

Yarra Enhanced Income Fund

Gross returns as at 30 September 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	0.06	1.06	0.46	2.60	4.21	5.84	5.96
Yarra Enhanced Income Fund (incl. franking)	0.11	1.11	0.60	2.65	4.47	6.22	6.60
RBA Cash Rate	0.18	0.44	0.59	0.39	0.81	1.50	3.21
Excess return [‡]	-0.07	0.67	0.01	2.25	3.66	4.72	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 September 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	0.02	0.92	-0.09	1.97	3.51	5.07	5.16
Yarra Enhanced Income Fund (incl. franking)	0.07	0.97	0.05	2.02	3.76	5.45	5.79
Growth return [†]	-0.21	0.12	-3.71	-1.29	0.10	0.95	-0.21
Distribution return [†]	0.28	0.86	3.77	3.30	3.66	4.49	6.00
RBA Cash Rate	0.18	0.44	0.59	0.39	0.81	1.50	3.21
Excess return [‡]	-0.11	0.53	-0.54	1.62	2.96	3.95	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 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 0.92% (net basis, including franking) over the quarter, outperforming its benchmark by 53 bps. On a 12-month view the Fund returned -0.09%, underperforming the RBA Cash Rate by 54 bps (net basis, including franking).

The absence of corporate issuance was again a feature of the period, as elevated volatility and perceptions of market demand further subdued potential issuers. Among the limited new issuances was Challenger Life's Tier 2, which offered strong pick up over major bank Tier 2 and proving attractive on a relative value basis.

Market review

Leading indicators during the September quarter began to paint a bleak picture of future economic conditions, with consensus seemingly resigned to the fact we are on the verge of global recession. Although, importantly, while many expect a recession, should it eventuate, we believe that it will be a shallow one.

During the quarter, markets were fixated on the unfolding economic disaster in the UK. Prime Minister Truss unveiled her stimulatory economic plan at the same time inflation surprised to the upside and coincided with the Bank of England (BoE) raising rates. Her plan sent sentiment sharply negative across markets. Outside of the UK, the US unemployment rate

climbed to 3.7% (from 3.5%) which had no effect on the consistent hawkishness of Federal Reserve members.

Upward momentum in sovereign yields persisted. A short-lived relief rally early in the quarter quickly unwound as sentiment soured. Bond markets suffered further losses following the UK's planned stimulatory package which sent Gilts on a volatile ride, with daily swings breaking previous records. The Australian 10-year yield traded in line with global counterparts.

The Reserve Bank of Australia (RBA) raised rates at each of its three meetings during the September quarter, all of which were in the larger 50 bps increments. While the end of September cash rate climbed to 2.35%, it seems likely the RBA is closing in on a point they consider to be neutral.

Domestic economic data remains somewhat mixed, showing some resilience to tightening conditions, although cracks are certainly beginning to appear. The unemployment rate ticked marginally higher, albeit it remains very low by historical standards. Low unemployment has driven retail sales, which have proven persistently strong despite weak consumer confidence and rapidly declining household wealth. It seems likely that retail sales will begin to reflect the tightening conditions sometime in early 2023.

Corporate credit and hybrid spreads were relatively flat through the quarter. Strong performance early in the period was largely unwound in the back half as global sentiment turned negative. Corporates remain reluctant to issue in such a volatile market, though deals that have been launched have been well supported. The Australian iTraxx index moved higher over the period, closing at ~141 bps.

Outlook

The deterioration of economic leading indicators is indicative of a pivot from central banks, whereby the rate at which the clamps are being put on will slow. We are also beginning to see some key inflation drivers trending back towards normalised levels, such as freight rates.

In light of such factors, we see strong value across the market. Although a global recession is almost certainly upon us, the strong starting point domestically will likely underpin corporate strength over this period. It appears safe to assume consumer discretionary spend will ease and household budgets will tighten, however not to the extent that would materially drive defaults.

Credit markets are already pricing for 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 start of 2023.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	5.08
Option Adjusted Spread	276
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.56
Fund duration (yrs)	1.16
Spread duration (yrs)	3.18
Number of securities	90
Listed	25
Unlisted	65

Sector allocation

	Portfolio %
Asset Backed	0.20
Banks	44.43
Communication Services	0.70
Consumer Discretionary	-
Consumer Staples	0.00
Diversified Finance	9.94
Energy	2.93
Health Care	2.38
Industrials	8.91
Information Technology	-
Insurance	17.02
Materials	0.67
Mortgage Backed	-
Real Estate	2.18
Utilities	4.73
Cash & Other	5.90

Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	5.30
National Australia Bank	AU3FN0055224	4.25
ANZ Bank	AU3CB0292472	3.27
Bank Of Queensland	AU3FN0064408	3.24
Westpac Bank	AU3FN0058129	3.03
National Australia Bank	AU0000NABPE2	2.65
Resolution Life Australasia	AU3FN0057691	2.52
AMP	AU3FN0072161	2.41
Challenger Life Company	AU3CB0292324	2.39
Ausnet Services	AU3FN0056594	2.29

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	16.41
Callable	69.39
At Maturity	14.20

Security profile

	Portfolio %
Floating rate	75.95
Fixed rate	18.14
Cash & Other	5.90

Credit rating profile

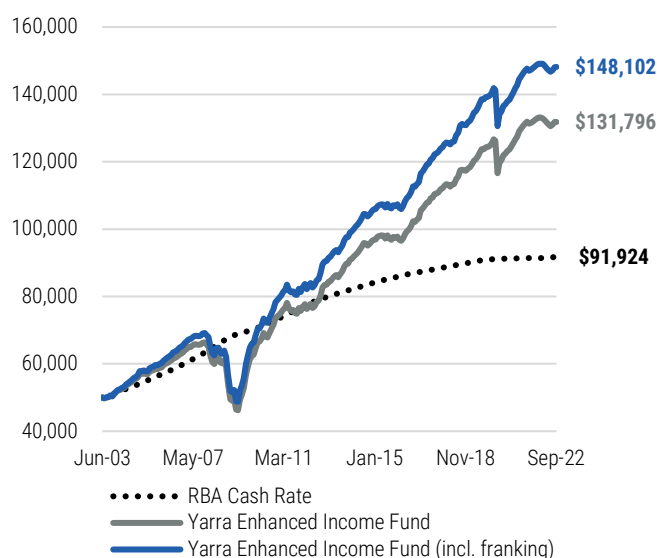
	Portfolio %
A+	-
A	0.27
A-	-
BBB+	24.91
BBB	24.45
BBB-	24.09
BB+	9.35
BB	7.85
BB-	0.79
B+	1.69
B	0.67
B-	-
Not rated or below	0.04
Cash and Derivatives	5.90

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\$372.8 mn as at 30 September 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 September 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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