

Yarra Enhanced Income Fund

Gross returns as at 31 May 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	-0.36	-1.16	0.38	3.22	4.45	6.30	6.03
Yarra Enhanced Income Fund (incl. franking)	-0.36	-1.16	0.38	3.26	4.74	6.70	6.67
RBA Cash Rate	0.03	0.04	0.12	0.34	0.80	1.56	3.24
Excess return [‡]	-0.38	-1.20	0.26	2.92	3.94	5.14	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 May 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	-0.40	-1.29	-0.17	2.56	3.73	5.52	5.23
Yarra Enhanced Income Fund (incl. franking)	-0.40	-1.29	-0.17	2.60	4.01	5.92	5.86
Growth return [†]	-0.66	-2.05	-3.19	-0.65	0.24	1.34	-0.15
Distribution return [†]	0.26	0.76	3.02	3.25	3.77	4.58	6.01
RBA Cash Rate	0.03	0.04	0.12	0.34	0.80	1.56	3.24
Excess return [‡]	-0.43	-1.34	-0.29	2.26	3.21	4.36	2.62

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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 -0.40% (net basis) over the month, underperforming its benchmark by 43 bps.

Performance in May was again impacted by broader market risk-off sentiment, though the move wider in spreads adds to the compelling opportunity within the sector, in our view, particularly as corporate strength remains robust.

A number of new deals launched during the period, including an issuance of senior debt from Air New Zealand. The airline maintains a very strong domestic market position and, importantly, is majority owned by the NZ government. At an outright yield of ~6.5% the deal was very attractive.

Market review

Elevated inflation, rising rates and further hawkish central bank commentary continue to dent consumer and investor confidence. Combined with supply side inflationary pressure, which has remained persistent as the conflict between Russia and Ukraine becomes increasingly enduring in nature, it is now uncertain whether central banks will be able to hike inflation away.

Global growth forecasts are becoming increasingly subdued as the outlook remains clouded. Weak data generally saw most sovereign yields roll off their highs from early in the month, albeit still closing higher.

The Reserve Bank of Australia (RBA) made its first move away from a record low cash rate, lifting the cash rate 25 bps to

0.35%, following an upward surprise in inflation released in late April. The move came despite the RBA initially flagging its intentions to hold until the Wage Price Index (WPI) print later in May, which ultimately was marginally lower than expected at 0.7% (q/q) and now sits at 2.4% on an annualised basis. Domestic retail sales also remained robust, up 0.9% (m/m) despite very low consumer confidence.

Corporate credit and hybrid spreads were weaker once again as investors sought to reduce risk. Widening spreads continue to support increasingly compelling value given underlying corporate strength. A steady flow of new issuance came to market over the course of the month, generally well supported by investors. The Australian iTraxx index moved lower over the month closing at ~93 bps.

Outlook

Both economic and geopolitical conditions remain uncertain. Inflationary pressure has proved unrelenting and now forced the hand of policymakers. Given the starting position, though, it seems global economies are generally well poised to withstand tightening financial conditions.

The quantum of rate hikes priced into the curve are more significant than we expect will come to fruition. A robust labour market and strong household liquidity will underpin positive economic growth as rates rise. We expect rate hikes to slow the rate of domestic economic growth, though we do not expect this will wipeout growth altogether.

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 anticipate demand for yield to remain robust throughout 2022, supporting strong returns over the year.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	3.31
Option Adjusted Spread	264
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB
Estimated yield to maturity (%)	5.56
Fund duration (yrs)	0.69
Spread duration (yrs)	3.27
Number of securities	91
Listed	32
Unlisted	59

Sector allocation

	Portfolio %
Asset Backed	0.24
Banks	37.23
Communication Services	0.84
Consumer Discretionary	3.77
Consumer Staples	0.00
Diversified Financials	11.53
Energy	3.52
Health Care	2.78
Industrials	10.82
Information Technology	0.58
Insurance	14.01
Materials	0.81
Mortgage Backed	0.00
Real Estate	2.17
Utilities	3.81
Cash & Other	7.90

Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	6.22
National Australia Bank	AU3FN0055224	5.00
Crown Resorts	AU0000CWNHB7	3.77
Westpac	AU3FN0058129	3.59
NAB	AU0000NABPE2	3.14
Ampol	AU3FN0057683	2.72
QBE	AU3FN0055489	2.56
IAG	AU3FN0047544	2.56
Resolution Life	AU3FN0057691	2.50
AusNet	AU3CB0288066	2.45

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	18.28
Callable	63.96
At Maturity	17.76

Security profile

	Portfolio %
Floating rate	77.17
Fixed rate	14.93
Cash & Other	7.90

Credit rating profile

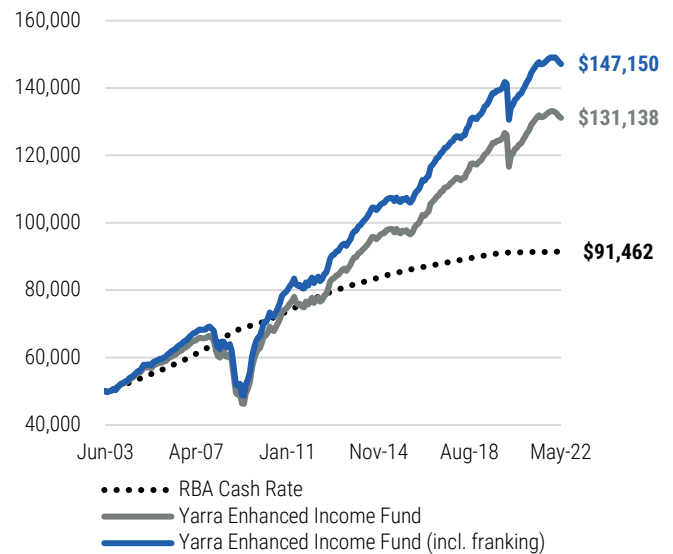
	Portfolio %
A+	-
A	0.32
A-	-
BBB+	20.26
BBB	20.81
BBB-	26.67
BB+	11.39
BB	9.56
BB-	0.93
B+	1.32
B	0.81
B-	-
Not rated or below	0.05
Cash and Derivatives	7.90

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\$314.2 mn as at 31 May 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 WealthO2 Xplore Wealth

Investment performance comparison of \$50,000

After fees, since inception of the Yarra Enhanced Income Fund, July 2003 to May 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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