

# Yarra Enhanced Income Fund

## Gross returns as at 31 August 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	1.00	2.61	7.50	5.14	4.36	5.62	6.06
Yarra Enhanced Income Fund (incl. franking)	1.00	2.65	7.62	5.21	4.53	5.96	6.67
RBA Cash Rate <sup>#</sup>	0.34	1.01	3.36	1.29	1.16	1.54	3.23
Excess return <sup>‡</sup>	0.66	1.63	4.26	3.92	3.37	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 31 August 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	0.95	2.47	6.91	4.57	3.70	4.87	5.27
Yarra Enhanced Income Fund (incl. franking)	0.96	2.50	7.04	4.64	3.87	5.22	5.87
Growth return <sup>†</sup>	0.54	0.78	1.97	0.53	-0.09	0.73	-0.09
Distribution return <sup>†</sup>	0.42	1.73	5.07	4.11	3.96	4.48	5.96
RBA Cash Rate <sup>#</sup>	0.34	1.01	3.36	1.29	1.16	1.54	3.23
Excess return <sup>‡</sup>	0.61	1.49	3.67	3.35	2.71	3.67	2.65

**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 RBA Cash Rate is being used for comparative purposes only. The underlying assets of the Fund are of a higher risk profile than cash assets. When comparing performance of the Fund against the RBA Cash Rate, investors should take this into account.

<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 0.96% (net basis, including franking) over the month, outperforming its benchmark by 61 bps. On a 12-month view the Fund has returned 7.04%, outperforming the RBA Cash Rate by 367 bps (net basis, including franking).

Spread tightening contributed significantly to performance for the month of August. Tier 2 and senior spreads were particularly strong, helped along by high demand for credit and hybrids. Adding further to positive monthly performance was the continuation of substantial running yield.

New deal flow began to pick up during August and has

continued to gain momentum late in the month. We took part in the Lloyd's Bank Tier 2 deal which was trading more akin to domestic Tier 1. Other issuances we have seen has been well supported by the market, with elevated yields and equity market volatility clearly attracting flow into the sector. We remain active in both the primary and secondary markets as we seek to capture attractive spreads across the market.

### Market review

US sovereign 10yr bond yields led the month with a sharp rise following Fitch's downgrade of the US sovereign credit rating from AAA to AA+. However, unlike the S&P shock downgrade in 2011, this time, the markets were quick to dismiss the news. For the balance of the month, global economic data was overall

neutral-positive, fuelling yields to compress, closing the month relatively flat. The exception was China, weighed down by weak economic data, the PBOC cut the medium-term lending facility rate by 10bps and one-year reverse repo rate by 10bp cut to the one-year loan prime rate.

Locally, the Reserve Bank of Australia (RBA) continued to hold rates stable at 4.1%, likely signally the conclusion of cash rate tightening. Softer than expected CPI data, 4.9% (y/y) against expectations for 5.2%, and weaker employment figures, diminish the likelihood that more hikes are in the pipeline. Corporate reporting season was relatively mixed. Earnings remained somewhat resilient, however, corporate commentary around the outlook suggest the trough is still ahead of us.

Corporate credit and hybrid spreads were tighter over the month. Easing inflation coupled with a resilient growth outlook and tight labour markets contributed to a rally across higher risk assets. New deals were again well supported. Investors in the sector remain flush with cash and eager to get significant scale in newly issued deals. Outright yields and cashed up investors will likely act as a backstop for any significant spread widening. The Australian iTraxx index moved wider early in August, a modest rally late in the period led to a close at 77 bps (from 71 bps).

## Outlook

Rapid fiscal tightening has been effective in easing consumer demand, however, is yet to prove overly detrimental to labour markets or global growth. Meanwhile softer CPI across most advanced economies has done little to silence policy maker hawkishness.

Domestically, downward trending CPI and early signs of a softening labour market have been insufficient in convincing the market we are at the top of the cycle, with the possibility of another hike still being priced in. Broadly speaking, economic conditions have proved resilient in the face of rapid tightening. We expect this will underpin modest domestic growth for 2023.

Value in the corporate credit and hybrid market remains compelling. Outright returns continue to benefit from rising rates and wide credit spreads. Corporate reporting season was largely credit neutral; balance sheets remain strong and earnings resilient, however the trough remains ahead of us. The return of new issuance has created great opportunities to lock in substantial risk adjusted returns. The support for new deals will likely encourage possible issuers into the market. Carry has been the key contributor to performance, and we expect it will continue to drive positive returns for the remainder of 2023.

## Portfolio profile

### Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.41
Option Adjusted Spread	258
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.55
Fund duration (yrs)	1.63
Spread duration (yrs)	3.40
Number of securities	109
Listed	25
Unlisted	84

### Sector allocation

	Portfolio %
Asset Backed	0.00
Banks	46.13
Communication Services	0.00
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Finance	7.24
Energy	2.55
Health Care	2.80
Industrials	8.78
Information Technology	0.38
Insurance	14.76
Materials	0.40
Mortgage Backed	0.00
Real Estate	6.00
Utilities	5.27
Cash & Other	5.69

## Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	3.33
Commonwealth Bank of Australia	AU3FN0067989	3.04
Resolution Life	AU3FN0057691	2.82
Westpac Banking Corporation	AU3CB0300358	2.46
Challenger Life	AU3CB0292324	2.39
Bank Of Queensland	AU3FN0064408	2.37
Cooperatieve Rabobank U.A.	AU3CB0293348	2.20
QBE Insurance Group	AU3FN0078747	2.17
Lloyds Banking Group	AU3CB0302115	1.96
Australia And New Zealand Banking Group	AU3CB0292472	1.96

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	13.67
Callable	73.22
At Maturity	13.10

## Security profile

	Portfolio %
Floating rate	60.29
Fixed rate	34.02
Cash & Other	5.69

## Credit rating profile

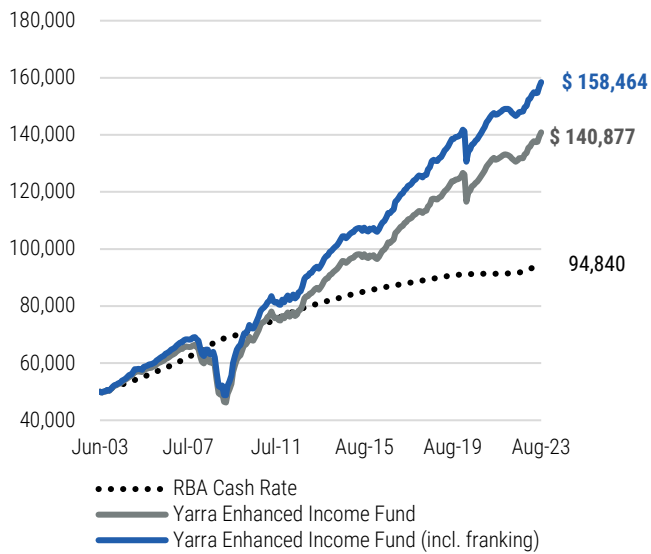
	Portfolio %
A+	-
A	0.15
A-	2.04
BBB+	30.93
BBB	21.63
BBB-	22.69
BB+	7.24
BB	5.91
BB-	1.89
B+	1.81
B	-
B-	-
Not rated or below	0.00
Cash and Derivatives	5.69

## 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 \$669.1 mn as at 31 August 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 Wealth02 Xplore Wealth

## Investment performance comparison of \$50,000

After fees, since inception of the Yarra Enhanced Income Fund, July 2003 to August 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.

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## 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)

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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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