

Yarra Enhanced Income Fund

Gross returns as at 30 June 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	-0.37	-1.19	-0.43	2.77	4.33	6.19	5.99
Yarra Enhanced Income Fund (incl. franking)	-0.28	-1.10	-0.34	2.80	4.60	6.58	6.63
RBA Cash Rate	0.06	0.10	0.17	0.33	0.79	1.54	3.23
Excess return [‡]	-0.34	-1.20	-0.51	2.47	3.81	5.04	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 June 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	-0.41	-1.33	-0.97	2.12	3.61	5.41	5.18
Yarra Enhanced Income Fund (incl. franking)	-0.32	-1.24	-0.88	2.15	3.88	5.80	5.82
Growth return [†]	-1.26	-2.68	-4.53	-1.16	0.18	1.28	-0.21
Distribution return [†]	0.94	1.44	3.65	3.32	3.71	4.52	6.03
RBA Cash Rate	0.06	0.10	0.17	0.33	0.79	1.54	3.23
Excess return [‡]	-0.38	-1.33	-1.05	1.82	3.09	4.26	2.58

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 prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all 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.

[^] 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 -1.24% (net basis, including franking) over the quarter, underperforming its benchmark by 133 bps. On a 12-month view the Fund returned -0.88%, underperforming the RBA Cash Rate by 105 bps (net basis, including franking).

Issuance remained relatively subdued through the June quarter, with corporates seemingly inclined to wait out market volatility prior to coming to market with any new deals. There were a few new Tier 1 deals issued by the major banks; these were progressively marked at wider levels, with the latest deal from Westpac pricing at 340 bps. Widening spreads and attractive underlying yield continue to underpin strong risk-return dynamics of the Fund.

Market review

Trends over the period were largely consistent with the first quarter: inflation remains widespread and stubbornly high, central banks are still overwhelmingly hawkish, and consumer confidence has continued to crater.

Orchestrating a 'soft landing' whereby monetary policy is tightened without inducing a recession appears off the table in the US, where Q1 GDP was negative. This is unlikely to be isolated to the US, as global central banks go to war with inflation. Ongoing conflict between Ukraine and Russia has been disruptive to supply chains, applying further upward pressure to already elevated inflation.

Investor sentiment capitulated in the June quarter. High risk and long duration assets suffered significant selling over the

period, while commodity prices continued to ease from highs as forward growth expectations continue to be reduced.

Sovereign yields were far higher over the period as investors price in aggressive hiking from central banks to stem rampant inflation. Sovereign bond recouped some losses late in the period although remain elevated. The Australian yield curve moved consistently with that of most developed nations, with the front-end continuing to appear attractive reflecting the market having priced very aggressive rate hikes from the Reserve Bank of Australia (RBA).

The RBA began raising rates in May with a 25 bps rise, followed by 50 bps in June, taking the cash rate from 0.10% to 0.85%. Commentary from Australia's central bank has remained hawkish, with several further hikes between now and year end appearing inevitable.

Domestic data remained relatively robust, driven by tight labour markets and substantial liquidity buffers. Labour market data released late in June revealed job vacancies have reached all-time lows of 1.1 unemployed people per vacancy. Favourable labour market conditions pushed retail sales higher yet again, rising 10.4% (y/y) in May. Consumer sentiment cratered over the period, however, with the June print coming in at its lowest level since 2008.

A combination of broad market risk-off and an increasingly compelling risk-free yield on offer contributed to the widening of corporate credit and hybrid spreads. The Australian iTraxx index moved higher over the month closing at ~130 bps.

Outlook

Central banks across the globe have pumped hard on the brakes to reduce inflation, though the quantum of rate hikes required to drag inflation into the desired range is anyone's guess. The prospect of rates continuing to rise on their current trajectory likely brings an economic slowdown nearer the horizon.

The domestic starting point will likely, however, go a long way to avoiding a dire downturn. Corporate balance sheets generally remain healthy, while a tight labour market is underpinning household balance sheets. While we expect more hikes to follow in the second half of this year, we remain confident there is likely sufficient capacity to absorb the shock.

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

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	3.92
Option Adjusted Spread	289
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB
Estimated yield to maturity (%)	6.27
Fund duration (yrs)	0.89
Spread duration (yrs)	3.05
Number of securities	93
Listed	59
Unlisted	34

Sector allocation

	Portfolio %
Asset Backed	0.24
Banks	38.65
Communication Services	0.82
Consumer Discretionary	3.87
Consumer Staples	0.00
Diversified Finance	11.42
Energy	3.43
Health Care	2.74
Industrials	10.57
Information Technology	0.57
Insurance	13.90
Materials	0.78
Mortgage Backed	0.00
Real Estate	2.07
Utilities	5.28
Cash & Other	5.66

Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	6.17
National Australia Bank	AU3FN0055224	4.87
Crown Resorts	AU0000CWNHB7	3.87
Westpac	AU3FN0058129	3.54
NAB	AU0000NABPE2	3.09
QBE	AU3FN0055489	2.68
Ampol	AU3FN0057683	2.66
IAG	AU3FN0047544	2.51
Resolution Life	AU3FN0057691	2.43
AusNet	AU3CB0288066	2.37

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	19.96
Callable	64.67
At Maturity	15.37

Security profile

	Portfolio %
Floating rate	79.86
Fixed rate	14.48
Cash & Other	5.66

Credit rating profile

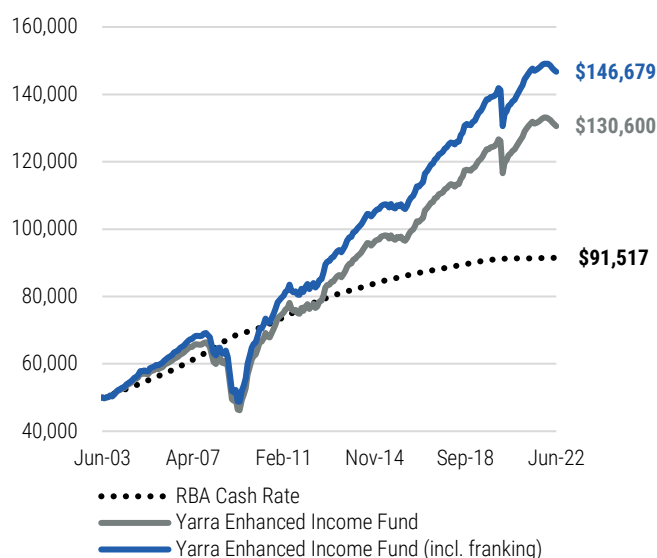
	Portfolio %
A+	0.00
A	0.31
A-	0.00
BBB+	19.93
BBB	22.31
BBB-	27.96
BB+	11.32
BB	9.48
BB-	0.93
B+	1.27
B	0.78
B-	0.00
Not rated or below	0.04
Cash and Derivatives	5.66

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\$317.8x mn as at 30 June 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 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 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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