

# Yarra Enhanced Income Fund

## Gross returns as at 31 May 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Enhanced Income Fund	-0.16	1.36	5.41	5.09	4.60	5.51	6.00
Yarra Enhanced Income Fund (incl. franking)	-0.16	1.39	5.60	5.15	4.80	5.86	6.62
RBA Cash Rate <sup>#</sup>	0.32	0.91	2.65	0.97	1.03	1.51	3.21
Excess return <sup>‡</sup>	-0.48	0.48	2.95	4.18	3.77	4.35	3.40

**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 2023

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Enhanced Income Fund	-0.20	1.22	4.84	4.50	3.93	4.76	5.21
Yarra Enhanced Income Fund (incl. franking)	-0.20	1.25	5.02	4.56	4.13	5.11	5.82
Growth return <sup>†</sup>	-0.73	-0.06	0.23	0.71	0.28	0.68	-0.13
Distribution return <sup>†</sup>	0.53	1.31	4.80	3.85	3.85	4.42	5.95
RBA Cash Rate <sup>#</sup>	0.32	0.91	2.65	0.97	1.03	1.51	3.21
Excess return <sup>‡</sup>	-0.52	0.34	2.37	3.59	3.09	3.60	2.60

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<sup>^</sup> Inception date Yarra Enhanced Income Fund: July 2003.

<sup>†</sup> 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.

<sup>#</sup> 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.

<sup>‡</sup> 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 -0.20% (net basis) over the month, underperforming its benchmark by 52 bps. On a 12-month view the Fund has returned 5.02%, outperforming the RBA Cash Rate by 237 bps (net basis, including franking).

May performance was impacted by both widening credit spreads and a sell-off in duration. Strong levels of carry offset some of the impact, but was insufficient to push performance into positive territory. Our position in bank bill futures detracted from performance most significantly over the period. The Fund benefitted from its limited exposure to Tier 1 securities which were weak over the period.

A steady flow of new issuance made its way to market over the period. Among the new deals was a Tier 2 offer from Judo Bank which the Fund participated in. At a spread of 500 bps the deal looked compelling, with our thesis underpinned by Judo's strong capital position. New deals were generally well supported and we expect a steady flow to continue over the next few months.

### Market review

May opened with yet another banking collapse as First Republic Bank became the next US regional to fall, marking the second largest US banking collapse in history. The market reaction proved short lived, with momentary selling of equities and buying of bonds quickly reversed as bullish sentiment took

over and helped fuel price appreciation across high-risk asset classes. Positive sentiment was spurred on by somewhat hawkish commentary from the Federal Reserve who left the path for future policy changes wide open. Adding to the chaos of the month was the looming US debt ceiling decision.

Markets correctly chose to look through the event with an assumption a resolution would be reached. Sovereign yields were higher across most advanced economies, attributable to resilient economic data and an upside surprise in UK CPI, increasing investor rate assumptions.

Closer to home, the Reserve Bank of Australia (RBA) surprised the market by raising the cash rate 25 bps to 3.85%. Market participants were wrong footed by the move, with the vast majority expecting the rate to be held steady. While the labour market remained robust and inflation elevated, it seemed likely the trend would be enough for the RBA remain on hold.

Later in the month the inflation print came in at 6.8%, comfortably exceeding expectations for 6.4%, with increasing rental costs was among the key drivers. Other economic conditions showed signs of deterioration: the unemployment rate rose to 3.7%, while job ads fell a further 1.4%. First quarter retail sales were also soft in volume terms.

Despite signs of softening in the labour market, we expect the RBA may consider hiking again in the next few months. It is clear, however, that the peak is undoubtedly near.

Bullish sentiment across financial markets was not mirrored among corporate credit and hybrids, as spreads moved wider. Widening spreads and a sell-off in duration have resulted in very attractive outright yields. New issuance remains well supported and the secondary market continues to be well bid. We expect issuance volumes to continue to rise after a quiet 12-months. The Australian iTraxx index moved marginally tighter to 83 bps.

