Yarra Enhanced Income Fund

Gross returns as at 31 March 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	0.95	2.72	4.11	6.15	4.69	5.61	6.03
Yarra Enhanced Income Fund (incl. franking)	0.97	2.76	4.29	6.21	4.89	5.96	6.65
RBA Cash Rate#	0.30	0.81	2.06	0.78	0.96	1.50	3.21
Excess return‡	0.67	1.95	2.22	5.43	3.93	4.46	3.44

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 March 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	0.90	2.58	3.54	5.54	4.00	4.85	5.23
Yarra Enhanced Income Fund (incl. franking)	0.92	2.62	3.71	5.60	4.20	5.20	5.85
Growth return†	0.52	1.38	-0.63	2.03	0.53	0.87	-0.10
Distribution return†	0.40	1.24	4.35	3.58	3.67	4.33	5.95
RBA Cash Rate#	0.30	0.81	2.06	0.78	0.96	1.50	3.21
Excess return‡	0.62	1.81	1.65	4.82	3.24	3.70	2.64

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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 Fund is a floating rate fund and is not confined to purchasing securities of a particular index, making other benchmarks unsuitable. The Fund uses the RBA Cash Rate as a benchmark as the cash rate is most closely aligned with the investment style of the Fund.
‡ 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 2.62% (net basis, including franking) over the quarter, outperforming its benchmark by 181 bps. On a 12-month view the Fund returned 3.71%, outperforming the RBA Cash Rate by 165 bps (net basis, including franking).

Strong carry continues to be a meaningful contributor to performance, adding, in our view, significant downside protection should we see any weakness in spreads. The Fund's long position in Bank Bill Futures also created considerable alpha. We have a long held these positions in the expectation the RBA would not be able to raise rates as high as the market is pricing.

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 current levels.

Market review

The year started with an upbeat tone, as the 'everything rally' took hold. Risk appetite had returned and markets started pricing a 'soft-landing'. Inevitably the magnitude of tightening was not to be ignored, the consequences of which were felt late in the quarter.

Deteriorating fiscal conditions began taking casualties in March, as several regional US banks collapsed and Credit

Suisse was forced into a takeover by UBS. The banking woes were caused by significant unrealised losses, coupled with a run-on liquidity.

While initial fears of contagion look to have been overblown, it is a good reminder of the impact and magnitude of tightening conditions. Despite the banking uncertainty, several central banks, including the Federal Reserve and ECB, continued to lift target rates.

Global economic data remained somewhat resilient to tightening conditions. Services PMIs across most global economies beat expectations, sparking a modest sell-off in financial markets. Weak US labour market data late in the period reassured markets that the top of the hiking cycle may be nearing.

Sovereign yields across most advanced economies moved sharply lower. The risks to the banking sector sparked the rally that is now pricing in rate cuts by many central banks before year-end.

The Reserve Bank of Australia (RBA) raised at each of their two meetings during the quarter, taking the cash rate to 3.60%. It was clear in the minutes the tone of the RBA began to shift. The board conceded that economic data early in the year had showed signs of softening, however, expect further tightening may be required.

Domestic data were mixed over the period. Retail sales remained relatively robust, while both Q4 wages and GDP were lower than expected. The labour market bounced back from a weak January print, adding 65k jobs and pushing unemployment back to 3.5% (from 3.7%). As for CPI, the monthly indicator, printed just prior to month end, came in below expectations at 6.8% (y/y). This helped consolidate the consensus view that the RBA would leave rates on hold in their April meeting.

It was an eventful month in the corporate credit and hybrid space. The collapse of multiple regional banks in the US followed by the fall of Credit Suisse has sent shockwaves across the market. As credit investors, the situation at Credit Suisse has been of particular interest. Following the forced takeover by UBS, Credit Suisse shareholders were fortunate enough to get limited compensation in the form of UBS equity. Controversially, however, Credit Suisse AT1s were written off completely. This is despite the AT1s superior position in the capital stack. Swiss regulator FINMA made the determination that the situation at Credit Suisse warranted a complete write down.

The implications for Australian credit have been interesting. Broad based risk-off sentiment saw spreads widen over the period and, as expected weakness was most significant in Tier 1 hybrids.

However, it is worth noting that the situation at Credit Suisse that saw AT1 holders with nothing is extremely unlikely domestically. Very well capitalised banks, a strict regulatory environment and conversion to equity in a non-viability event are all in favour of domestic hybrids.

