multi-disciplinary approach is beneficial to both teams, who are used to looking at security analysis from their own siloed lens. The credit analysts are researching many securities for this Fund that are not necessarily at the top of the 'security tree' in a firm's balance sheet. The perspective of an equity analyst can prove very useful when assessing securities with some elements of equity-like characteristics and/or that are further down in the firms' capital stack.

Roy Keenan's extensive knowledge and long historical experience with crisis events specifically in the hybrid, T1 and T2 sectors is a clear advantage in terms of highly technical and varying structural nuances and contractual obligations in these deals. The allows the team to find less obvious pitfalls and risks that either need to be mitigated, eliminated, or priced into an appropriate fair value.

Structural issues (if you know where to look for them) can also provide opportunities to gain excess rewards in difficult, volatile, or uncertain circumstances.

What are the key drivers of the Fund's performance?

Manager Statement:

Our investment philosophy provides the primary driver for the fund's performance, it is based on three key principals:

- **It is possible to add value from active management**: although markets are competitive, they are not perfectly efficient. The disciplined application of quantitative and qualitative techniques is designed to enable the investment management process to systematically uncover and exploit sources of value.
- **A combination of qualitative and quantitative insights enhances results**: economic theory must motivate any factor being considered for inclusion in our investment model, and empirical research must support that rationale.
- **Rigorous risk management adds value:** we believe risk management is as important as return forecasting in managing portfolios effectively. Credit's asymmetric risk profile demands sophisticated analytics and processes to detect and mitigate unintended active risk.

We believe with respect to a diversified portfolio of hybrid (debt/equity) and fixed income securities, that by applying a fundamental and research-driven investment approach within a defined risk management framework, we can identify and exploit market inefficiencies and add value from active management.

Research IP Opinion:

Research IP agrees that the market segments focused on for this Fund tend to be less efficiently priced that the traditional, highly liquid sectors of Commonwealth government and State government bonds. This means that the heavy emphasis on careful, detailed credit **and** structure analysis can unveil alpha opportunities to the benefit of investors. In our opinion, the table below is a reasonable representation of the sources of value-add for the Fund.

Source of Value Add	%
Credit Spread	15
Yield Curve	5
Term	5
Income	75
Total	**100**

What are the risks / adverse outcomes that could arise from investing in this Fund?

Manager Statement:

Risk management is viewed as an essential element of YCM's underlying investment philosophy and forms an integral part of our investment process. We aim to ensure that active risk is employed intelligently, is understood, sized appropriately, diversified broadly and remains within acceptable parameters. Risk is measured and monitored daily on two levels: by the Australian Fixed Income team, and by our compliance team. At a high level the fund may be exposed to the following risks:

- Call/Extension risk
- Counterparty risk
- Conversion and equity risk
- Credit risk
- Derivative risk
- Interest rate risk
- Investment specific risk
- Liquidity risk
- Market risk

Diversification of risk exposures is a critical component of our portfolio construction process. With a portfolio typically holding 80-125 different securities, weightings are concentrated towards the credits offering higher risk adjusted returns. Approved list securities are acquired in either the primary market or the secondary market. For this reason, all positions are tightly controlled so that no single security, issuer, sector or industry is expected to have too great an impact on the relative performance of a portfolio.

Research IP Opinion:

In Research IP's opinion, Yarra employs institutional-grade practices, systems, resources, and analytical tools to the task of measuring and managing the risks outlined above.

Risk is measured and monitored on a daily basis at two levels: by the Australian Fixed Income team, and by the independent compliance team.

For a credit-heavy portfolio the critical imperative for optimising risk/return is to minimise defaults or impairments. The returns on credit are skewed to the left, default risk establishes a small probability of large impairments. The investment team rightly seeks to reduce the scale and number of potential impairments through rigorous fundamental credit research and a forensic understanding of the contractual structures within each holding.

Diversification is a key risk mitigant. In a portfolio typically of 80-120 different securities, weightings are concentrated on credits offering higher risk adjusted returns.

