

Yarra Enhanced Income Fund

Gross returns as at 31 July 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	1.48	1.44	7.09	5.06	4.50	5.63	6.03
Yarra Enhanced Income Fund (incl. franking)	1.48	1.47	7.22	5.13	4.67	5.98	6.65
RBA Cash Rate [#]	0.34	0.99	3.17	1.18	1.12	1.53	3.22
Excess return [‡]	1.14	0.48	4.05	3.95	3.55	4.45	3.43

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 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	1.43	1.30	6.51	4.48	3.83	4.89	5.24
Yarra Enhanced Income Fund (incl. franking)	1.43	1.33	6.63	4.55	4.00	5.23	5.85
Growth return [†]	1.01	-0.49	1.73	0.49	0.12	0.79	-0.12
Distribution return [†]	0.42	1.82	4.90	4.07	3.88	4.44	5.96
RBA Cash Rate [#]	0.34	0.99	3.17	1.18	1.12	1.53	3.22
Excess return [‡]	1.09	0.34	3.46	3.37	2.89	3.70	2.63

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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 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.

[‡] 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 1.43% (net basis, including franking) over the month, outperforming its benchmark by 109 bps. On a 12-month view the Fund has returned 6.63%, outperforming the RBA Cash Rate by 346 bps (net basis, including franking).

Broad-based spread widening, coupled with significant carry, underpinned strong performance through July. Tier 2 spreads were particularly strong through the month, contributing significantly to outperformance. We have long held a preference for Tier 2 over Tier 1, given the relative trading level.

New deal flow began to ease as the August reporting season

neared. The issuance we did see was well supported by the market, with elevated yields 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

Financial markets traded positive through July, seemingly ignorant to the rapid fiscal tightening imposed by central banks. Positive sentiment was in large part due to softening inflation data and resilience in labour markets and the global growth outlook. The slowing rate of inflation was, however, still insufficient in subduing the hawkish outlook of policy makers.

Central banks have stressed the possibility of further hikes, though it appears likely we are now at or on the verge of peak rates across most advanced economies. While this view is mirrored by bond markets, sovereign yields were generally higher over the period.

Surprising resilience in economic conditions has driven traders to expect rates to remain elevated for longer, putting upward pressure on yields. Also impacting global yields was the latest update from the Bank of Japan (BoJ) which included adjustments to Yield Curve Control (YCC) settings, raising the potential for further policy changes down the track.

Closer to home, the Reserve Bank of Australia (RBA) left rates unchanged at 4.1% in July, with Australia's monthly inflation print in late June – which was well below expectations – likely a key driver in the RBA's decision to hold. The Board maintained its tightening bias, leaving open the possibility of further hikes, should inflation slow at a rate it deems unsatisfactory.

Australia's Q2 CPI print came in modestly below expectations. The trimmed mean measure is now running at 5.9% (y/y) after peaking at 6.9%. Retail sales, meanwhile, painted a bleak picture for consumer demand, falling 0.8% (m/m) in June.

Corporate credit and hybrid spreads were tighter over the month. Easing inflation coupled with a resilient growth outlook and strong labour markets contributed to a rally across higher risk assets. Spreads among Tier 2 securities performed particularly well following an extended period of trading cheap relative to Tier 1.

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 tighter, closing the period at 71 bps.

Outlook

Rapid fiscal tightening has been effective in easing consumer demand. It is, however, yet to prove overly detrimental to labour markets or global growth. Slowing demand has helped lead a steady decline in global inflation, albeit at a pace unsatisfactory to many policy makers. It is beginning to appear likely that rates will remain at elevated levels for a more extended period than first thought.

Domestically, we have likely reached the peak cash rate. However, while pockets of the market have suffered from policy tightening, economic conditions have broadly proved resilient. 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. 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 underpin positive returns for the remainder of 2023.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.27
Option Adjusted Spread	258
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.62
Fund duration (yrs)	1.54
Spread duration (yrs)	3.20
Number of securities	107
Listed	25
Unlisted	82

Sector allocation

	Portfolio %
Asset Backed	0.00
Banks	43.85
Communication Services	0.00
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Finance	7.71
Energy	2.69
Health Care	1.43
Industrials	8.61
Information Technology	0.40
Insurance	15.83
Materials	0.43
Mortgage Backed	0.00
Real Estate	6.31
Utilities	5.55
Cash & Other	7.20

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	-AU3FN0055224	3.50
Commonwealth Bank of Australia	-AU3FN0067989	3.22
Resolution Life	-AU3FN0057691	2.98
Bank Of Queensland	-AU3FN0064408	2.54
Challenger Life	-AU3CB0292324	2.50
Cooperatieve Rabobank U.A.	-AU3CB0293348	2.31
QBE Insurance Group	-AU3FN0078747	2.29
ANZ Bank	-AU3CB0292472	2.06
Transgrid	-AU3CB0299618	2.04
AMP Bank	-AU3FN0072161	2.04

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	11.71
Callable	74.04
At Maturity	14.25

Security profile

	Portfolio %
Floating rate	61.46
Fixed rate	31.33
Cash & Other	7.20

Credit rating profile

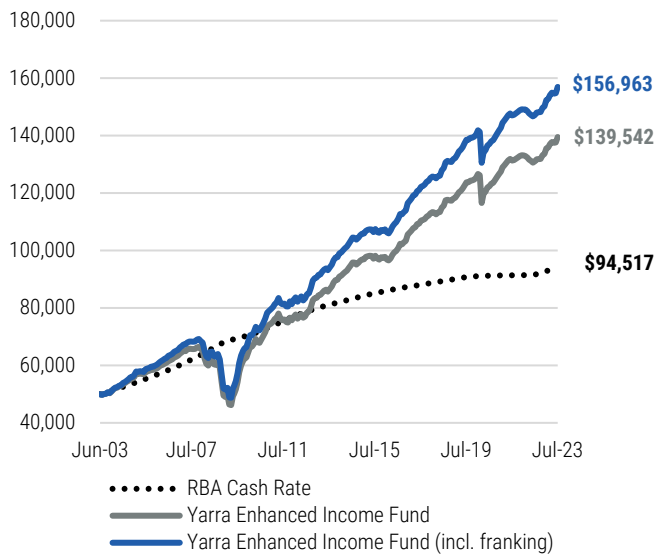
	Portfolio %
A+	-
A	0.16
A-	2.15
BBB+	31.01
BBB	21.93
BBB-	21.19
BB+	7.65
BB	6.25
BB-	0.48
B+	1.96
B	-
B-	-
Not rated or below	0.00
Cash and Derivatives	7.20

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 \$628.0 mn as at 31 July 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 July 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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