We do not see contagion from offshore having a material impact on the credit quality of Australian banks. In the very improbable event it was to occur, hybrid holders would be far better protected. For these reasons, domestic Tier 1 has significantly outperformed offshore equivalents.

More broadly, market wide risk-off sentiment created some modest weakness in spreads. The ongoing absence of new issuance has helped underpin strong demand for credit, subduing the impact of softer sentiment. As bank funding costs rise and credit becomes more difficult to access, we expect new issuance markets will ramp up. The Australian iTraxx index moved marginally wider to 90 bps.

Outlook

Economic leading indicators continue to show signs of weakness, although thus far the resilience in data has been much to the surprise of many market participants. We do, however, expect conditions to deteriorate further and ultimately materialise in weaker corporate earnings.

Global central banks have continued to push rates higher, although the tone seems to have started to shift. We believe the RBA may have now reached the peak in the rate cycle and will elect to sit on their hands and re-assess economic conditions. Despite tougher conditions, modest economic growth seems likely for 2023, underpinned by strong household balance sheets and high levels of employment.

Volatility in the market has opened some compelling entry points. We do not anticipate spreads will move much wider due to elevated demand and limited supply. The Australian banks' insulation from global issues has also created strong value in the market. Where we can, we continue to look to lock in elevated levels of outright yield and attractive spread. We expect strong running yield will make for positive performance through 2023.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	5.87
Option Adjusted Spread	277
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.11
Fund duration (yrs)	1.60
Spread duration (yrs)	3.24
Number of securities	98
Listed	26
Unlisted	72

Sector allocation

	Portfolio %
Asset Backed	0.00
Banks	45.72
Communication Services	0.52
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Finance	7.64
Energy	3.27
Health Care	1.76
Industrials	10.11
Information Technology	0.51
Insurance	14.92
Materials	0.54
Mortgage Backed	0.00
Real Estate	3.37
Utilities	3.91
Cash & Other	7.70

Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	3.97
National Australia Bank	AU3FN0055224	3.12
Bank Of Queensland	AU3FN0064408	3.11
Challenger Life	AU3CB0292324	3.03
Co-Operatieve Rabobank	AU3CB0293348	2.94
ANZ Bank	AU3CB0292472	2.53
Ausnet Services	AU3FN0056594	2.39
Westpac Banking	AU3FN0058129	2.26
Commonwealth Bank of Australia	AU3FN0062600	2.23
Commonwealth Bank of Australia	AU3CB0297653	2.05

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	12.17
Callable	73.11
At Maturity	14.72

Security profile

	Portfolio %
Floating rate	64.66
Fixed rate	27.64
Cash & Other	7.70

Credit rating profile

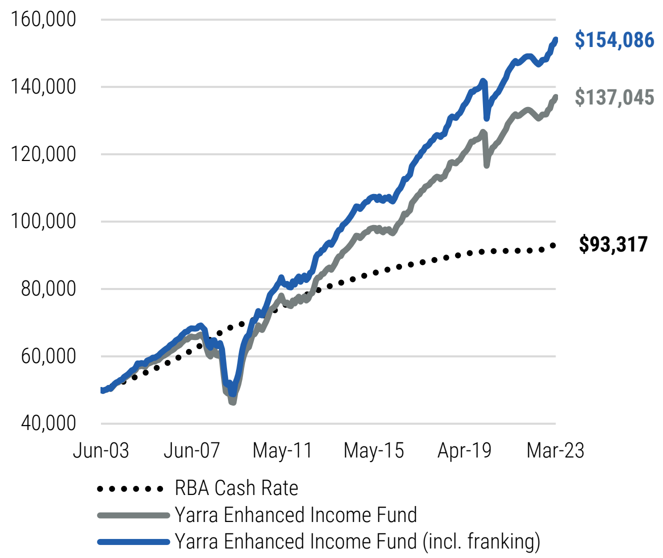
	Portfolio %
A+	0.00
A	0.20
A-	0.89
BBB+	30.64
BBB	21.88
BBB-	21.09
BB+	8.38
BB	6.17
BB-	0.60
B+	2.45
B	0.00
B-	0.00
Not rated or below	0.01
Cash and Derivatives	7.70

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$506.0 mn as at 31 March 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 March 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

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com