

Yarra Enhanced Income Fund

Gross returns as at 31 December 2022

	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	0.38	1.50	0.89	2.76	4.11	5.57	5.96
Yarra Enhanced Income Fund (incl. franking)	0.39	1.53	1.02	2.81	4.34	5.93	6.59
RBA Cash Rate	0.26	0.70	1.27	0.56	0.87	1.49	3.21
Excess return [‡]	0.13	0.82	-0.25	2.24	3.47	4.43	3.38

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 December 2022

	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	0.33	1.36	0.33	2.15	3.42	4.81	5.16
Yarra Enhanced Income Fund (incl. franking)	0.34	1.39	0.47	2.20	3.65	5.16	5.79
Growth return [†]	0.08	0.60	-3.31	-1.10	0.00	0.81	-0.17
Distribution return [†]	0.26	0.79	3.77	3.29	3.64	4.35	5.96
RBA Cash Rate	0.26	0.70	1.27	0.56	0.87	1.49	3.21
Excess return [‡]	0.08	0.68	-0.80	1.63	2.77	3.67	2.58

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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 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 1.39% (net basis, including franking) over the quarter, outperforming its benchmark by 68 bps. On a 12-month view the Fund returned 0.47%, underperforming the RBA Cash Rate by 80 bps (net basis, including franking).

Carry was a strong contributor to performance over the quarter. At these levels, carry is providing substantial downside protection. We expect this will continue to underpin strong performance through 2023.

The ongoing absence of new issuance, coupled with a modest risk rally, helped push corporate credit and hybrid spreads tighter. We continue to see value in the market, with spreads and outright yields at attractive levels.

Market review

Somewhat perversely, a continued deterioration in economic data proved positive for risk sentiment during the quarter. Leading indicators continue to show signs of stress as cumulative policy tightening flows through the broader economy. For investors, this presented an opportunity to position for a potential central bank 'pivot', whereby the tightening of monetary policy would be put on ice. However, this was not to be.

Among the more market sensitive data points released during December were the weaker than expected inflation prints from both the US and the UK. Policy makers were quick to subdue market excitement, reiterating hawkish positioning. Policy makers were quick to subdue market excitement, reiterating

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Sovereign debt was caught in the risk rally early in the quarter. However, hawkish commentary from policy makers wiped early gains and pushed yields higher. Notably, the Bank of Japan (BoJ) shocked the market by increasing the range it allows 10-year yields to trade in. Many interpreted this as foreshadowing the possibility of future rate hikes.

The Reserve Bank of Australia (RBA) hiked at each of its three meetings during the quarter, albeit at a reduced rate. The cash rate now sits at 3.10%. Minutes from the most recent meeting showed a broad range of possibilities. The RBA considered raising 50 bps – or not raising at all – before settling at 25 bps. Elevated inflation was balanced out by the cumulative impact of rate hikes already pushed through in the RBA's final decision making.

Domestic data printed through the quarter was again relatively mixed. Despite the cumulative 3.0% rise in the cash rate, the labour market has remained tight. A further 64k jobs were added in the November print, and the unemployment rate sits at a record low of 3.4%. Labour market conditions likely explained some of the resilience in retail sales, although we did see the first negative monthly number of -0.2% (m/m) for the year, which may give some indication of what is to come. GDP data for Q3 also disappointed, coming in at 5.9% (y/y) below expectations for 6.2%.

Corporate credit and hybrid spreads were tighter over the period. The continued absence of new issuance is creating very strong secondary market demand and helping to drive spreads lower. Adding to the attractiveness of corporate credit is the substantial level of carry which is providing significant downside protection. The Australian iTraxx index was tighter over the period, closing at ~93 bps.

Outlook

Leading indicators continue to paint a bleak picture for global economic conditions through 2023. We expect a deterioration to materialise throughout 2023 and, inevitably, as weaker corporate earnings begin to flow through. A shift in tone will likely follow from policy makers, alongside a pause in the tightening of monetary conditions.

The domestic starting point remains favourable: strong household and corporate balance sheets coupled with a labour market that is proving resilient. We expect strength in the labour will underpin modest economic growth in 2023. We continue to expect the RBA will hike once more at their first meeting of 2023, before taking a pause.

Given the starting point, weaker earnings appear to be more of an issue for holders of equity than credit. As such, we remain constructive, looking to capture elevated levels of outright yield. Strong carry is offering significant downside protection, which we expect will underpin positive performance through 2023.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	5.52
Option Adjusted Spread	278
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.52
Fund duration (yrs)	1.50
Spread duration (yrs)	3.15
Number of securities	92
Listed	24
Unlisted	68

Sector allocation

	Portfolio %
Asset Backed	0.17
Banks	45.68
Communication Services	0.59
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Finance	7.07
Energy	2.45
Health Care	2.00
Industrials	9.61
Information Technology	0.55
Insurance	15.87
Materials	0.60
Mortgage Backed	0.00
Real Estate	3.45
Utilities	3.99
Cash & Other	7.97

Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	4.47
National Australia Bank	AU3FN0055224	3.54
Bank of Queensland	AU3FN0064408	3.45
Challenger Life	AU3CB0292324	3.40
Rabobank	AU3CB0293348	3.20
ANZ Bank	AU3CB0292472	2.82
Westpac Bank	AU3FN0058129	2.55
Commonwealth Bank of Australia	AU3FN0062600	2.51
Commonwealth Bank of Australia	AU3FN0073029	2.19
Resolution Life	AU3FN0057691	2.09

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	12.86
Callable	70.95
At Maturity	16.20

Security profile

	Portfolio %
Floating rate	67.48
Fixed rate	24.55
Cash & Other	7.97

Credit rating profile

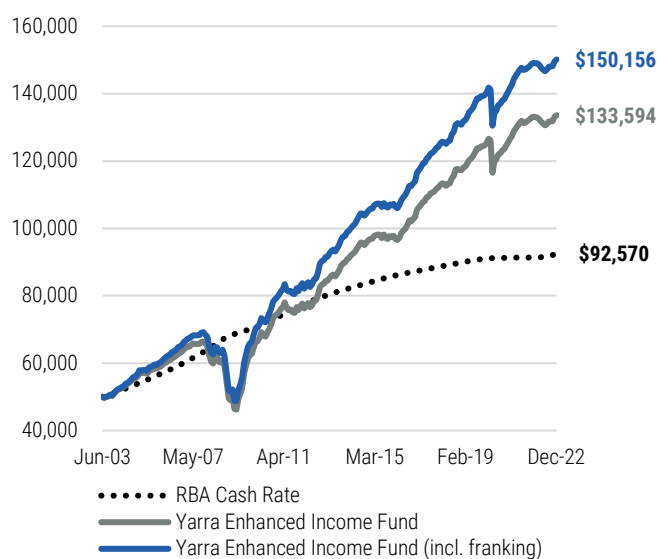
	Portfolio %
AA	0.00
A+	1.02
A	0.22
A-	0.00
BBB+	29.06
BBB	21.79
BBB-	22.54
BB+	8.27
BB	6.42
BB-	0.67
B+	1.42
B	0.60
B-	0.00
Not rated or below	0.01
Cash and Derivatives	7.97

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\$445.7 mn as at 31 December 2022	
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 December 2022.



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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