Approved list securities are acquired in either the primary market or the secondary market. All positions are tightly controlled so that no single security, issuer, sector, or industry is expected to have too great an impact on the relative performance of a portfolio.

The most relevant risk in sizing trades in absolute return mandates is "tail risk", rather than tracking error. Investment decisions are therefore 'sized' in portfolios by their contribution to risk relative to their risk budget.

In Research IP's opinion this is a sensible approach to managing the risk of a portfolio of this nature.

What is the justification for the fees and costs that are charged?

Manager Statement:

The justification for the fees and costs that are charged are a direct result of all operational costs of running the Fund, including custody and administration fees associated with the operation of the Fund being paid by the Responsible Entity out of the fees it earns.

Research IP Opinion:

A product of this nature, which targets somewhat more specialised fixed income market segments, and targets yields at an attractive margin over term deposits, is often priced at something of a premium to more standard fixed income products. Research IP notes that is not the case for this Fund, which is priced competitively in the market overall, and below the average of its peers.

Research IP further notes that the buy/sell spread is reasonable given the nature of the securities traded for this Fund.

Describe the governance processes for managing organisational and investment decisions.

Manager Statement:

The Australian Fixed Income team has day-to-day responsibility for the Fund and to ensure it is within the investment guidelines, by actively monitoring positions daily. The impact of each trade, investment or redemption, is modelled to ensure that the investment guidelines will not be breached subsequent to the trade.

Pre and post-trade screening is completed through programmed compliance rules on an intraday and daily basis across all of our portfolios to help monitor compliance of trades within the investment guidelines and mitigate the risks of any active or passive breaches. If there are any breaches, they will be flagged, investigated, and resolved. Material breaches are also reported to the Board of Directors. A memo documenting the incident leading to a potential or actual breach is required. Part of the investigation of the incident will include if a pre-trade flag was overridden and, if so, why.

Breach matters are reviewed by the Breaches and Incidents working group, where senior members of management triage any incidents or errors, breaches, or potential breaches for reporting to the The Board Audit Risk & Compliance Committee (BARCC) and ultimately to the relevant Board.

YCM utilises an order management system (thinkFolio), which provides trade planning, pre-trade compliance and booking functionality in a single integrated environment. Citi provides Middle Office Administrative support in respect of all of portfolios (including trade management support and post-trade compliance reporting).

Research IP Opinion:

Yarra's operational risk procedures provide robust protections against pre- and post-trade errors using closely and frequently monitored programmed compliance rules. Breaches are resolved as soon as possible and are reported to, and reviewed by, the Board Audit Risk & Compliance Committee (BARCC), which is a delegated committee of the Responsible Entity Board. In addition, material breaches are reported to the Board of Directors.

The Board Audit Risk & Compliance Committee (BARCC) is also responsible for developing and implementing a formalised framework. The committee meets periodically at which issues and emerging trends are discussed and escalated to the Board of Directors as appropriate. The focus of the BARCC is on ensuring that the compliance obligations and operational risk management exposures of the firm:

- are identified and understood
- have appropriate measures put in place to adequately manage these exposures
- and that compliance with these measures are monitored and reported on

In addition, all Yarra personnel are responsible for managing risks in their respective areas of the business and are trained to implement risk management practices. The Firm's staff have been trained to maintain a "compliance culture" that encourages all staff to actively consider compliance and operational risk issues in all day-to-day decision making processes.

In Research IP's opinion, this independent risk oversight, and the resources employed, are at the level of industry best practice.

Describe how the Manager implements ESG, Corporate Sustainability policies and engagement.

Manager Statement:

ESG principles are ingrained in how our Australian Fixed Income analysts invest and are a mainstream part of our ongoing research process. Our process is as follows:

- Firstly, we identify ESG issues (through extensive sovereign, company and industry due diligence including a proactive program of engaging all stakeholders and third-party consultants/brokers) and undertake bespoke research.
- Any identified ESG issues are included in our one-page investment thesis produced for each issuer and factored into our credit assessments.
- If identified ESG issues are assessed as being sufficiently material and a threshold issue, we will not invest in that company.
- ESG issues identified and found not to be threshold issues are incorporated into our valuation work. This will typically result in a lower than otherwise credit rating, which will generally require greater compensation/return to justify the investment.
- ESG ratings of <BB are considered a threshold issue and will be non-investable.

