

Yarra Enhanced Income Fund

Gross returns as at 30 June 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	0.12	0.53	5.93	4.68	4.33	5.59	5.98
Yarra Enhanced Income Fund (incl. franking)	0.14	0.56	6.04	4.76	4.50	5.94	6.60
RBA Cash Rate [#]	0.33	0.94	2.93	1.07	1.07	1.52	3.22
Excess return [‡]	-0.18	-0.38	3.12	3.68	3.43	4.42	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 30 June 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	0.07	0.39	5.35	4.10	3.66	4.84	5.19
Yarra Enhanced Income Fund (incl. franking)	0.10	0.43	5.46	4.17	3.83	5.19	5.80
Growth return [†]	-0.77	-1.34	0.73	0.26	0.04	0.79	-0.17
Distribution return [†]	0.86	1.76	4.73	3.91	3.79	4.40	5.97
RBA Cash Rate [#]	0.33	0.94	2.93	1.07	1.07	1.52	3.22
Excess return [‡]	-0.23	-0.51	2.54	3.10	2.76	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 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 0.43% (net basis, including franking) over the quarter, underperforming its benchmark by 51 bps. On a 12-month view the Fund returned 5.46%, outperforming the RBA Cash Rate by 254 bps (net basis, including franking).

Strong carry once again added significantly to performance, outweighing wider spreads and selling of duration. Tier 1 securities were among the top performers during the quarter, with significant alpha generated from selective Tier 1 positions we added in the aftermath of the Credit Suisse collapse.

Outright yields in the Fund are becoming difficult to ignore. We

are seeing strong investment grade credit at yields not seen in many years. We continue to make the most of this period, adding to positions where we see the best available risk-adjusted returns.

Market review

Yet another banking collapse did little to subdue desensitised and very bullish investors. Risk assets continued their upward trend despite bond markets pricing an even higher terminal rate. Many professional investors have been caught on the sideline amidst the recent rally as caution remains prevalent across the market.

Further deterioration in economic leading indicators did little to

spook central bankers. While inflation trended down, it was at a pace unsatisfactory to many policy makers. Making their jobs more challenging has been the prevalence of labour market resilience which has helped to avoid a complete destruction of consumer demand.

The Federal Reserve finally decided to hold off on hiking rates at their latest meeting, however their commentary remains overwhelmingly cautious. It seems likely that further weakness in the data is imminent and the rate peak may be near. Bond markets did not share the same view, as yields trended far higher over the quarter. Investors priced in a higher terminal rate, largely influenced by tight labour markets and policy maker commentary.

Closer to home, the Reserve Bank of Australia (RBA) remained on hold for their first meeting of the quarter, before adding a cumulative 50 bps to the cash rate over the following two months, taking it to 4.1% in June. The RBA has further confused the market by shifting the narrative, citing climbing unit labour costs in their justification for the hikes.

On the data front Q1 GDP printed at 0.2% growth (q/q), which fell short of consensus expectations of 0.3%. Inflation also showed signs of easing as the monthly indicator fell to 5.6% in May, well below the 6.1% expected. The labour market continued to show resilience with employment gains late in the quarter exceeding expectations, pushing unemployment down to 3.6%. This news led to an inversion of the Australian yield curve (3s/10s) for the first time since 2008.

Despite the 2Q23 risk rally, corporate credit and hybrid spread generally moved wider. Coupled with higher bond yields, outright returns appeared very attractive by the end of the period. The return of new issuance provided new opportunities to put money to work, with these new deals well supported by the market and likely to encourage other potential issuers to follow. The Australian iTraxx index moved marginally tighter to 81 bps.

Outlook

Resilience in global labour markets continues to present a challenge for central bankers. Relieving some of the pressure has been a steady decline in inflation numbers, which may signal a looming rate peak. However, the slow rate at which inflation has declined has created a significant cohort of hawkish policy makers. The RBA has adopted an outlook akin to its global counterparts, warning further hikes may follow. The outlook for economic conditions has become increasingly dire alongside rising rates, however we still expect modest growth for the remainder of 2023.

We continue to see compelling value in the corporate credit and hybrid markets. Outright returns continue to benefit from rising rates and wide credit spreads, with the return of new issuance to the market leading to some great opportunities to lock in elevated risk adjusted returns. The support for new deals will likely encourage additional 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) (%)	6.34
Option Adjusted Spread	279
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.92
Fund duration (yrs)	1.47
Spread duration (yrs)	3.24
Number of securities	104
Listed	25
Unlisted	79

Sector allocation

	Portfolio %
Asset Backed	0.00
Banks	45.04
Communication Services	0.00
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Finance	7.94
Energy	2.88
Health Care	1.54
Industrials	9.20
Information Technology	0.43
Insurance	15.42
Materials	0.46
Mortgage Backed	0.00
Real Estate	5.10
Utilities	5.93
Cash & Other	6.07

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	3.63
Commonwealth Bank of Australia	AU3FN0067989	3.49
Resolution Life	AU3FN0057691	3.19
Bank Of Queensland	AU3FN0064408	2.73
Challenger Life	AU3CB0292324	2.64
Cooperatieve Rabobank UA	AU3CB0293348	2.46
ANZ Bank	AU3CB0292472	2.18
Transgrid	AU3CB0299618	2.18
Ausnet Services	AU3FN0056594	2.09
Westpac Banking	AU3FN0058129	1.99

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	12.30
Callable	74.40
At Maturity	13.30

Security profile

	Portfolio %
Floating rate	63.80
Fixed rate	30.13
Cash & Other	6.07

Credit rating profile

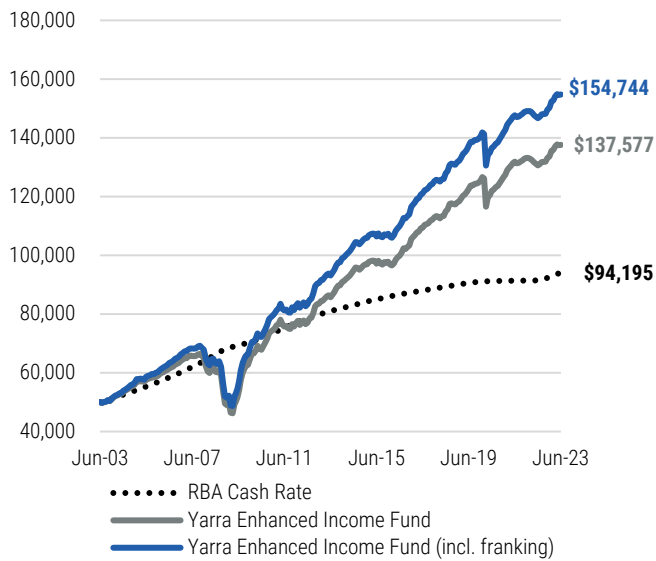
	Portfolio %
A+	0.00
A	0.17
A-	2.30
BBB+	30.41
BBB	23.06
BBB-	21.11
BB+	7.63
BB	6.64
BB-	0.52
B+	2.09
B	0.00
B-	0.00
Not rated or below	0.00
Cash and Derivatives	6.07

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 \$581.4 mn as at 30 June 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 June 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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