

Yarra Enhanced Income Fund

Gross returns as at 30 April 2023

	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	0.57	1.77	5.20	5.35	4.67	5.57	6.04
Yarra Enhanced Income Fund (incl. franking)	0.58	1.8	5.39	5.41	4.87	5.93	6.66
RBA Cash Rate [#]	0.29	0.84	2.35	0.87	0.99	1.50	3.21
Excess return [‡]	0.29	0.96	3.04	4.54	3.88	4.42	3.45

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 30 April 2023

	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	0.52	1.63	4.63	4.75	3.99	4.82	5.24
Yarra Enhanced Income Fund (incl. franking)	0.53	1.66	4.81	4.81	4.19	5.17	5.85
Growth return [†]	0.15	0.45	0.30	1.14	0.44	0.80	-0.09
Distribution return [†]	0.38	1.21	4.52	3.68	3.75	4.37	5.95
RBA Cash Rate [#]	0.29	0.84	2.35	0.87	0.99	1.50	3.21
Excess return [‡]	0.24	0.83	2.46	3.94	3.20	3.67	2.64

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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 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.

[‡] 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 0.53% (net basis) over the month, outperforming its benchmark by 24 bps. On a 12-month view the Fund has returned 4.81%, outperforming the RBA Cash Rate by 246 bps (net basis, including franking).

Performance in April was largely attributable to strong carry, with high levels of income likely to be a theme throughout 2023. At these levels, the Fund's running yield is sufficient to offset significant widening of spreads should that occur. Spreads during the month did contract modestly, particularly among Tier 2 securities which we continue to view favorably.

On the new issuance front, the Fund participated in a new deal from Worley. Worley holds a strong position in the engineering and construction industry and are well diversified operationally, with very limited customer concentration risk. At a spread of 250 bps the deal appeared fairly priced. We continue to be active buyers of credit in the current climate.

Market review

Markets moved on quickly in April from the fallout of earlier failures in the global banking sector. Investor response initially was to take off risk and buy duration, though this was subdued by central bank commentary which was generally dismissive of contagion possibility.

The perception these incidents were isolated, combined with an increasing number of rate cuts priced into the curve, contributed to a sharp rebound in higher risk assets over the course of the month. Sovereign yields were relatively flat across most advanced economies as fear of global banking issues was offset by resilience in inflation and demand data.

The Reserve Bank of Australia (RBA) opted not to raise the cash rate in April, instead electing to wait for further data to be printed. In the RBA's decision making, elevated inflation and ongoing labour market tightness were outweighed by the magnitude and lagged nature of rate hikes already pushed through. Among the material data prints since the meeting have been an upside surprise in employment data, keeping the unemployment rate at 3.5%, and a lower-than-expected Q1 core inflation print at 6.6% (vs consensus of 6.7%). Mixed data will make the RBA's decision making difficult, however, given the inflation trend and deteriorating leading indicators. This means it may be difficult to justify further hikes.

Corporate credit and hybrids were modestly tighter over the period, supported by a broader market risk rally. Substantial carry also continues to be a strong source of performance in the asset class. We are beginning to see a few new corporate deals make their way to market as access to bank credit tightens. We expect issuance volumes will continue to climb throughout the remainder of the year, particularly in periods of lower volatility. The market looks to be flushed with cash, with most new deals being met with strong demand. The Australian iTraxx index moved marginally tighter to 88 bps.

Outlook

Globally, pressure on central banks has been somewhat relieved by downward trending inflation data. Given the deterioration observed across other leading indicators, we expect the peak of the hiking cycle to be near. Corporate earnings have held up relatively well to date, although it appears likely the cumulative load of policy tightening may soon materialise in softer corporate results.

As for the RBA, we anticipate Australia's central bank is nearing the peak cash rate in this cycle. Despite tougher conditions, modest economic growth is likely for 2023, underpinned by strong household balance sheets and high levels of employment.

New issuance volumes appear poised to climb as bank funding cost tighten. The market remains flushed with cash and deprived of new corporate issuance and will likely comfortably absorb increased volumes. This view has been consolidated by strong support for recent deals. Volatility in the market continues to open some compelling entry points, and we remain active buyers of credit due to wide spreads and strong underlying yield. Performance for the remainder of 2023 will likely be underpinned by strong running yield, providing significant downside protection.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	5.97
Option Adjusted Spread	272
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.10
Fund duration (yrs)	1.58
Spread duration (yrs)	3.21
Number of securities	99
Listed	26
Unlisted	73

Sector allocation

	Portfolio %
Asset Backed	-
Banks	44.93
Communication Services	0.52
Consumer Discretionary	-
Consumer Staples	-
Diversified Finance	7.54
Energy	3.24
Health Care	1.72
Industrials	11.34
Information Technology	0.50
Insurance	15.28
Materials	0.52
Mortgage Backed	-
Real Estate	3.29
Utilities	3.86
Cash & Other	7.25

Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	3.87
Bank of Queensland	AU3FN0064408	3.07
National Australia Bank	AU3FN0055224	3.03
Challenger Life	AU3CB0292324	3.02
Cooperatieve Rabobank Ua	AU3CB0293348	2.81
ANZ Bank	AU3CB0292472	2.51
Ausnet Services	AU3FN0056594	2.35
Resolution Life	AU3FN0057691	2.35
Westpac Bank	AU3FN0058129	2.21
Commonwealth Bank of Australia	AU3FN0062600	2.20

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	11.97
Callable	73.90
At Maturity	14.12

Security profile

	Portfolio %
Floating rate	64.07
Fixed rate	28.68
Cash & Other	7.25

Credit rating profile

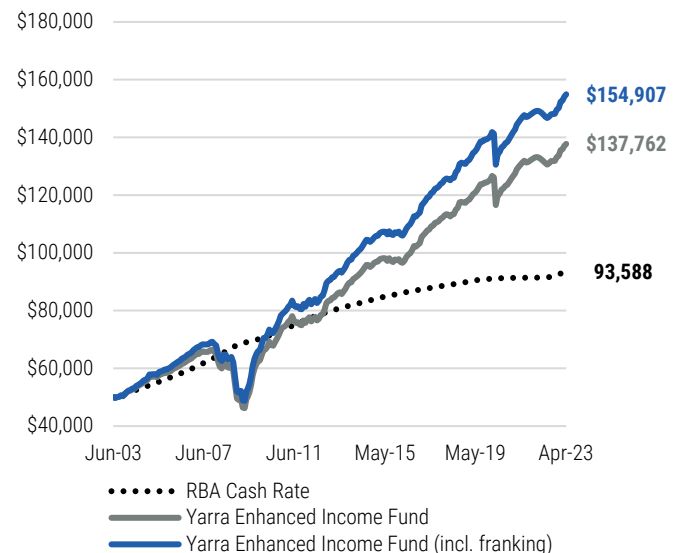
	Portfolio %
A+	-
A	0.19
A-	0.88
BBB+	30.12
BBB	23.03
BBB-	21.22
BB+	8.23
BB	6.08
BB-	0.58
B+	2.41
B	-
B-	-
Not rated or below	0.01
Cash and Derivatives	7.25

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\$516.0 mn as at 30 April 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 April 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

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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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