As a signatory to the United Nations Principles for Responsible Investment (PRI), our firm is focused on ESG issues. ESG issues are considered and remain a mainstream part of our research process and risk analysis.

Research IP Opinion:

ESG principles are ingrained in how the team invests and are a mainstream part of the ongoing research process.

The Yarra credit risk model incorporates four key factors that are assigned individual scores, which are then weighted, to create an overall internal credit rating. ESG is one of these factors. The internal credit rating is a critical input to determine which securities are included in the portfolio and at what weight.

ESG is essentially a relative value filter (as expressed in the internal credit rating) rather than an exclusion.

There is, however, a first level screening for the existence and extent of ESG threshold issues which will **act as an exclusion** before further analysis is undertaken.

These threshold issues are:

- Pure-play thermal coal
- Virtual gaming
- Payday lending

If any ESG issues are identified and found **not** to be threshold issues and are not considered material, then they are incorporated into the analyst's valuation work. This will result in a lower than otherwise credit rating, which will generally require greater compensation/return to justify the investment.

In Research IP's opinion, ESG is a difficult area to assess and implement in Fixed Income portfolios generally. By incorporating ESG principles into the internal credit rating, Yarra has established a practical and pragmatic approach that can provide sensible guidance.

Research IP notes that Yarra has been a signatory of the UN PRI since October 2007 and continue to strive for improvement of the Principles.

How does the ownership of the Manager and the compensation of the investment team align with the investors' interests?

Manager Statement:

YCM was established in 2017 following a management buyout of GSAM Australia's domestically focused investment capabilities. Ownership is 40% owned by members of the Yarra staff, 40% owned by TA Associates and 20% owned by Nikko AM.

Compensation
Multiple factors are considered when determining variable compensation and are not given any specific weight. As compensation is not formulaic, we are unable to calculate the percentage of variable compensation related to performance of this investment strategy. The compensation program for the investment team has been designed to recruit, develop and retain key staff members. The program consists of components including:

- Base salary – determined with reference to market standards which are linked to roles and responsibilities.
- Annual performance bonus – a function of each professional's individual performance and his or her contribution to the overall performance of the team. It is not a pre-set percentage of base, rather it is determined based on individual and business outcomes.

In addition, numerous members of the investment team are equity holders in YCM which creates strong alignment outcomes with clients and is an effective retention tool.

Research IP Opinion:

Research IP notes that Yarra has an important element of alignment that relates to equity participation by the staff. Yarra is owned 40% by management and staff – at the overall firm perspective this is a powerful motivator and encourages a culture of "what is good for the clients is good for the firm". This attitude should extend to all the business units within the firm and down to individual staff in order to achieve optimal results.

Having an aligned approach to staff compensation through equity participation and/or co-investment with clients can bring meaningful benefits:

Incentivising Performance:

- Equity participation allows fund managers and staff to have a direct stake in the success of the fund. The team is motivated to work harder and make better investment decisions.
- When fund managers invest alongside their clients, they share both the risks and rewards. This encourages them to focus on long-term value creation and sustainable growth rather than short-term gains and quick wins. A long-term perspective benefits both the fund and its clients.

Retention and Loyalty:

- Offering equity participation enhances employee retention. If staff have a vested interest in the fund's success, they are more likely to stay with the firm.
- Alignment fosters loyalty. Clients appreciate fund managers who have "skin in the game" and are committed to achieving mutual goals. They value transparency and the shared commitment to achieving investment objectives.

Decision-Making:

- Equity participation encourages fund managers to think like owners. They become more thorough in due diligence, risk assessment, and portfolio management.
- Co-investment ensures that fund managers carefully evaluate investment opportunities, as their own capital is at stake. Their interests run in parallel with those of their clients. Both parties benefit from successful investments.

