

# Yarra Enhanced Income Fund

## Gross returns as at 30 November 2022

	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	1.04	1.19	0.76	2.83	4.19	5.55	5.97
Yarra Enhanced Income Fund (incl. franking)	1.04	1.22	0.88	2.88	4.44	5.92	6.60
RBA Cash Rate	0.23	0.63	1.02	0.50	0.85	1.49	3.21
Excess return <sup>‡</sup>	0.81	0.59	-0.14	2.38	3.59	4.43	3.39

**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 November 2022

	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	0.99	1.05	0.21	2.22	3.49	4.79	5.17
Yarra Enhanced Income Fund (incl. franking)	1.00	1.08	0.33	2.26	3.74	5.16	5.79
Growth return <sup>†</sup>	0.75	0.30	-3.43	-1.21	-0.02	0.63	-0.18
Distribution return <sup>†</sup>	0.25	0.78	3.76	3.47	3.76	4.53	5.97
RBA Cash Rate	0.23	0.63	1.02	0.50	0.85	1.49	3.21
Excess return <sup>‡</sup>	0.77	0.45	-0.69	1.76	2.89	3.67	2.58

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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 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 1.00% (net basis) over the month, outperforming its benchmark by 77 bps. On a 12-month view the Fund has returned 0.33%, underperforming the RBA Cash Rate by 69 bps (net basis, including franking).

A combination of strong levels of carry and tighter spreads drove strong performance during the month. Credit continues to look attractive at these levels and we remain active buyers. Strong carry will likely underpin positive performance into 2023.

New issuance was again largely absent from the market. It seems likely corporate issuance will remain quiet until the New Year, as the market slows down over the Christmas period.

### Market review

Financial markets continued to perform on the back of softening economic data as investors position for a central bank pivot. Central bankers again sought to subdue market hopes, reiterating both the uncertain nature of inflation and their commitment to reduce it. However, with economic stress becoming increasingly clear, it seems likely we are edging towards the top of the hiking cycle.

Sovereign yields were lower across most advanced economies. An increasingly bleak economic outlook was the catalyst for the rally, concentrated at the long end.

The Reserve Bank of Australia (RBA) raised the cash rate by another 25 bps to 2.85%. The Bank's minutes showed 50 bps was again considered, although not enacted given the signs of

global stress. Consolidating the thesis for a smaller hike was the lag between economic conditions and raising the cash rate, which the RBA acknowledged. Economic data were mixed over the period. Wages rose 1% (q/q) to be 3.1% (y/y), modestly beating consensus, meanwhile dwelling prices continued to decline. Australia's CPI was again a surprise, although this time to the downside, printing at 6.9% (y/y) vs. consensus for 7.5%. It remains tight on the labour front; a further 32k jobs were added in October, pushing unemployment down to 3.4%.

Corporate credit and hybrid spreads moved tighter over the month on the back of a broad-based risk rally. New issuance remained largely absent from the market, creating strong demand for corporate names in the secondary market. Outright yields on offer continue to look very attractive and offer significant downside protection. The Australian iTraxx index was tighter over the period, closing at 90 bps.

## Outlook

Leading indicators continue to paint a bleak picture for global economic conditions in 2023. We expect a deterioration in conditions to materialise throughout 2023, meaning weaker corporate earnings are all but inevitable. It seems increasingly likely we are edging very close to the peak of the cash rate in this hiking cycle.

Domestic conditions will worsen, however tight labour markets and strong corporate and household balance sheets will underpin a less severe domestic downturn. We expect the RBA will hike once more in December and possibly deliver a final hike in February 2023 before pausing.

Credit markets appear to be pricing much of the downside, presenting attractive entry points across the market. The strong running yield of corporate credit and hybrids now offers significant downside protection. As such, we expect strong performance into the end of the year and the start of 2023.

## Portfolio profile

### Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	5.33
Option Adjusted Spread	282
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.17
Fund duration (yrs)	1.12
Spread duration (yrs)	3.07
Number of securities	91
Listed	24
Unlisted	67

### Sector allocation

	Portfolio %
Asset Backed	0.18
Banks	47.29
Communication Services	0.63
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Financials	8.88
Energy	2.64
Health Care	2.13
Industrials	7.96
Information Technology	0.00
Insurance	14.55
Materials	0.62
Mortgage Backed	0.00
Real Estate	1.83
Utilities	4.25
Cash & Other	9.05

### Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	4.69
National Australia Bank	AU3FN0055224	3.75
Bank of Queensland	AU3FN0064408	3.67
Rabobank	AU3CB0293348	3.45
ANZ Bank	AU3CB0292472	3.04
Challenger Life	AU3CB0292324	2.68
Westpac Bank	AU3FN0058129	2.67
Commonwealth Bank of Australia	AU3FN0062600	2.64
Resolution Life Australasia	AU3FN0057691	2.26
AMP Bank	AU3FN0072161	2.21

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	14.38
Callable	68.24
At Maturity	17.38

## Security profile

	Portfolio %
Floating rate	69.74
Fixed rate	21.21
Cash & Other	9.05

## Credit rating profile

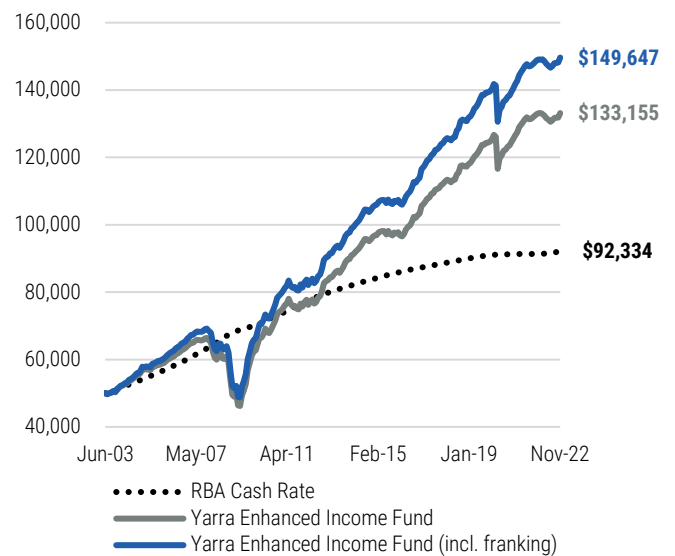
	Portfolio %
A+	1.08
A	0.24
A-	0.00
BBB+	28.27
BBB	20.76
BBB-	22.09
BB+	8.78
BB	6.91
BB-	0.71
B+	1.51
B	0.62
B-	0.00
Not rated or below	0.01
Cash and Derivatives	9.05

## 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\$424.9 mn as at 30 November 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 November 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.

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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)

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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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