## Outlook

Globally, pressure on central banks has been somewhat relieved by downward trending inflation data and deteriorating economic leading indicators. However, to date, these factors have proved ineffective in shifting the hawkish tone of central bankers. Resilient labour markets and inflation remaining above targeted levels have dominated policy maker decisions.

We are seeing these same themes play out domestically. As such, it seems likely the RBA's hiking cycle is not done just yet. While we expect the RBA may be nearing the peak, meeting commentaries are yet to turn dovish. The rapid tightening of conditions still seems insufficient to cause a domestic economic contraction.

Value in corporate credit and hybrids looked increasingly compelling during the month as spreads moved wider and the underlying yield higher. We are active buyers in the current market. New issuance flow is returning to more normalised levels following a long drought. New deals were well supported by the markets and will likely encourage further issuance over the coming months. Carry remains a key contributor to performance, which we expect will drive positive performance

throughout 2023.

## Portfolio profile

### Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	6.11
Option Adjusted Spread	294
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.50
Fund duration (yrs)	1.56
Spread duration (yrs)	3.35
Number of securities	103
Listed	26
Unlisted	77

### Sector allocation

	Portfolio %
Asset Backed	-
Banks	44.54
Communication Services	0.49
Consumer Discretionary	-
Consumer Staples	-
Diversified Finance	8.32
Energy	3.06
Health Care	1.62
Industrials	10.30
Information Technology	0.46
Insurance	15.46
Materials	0.48
Mortgage Backed	-
Real Estate	4.68
Utilities	5.96
Cash & Other	4.64

## Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	3.63
Resolution Life Ltd.	AU3FN0057691	3.39
National Australia Bank	AU3FN0055224	2.85
Bank Of Queensland	AU3FN0064408	2.85
Challenger Life	AU3CB0292324	2.81
Cooperatieve Rabobank Ua	AU3CB0293348	2.61
Transgrid	AU3CB0299618	2.33
ANZ Bank	AU3CB0292472	2.32
Ausnet Services Pty Ltd	AU3FN0056594	2.22
Westpac Banking Corporation	AU3FN0058129	2.07

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	12.09
Callable	76.38
At Maturity	11.53

## Security profile

	Portfolio %
Floating rate	63.96
Fixed rate	31.40
Cash & Other	4.64

## Credit rating profile

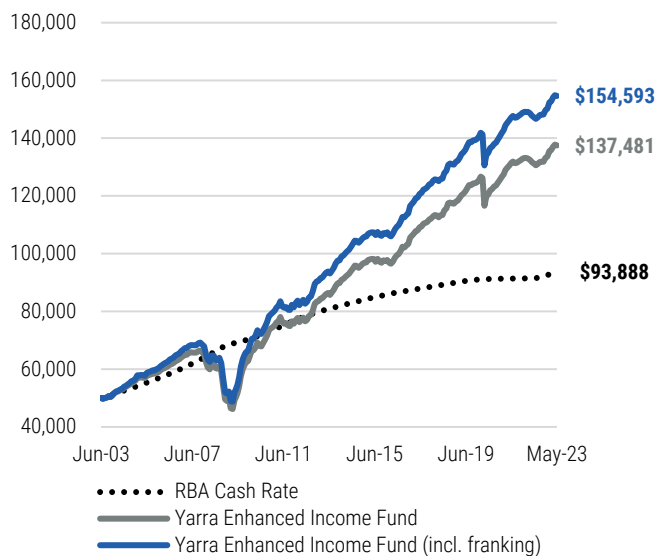
	Portfolio %
AA	-
A+	-
A	0.18
A-	2.46
BBB+	29.12
BBB	22.19
BBB-	23.22
BB+	8.03
BB	7.41
BB-	0.54
B+	2.21
B	-
B-	-
Not rated or below	0.01
Cash and Derivatives	4.64

## 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\$553.2 mn as at 31 May 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 Wealth02 Xplore Wealth

## Investment performance comparison of \$50,000

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

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## Applications and contacts

Investment into the Yarra Enhanced Income Fund can be made by Australian resident investors only.

Website [www.yarracm.com](http://www.yarracm.com)

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