Enhanced Reputation:

- Fund managers who actively participate in equity and co-investment arrangements build a positive reputation. Clients trust them more when they have a personal stake in the fund's success. This in turn attracts new clients and enhances the firm's brand.

Flexibility and Customisation:

- Equity participation and co-investment can be tailored to individual circumstances. Different levels of participation can be offered based on seniority, performance, or other criteria.
- Customization allows fund managers to create compensation structures that suit their specific needs and goals.

In Research IPs opinion the Yarra compensation system (relating to bonus/incentive elements) is somewhat subjective and loosely tied to performance and other elements of client satisfaction. Discretion in awarding bonuses is not of itself a deficient feature – it provides benefits by allowing for nuance and adaptability in circumstances where prescriptive rules might not provide the optimal outcomes.

Research IP notes that Yarra might benefit from considering certain industry practices designed to enhance the alignment aspects of compensation, such as:

- Connecting a portion of the compensation more directly to current and longer-term portfolio performance
- Vesting periods for a portion of incentive payments
- Portions of vesting incentive payments being held in stock or Fund investments.

Comment on assets under management, fund flow and capacity.

Manager Statement:

As a leading independent and active Australian investment manager, we are strongly aligned with our clients. We have a strong heritage in the Australian institutional and retail markets, managing approximately $AU21b in assets.

We serve clients both in Australia and globally, with our investment products accessible in various international markets, including Japan through successful partnerships that have been in operation for nearly a decade.

As of 29 Feb 2024, Yarra had approximately $A5 billion in Australian Fixed Income, including $930m within this fund and $1.6b within the strategy. The fund has continued to experience strong growth with within the wholesale market as demand for fixed income investments expands. Given the size of the Australian fixed income market there are no concerns around capacity.

Research IP Opinion:

	Total Strategy FUM	Net Flows
Dec-2021	$180,962,436	**$82,996,494**
Dec-2022	$445,186,546	**$266,060,213**
Dec-2023	$776,575,378	**$311,506,150**

Strong returns and current attractive yields have assisted the Fund to grow quite significantly over the last three years. The majority of this growth has come from net inflows, rather than market performance.

Given the size of the Australian fixed income market, Research IP is of the opinion that Yarra has considerable headroom to grow without affecting performance potential. Running up against capacity constraints is not a near-term issue.

The RIPPL Effect

For important Fund Facts, please view the **RIPPL Effect report**:

About Research IP

Research IP has provided client focused qualitative and quantitative financial product and security research since 2015. Research IP was also the consultant to the NZX wholly owned subsidiary FundSource, providing investment research to the New Zealand market since 2015.

Research IP is a specialist investment research provider which is used and trusted by investors & financial advisers for investment, KiwiSaver, Superannuation and other Pension schemes throughout the Asia Pacific region.

Research IP has grown its team and footprint by utilising the specialist skills of its analysts which include;

- data scientists,
- equity, bond and alternative asset specialists
- portfolio managers
- asset allocation analysts
- and ratings specialists.

Our experience has been gained in well over 20 years of roles across different facets of the industry, so we understand the key drivers and challenges for managers, as well as the impact for investors and the Financial Advice industry.

By leveraging the skills of specialists, Research IP is able to provide innovative and tailored financial services solutions to the marketplace. Client focused outcomes are underpinned by the belief that the role of business model innovation and accelerating technological change opens up new possibilities, to put client interests at the centre of the financial services industry focus. We have strong philosophical alignment with John Hagel's work on the possibilities for "Disruption by Trusted Advisors" and John Kay's views in "Other People's Money: Masters of the Universe or Servants of the People".

Research IP delivers high quality quantitative and qualitative fund research to financial advisers and the broader financial services industry. Research IP works with a number of expert providers to source this data. Quantitative data is supplied by a variety of sources, including directly from the Fund Manager, while qualitative research is provided by Research IP.

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