Yarra Higher Income Fund

Gross returns as at 30 June 2022

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	-0.27	-0.57	0.70	2.05	NA	3.14
RBA Cash Rate	0.06	0.10	0.17	0.33	NA	0.54
Excess return‡	-0.33	-0.66	0.52	1.73	NA	2.60

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.

Net returns as at 30 June 2022

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception^ % p.a.
Yarra Higher Income Fund*	-0.33	-0.73	0.04	1.40	NA	2.48
Growth return†	-3.83	-5.09	-6.46	-3.68	NA	-2.33
Distribution return†	3.50	4.36	6.51	5.08	NA	4.81
RBA Cash Rate	0.06	0.10	0.17	0.33	NA	0.54
Excess return‡	-0.39	-0.82	-0.13	1.07	NA	1.94

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* **Effective 15 March 2022, the Fund's name was changed from the Yarra Absolute Credit Fund to the Yarra Higher Income Fund. There was no change to the Fund's investment strategy.**
^ Inception date Yarra Higher Credit Fund: October 2018.
† Growth returns are measured by the movement in the Yarra Higher Credit 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.
‡ The excess return figures shown represent the difference between the Fund's return and the RBA Cash Rate.

Portfolio review

The Yarra Higher Income Fund returned -0.32% (net basis) in the June quarter, underperforming the RBA Cash Rate by 38 bps. On a 12-month view the Fund returned 0.15%, underperforming the RBA Cash Rate by 2 bps (net basis).

The Fund's allocation to longer dated senior debt was the largest detractor over the quarter. As spreads have moved wider and rates have sold off, we are seeing increasingly compelling value on offer.

The yield to expected maturity on the Fund is now 6.5%, thanks to softer credit spreads and elevated rates. We remain active in both primary and secondary markets and continue to add attractive risk-adjusted opportunities to the portfolio.

Market review

Global monetary policy tightening moved into full swing, inducing the capitulation of bond markets and widespread risk-off behaviour. Long-duration assets suffered significant selling, pushing yields higher across most advanced economies.

The Reserve Bank of Australia (RBA) increase rates twice during the period, with 75 bps of hikes pushing the cash rate to 0.85%.

Domestic economic data held up well despite consumer confidence rapidly falling to the lowest level since the GFC. The tight labour market continues to underpin strong retail sales, however, which rose 10.4% (y/y) in May. March quarter data released in June, revealed Australia's household wealth now sits at a record $14.9 trillion, equivalent to a 35% increase since the start of the pandemic, meaning the domestic economy is well placed to withstand further rate hikes.

Corporate credit and hybrid spreads pushed wider over the quarter, weighed down by weak investor risk sentiment, with the sell-off in spreads exacerbated by a more compelling risk-free yield. New issuance was again subdued by market volatility. The Australian iTraxx index moved higher over the period, closing at ~130 bps.

Outlook

Investors around the world have become increasingly hypersensitive to central bank commentary. This has driven an aggressive rate hike cycle being priced in, the impact of which could well prove recessionary.

RBA commentary remains hawkish and we expect several more rate hikes to follow between now and year end. While this will undoubtably have significant implications for economic conditions, we remain confident there is available capacity to absorb tightening monetary policy settings. Underpinning our thesis is corporate balance sheets, which generally remain conservative, high employment levels and strong household liquidity.

Australia's corporate credit market appears attractive relative to its global counterparts. We continue to actively trade in both primary and secondary markets, finding a number of very attractive risk adjusted returns. Widening spread and a lift in outright yield has only made the sector more compelling. We expect strong economic conditions to support strong corporate fundamentals and positive returns into the end of 2022.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	4.41
Credit spread (%)	313
Average weighted issue credit rating	BBB-
Average weighted ESG rating	BBB
Yield to expected maturity (%)	6.53
Fund duration (years)	0.36
Spread duration (years)	3.54
Number of securities	61

Sector allocation

	Portfolio %
Asset Backed Securities	1.59
Banks	19.94
Consumer Discretionary	0.00
Consumer Staples	2.92
Diversified Financials	0.00
Energy	12.63
Industrials	3.15
Information Technology	16.06
Insurance	1.44
Materials	4.75
Mortgage Backed Securities	0.00
Real Estate	15.64
Utilities	12.30

Security allocation

	Portfolio %
Tier 1	15.09
Tier 2	16.72
Subordinated	11.33
Mortgage Backed	15.64
Asset Backed	1.59
Senior	33.93
Private Debt	0.00
Cash and Other (incl. derivatives)	5.71

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	4.83
Crown Resorts	AU0000CWNHB7	2.92
Commonwealth Bank of Australia	AU3FN0067989	2.40
Air New Zealand	AU3CB0289213	2.39
AusNet	AU3CB0288066	2.26
Brisbane Airport	AU3CB0272854	2.14
Qantas Airways	AU3CB0283182	2.02
Pacific National	AU3CB0282812	1.97
Centuria Industrial REIT	AU3CB0285310	1.96
Qube Holdings	AU0000QUBHA8	1.80

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.

Credit rating profile

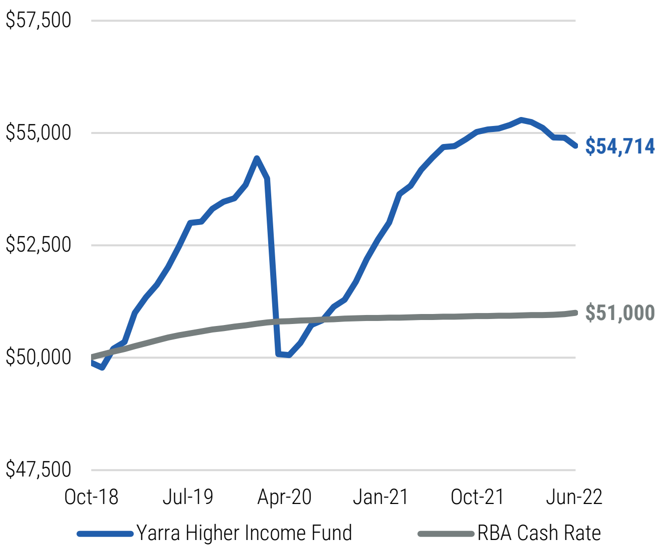
	Portfolio %
AA-	7.27
A	0.00
A-	2.61
BBB+	11.57
BBB	21.31
BBB-	20.70
BB+	11.47
BB	20.92
BB-	1.62
B+	2.33
B	0.00
B-	0.00
NR or Below	0.20

Features

Investment objective	Over the medium-to-long term, the Fund seeks to earn higher returns than traditional fixed income by investing in a highly diversified floating rate portfolio of predominantly Australian domiciled credit securities.
Fund inception	October 2018
Fund size	A$31.3 mn as at 30 June 2022
Estimated management cost	0.65% p.a.
Buy/sell spread	+/- 0.10%
Distribution frequency	Monthly
Platform availability	Hub24 Netwealth Macquarie Wrap

Investment performance comparison of $50,000

After fees, since inception of the Yarra Higher Income Fund, October 2018 to June 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 Higher Income Fund is $10,000.