

Yarra Enhanced Income Fund

Gross returns as at 31 July 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	0.37	-0.35	0.33	2.56	4.20	6.03	5.98
Yarra Enhanced Income Fund (incl. franking)	0.37	-0.26	0.43	2.59	4.47	6.42	6.62
RBA Cash Rate	0.11	0.19	0.27	0.34	0.79	1.52	3.22
Excess return [‡]	0.26	-0.46	0.16	2.26	3.69	4.90	3.39

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 July 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	0.32	-0.49	-0.22	1.92	3.48	5.26	5.17
Yarra Enhanced Income Fund (incl. franking)	0.32	-0.40	-0.12	1.95	3.76	5.65	5.81
Growth return [†]	0.02	-1.89	-3.84	-1.46	0.00	1.10	-0.21
Distribution return [†]	0.30	1.49	3.72	3.41	3.76	4.54	6.02
RBA Cash Rate	0.11	0.19	0.27	0.34	0.79	1.52	3.22
Excess return [‡]	0.22	-0.60	-0.39	1.62	2.97	4.12	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 0.32% (net basis) over the month, outperforming its RBA Cash Rate benchmark by 22 bps.

Performance in July was driven by strong running yield, with spreads remaining at elevated levels and continuing to offer value.

A highlight among the limited number of new deals was a Tier 2 security from NAB. The deal launched at a spread of 280 bps, offering strong pick-up over senior and attractive value relative to Tier 1. The spread between Tier 1 and Tier 2 securities appears very tight, and as such we view Tier 2 more favorably at this point in time.

Market review

The brakes applied by central banks across the globe are beginning to show signs of success. Growth forecasts have been downgraded and consumer sentiment remains depressed. Although inflation prints have remained elevated, we are starting to see signals that we may be at or near the peak.

Sovereign yields moved lower through the month across most advanced economies. The deterioration of economic data has led investors to question central banks' ability to push rates as high as the market is currently pricing.

The Reserve Bank of Australia (RBA) were persistent in their normalisation of monetary policy, raising the cash rate by another 50 bps to 1.35%. The RBA took the lead of other

central banks around the globe, pushing through the larger sized hike, with resilient retail sales and tight labour market data likely consolidating the Board's view that a 0.5% move was necessary. The RBA maintains its view that the neutral cash rate is still some way off. Late in the month CPI was released, coming in just below consensus, at 1.8% (q/q), against expectations for a 1.9% rise.

Corporate credit and hybrid spreads were modestly wider over the period. Investors withdrew risk early in the month, before a shift in sentiment late in the period saw spreads begin to grind back in. Aside from major bank subordinated debt, new issuance was largely subdued, likely the result of ongoing market volatility. The Australian iTraxx index moved lower over the month closing at ~111 bps.

Outlook

Central banks across the globe have pumped the brakes hard to reduce inflation, though the quantum of rate hikes required to drag inflation into the desired range remains the subject of contested debate. The prospect of rates continuing to rise on their current trajectory brings an economic slowdown nearer the horizon.

The domestic starting point will, however, go a long way to avoiding a dire downturn. Corporate balance sheets remain healthy, while a tight labour market is underpinning household balance sheets. While we expect more hikes to follow in the second half of this year, we remain confident there is sufficient capacity to absorb the shock.

Rising outright yields and a move higher in spreads is creating attractive value across the credit and hybrid market. Minimal returns on cash continue to underpin strong demand, as reflected in the oversubscription of most new deals coming to market. We expect demand for yield to remain robust throughout 2022, supporting strong returns over the year.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	4.20
Option Adjusted Spread	283
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	5.67
Fund duration (yrs)	0.85
Spread duration (yrs)	3.14
Number of securities	90
Listed	30
Unlisted	60

Sector allocation

	Portfolio %
Asset Backed	0.23
Banks	38.79
Communication Services	0.81
Consumer Discretionary	-
Consumer Staples	-
Diversified Financials	11.68
Energy	3.33
Health Care	2.69
Industrials	10.59
Information Technology	0.57
Insurance	14.90
Materials	0.77
Mortgage Backed	-
Real Estate	2.06
Utilities	5.49
Cash & Other	8.11

Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	5.94
National Australia Bank	AU3FN0055224	4.77
Westpac	AU3FN0058129	3.42
NAB	AU0000NABPE2	3.01
Resolution Life	AU3FN0057691	2.90
Ampol	AU3FN0057683	2.58
QBE	AU3FN0055489	2.57
AusNet	AU3FN0056594	2.57
IAG	AU3FN0047544	2.43
AusNet	AU3CB0288066	2.38

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	19.58
Callable	62.81
At Maturity	17.61

Security profile

	Portfolio %
Floating rate	77.36
Fixed rate	14.53
Cash & Other	8.11

Credit rating profile

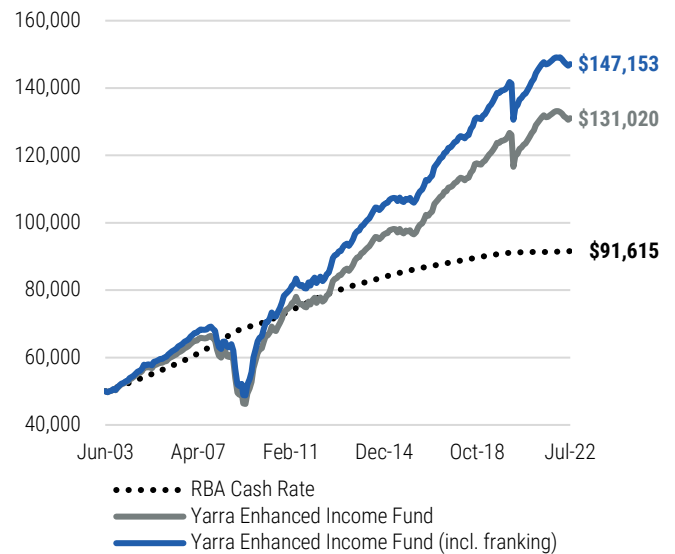
	Portfolio %
A+	-
A	0.30
A-	-
BBB+	19.62
BBB	20.81
BBB-	31.07
BB+	7.30
BB	9.76
BB-	0.91
B+	1.30
B	0.77
B-	-
Not rated or below	0.04
Cash and Derivatives	8.11

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\$326.6 mn as at 31 July 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 July 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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