

Yarra Enhanced Income Fund (Direct)

Gross returns as at 31 August 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 (Direct)	0.62	0.62	0.78	2.75	4.26	6.05	6.22
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.62	0.62	0.78	2.75	4.52	6.43	6.84
RBA Cash Rate	0.15	0.32	0.41	0.36	0.79	1.51	3.28
Excess return [‡]	0.46	0.30	0.36	2.39	3.72	4.92	3.56

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 August 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 (Direct)	0.52	0.32	-0.42	1.36	2.76	4.45	4.52
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.52	0.32	-0.42	1.36	3.01	4.82	5.13
Growth return [†]	0.25	-0.47	-3.44	-1.89	-0.30	0.96	-0.24
Distribution return [†]	0.26	0.79	3.02	3.25	3.31	3.86	5.37
RBA Cash Rate	0.15	0.32	0.41	0.36	0.79	1.51	3.28
Excess return [‡]	0.36	0.00	-0.83	1.00	2.22	3.31	1.85

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 (Direct): August 2002.

† Growth returns are measured by the movement in the Yarra Enhanced Income Fund (Direct)'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 (Direct) returned 0.52% (net basis) over the month, outperforming its benchmark by 36 bps. Performance in August was driven by strong running yield and modestly tighter spreads. We expect strong running yield to underpin positive returns into the year end.

New primary was again quiet. Among the limited new deals was a Tier 2 issuance from MyState. The deal launched at 550 bps which was attractive on a risk-adjusted basis.

Market review

Market sentiment was ever shifting through August. Softening economic data, somewhat perversely, proved favourable for high-risk assets. This thesis was constructed around the

possibility of a Federal Reserve pivot toward less restrictive monetary conditions. However, the Jackson Hole conference provided an opportunity for Fed Chair, Jerome Powell, to extinguish positive sentiment and concede that monetary conditions will remain tight until they are convinced the war on inflation is won.

Sovereign yields were significantly higher over the month as bond markets priced a scenario where central banks will raise above what is necessary to ensure inflation is under control.

The Reserve Bank of Australia (RBA) lifted the cash rate another 50 bps in August, taking it to 1.85%. The RBA has followed the path laid out by its global counterparts, hastily moving towards a level they consider to be neutral. Economic data failed to reflect the tightening conditions: retail sales rose

another 1.3%, and the lowest unemployment print in 48 years (at 3.4%) was recorded. Low unemployment is yet to meaningfully appear in wages, which grew 2.6% (y/y), modestly below consensus estimates.

Positive market sentiment pushed corporate credit and hybrid spreads modestly lower over the period. Supporting corporate spreads was a relatively strong August reporting season. Balance sheets remain well capitalised, and earnings continue to be strong. Although this will inevitably ease, the starting point is very attractive and has capacity to absorb weaker conditions. New issuance was again relatively subdued, though we expect this to pick up in the back end of the year. The Australian iTraxx index moved lower over the month closing at ~108.

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 brings an economic slowdown nearer the horizon.

The domestic starting point will, however, go a long way to avoiding a dire downturn. Corporate balance sheets remain healthy, while a tight labour market is underpinning household balance sheets. While we expect more hikes to follow in the remaining months of this year, we remain confident there is sufficient capacity to absorb the shock. It seems the RBA is edging closer to taking a breath and observing the impact tightening conditions have had on economic conditions.

Rising outright yields and a move higher in spreads is creating attractive value across the credit and hybrid market. New issuance remains subdued and as such, deals that do come have been well supported. We expect demand for yield to remain robust throughout the remaining months of 2022, underpinning positive performance.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	4.47
Option Adjusted Spread	267
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB+
Estimated yield to maturity (%)	6.04
Fund duration (yrs)	0.92
Spread duration (yrs)	3.05
Number of securities	92
Listed	29
Unlisted	63

Sector allocation

	Portfolio %
Asset Backed	0.21
Banks	40.66
Communication Services	0.75
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Financials	10.70
Energy	3.11
Health Care	2.50
Industrials	9.56
Information Technology	0.51
Insurance	14.84
Materials	0.71
Mortgage Backed	0.00
Real Estate	2.33
Utilities	5.04
Cash & Other	9.09

Top 10 holdings

Issuer	ISIN	Portfolio %
Commonwealth Bank of Australia	AU3FN0067989	5.53
National Australia Bank	AU3FN0055224	4.40
BOQ	AU3FN0064408	3.38
Westpac	AU3FN0058129	3.17
NAB	AU0000NABPE2	2.77
Resolution Life	AU3FN0057691	2.67
Ampol	AU3FN0057683	2.41
AusNet	AU3FN0056594	2.40
QBE	AU3FN0055489	2.37
IAG	AU3FN0047544	2.24

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	18.36
Callable	63.81
At Maturity	17.83

Security profile

	Portfolio %
Floating rate	76.94
Fixed rate	13.96
Cash & Other	9.09

Credit rating profile

	Portfolio %
A+	0.00
A	0.28
A-	0.00
BBB+	22.74
BBB	23.86
BBB-	24.52
BB+	7.62
BB	8.52
BB-	0.83
B+	1.78
B	0.71
B-	0.00
Not rated or below	0.04
Cash and Derivatives	9.09

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	August 2002
Fund size	Pooled Fund A\$355.5 mn as at 31 August 2022
APIR code	JBW0118AU
ARSN code	101 266 755
Distribution frequency	Monthly
Estimated management cost	1.20% p.a.
Buy/sell spread	+/- 0.10%

The Yarra Enhanced Income Fund (Direct) is not available for new investment. Where existing reinvestment instructions are in place, distributions may be reinvested

Applications and contacts

The Yarra Enhanced Income Fund (Direct) is no longer available for new investment. The reinvestment of distributions is still allowed where an existing reinvestment instruction is in place.

Website www.yarracm.com

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

Disclaimers

The Yarra Enhanced Income Fund (Direct) 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.

Yarra Funds Management Limited (ABN 63 005 885 567, AFSL 230 251) ('YFM') is the issuer and responsible entity of a range of registered managed investment schemes, which includes those named in this document ('Funds'). YFM is not licensed to provide personal financial product advice to retail clients. The information provided contains general financial product advice only. The advice has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before acting on any advice, you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. Prior to investing in any of the Funds, you should obtain and consider the product disclosure statement ('PDS') and target market determination ('TMD') for the relevant Fund by contacting our Investor Services team on 1800 034 494 or from our website at www.yarracm.com/pdsupdates/. The information set out has been prepared in good faith and while Yarra Funds Management Limited and its related bodies corporate (together, the "Yarra Capital Management Group") reasonably believe the information and opinions to be current, accurate, or reasonably held at the time of publication, to the maximum extent permitted by law, the Yarra Capital Management Group: (a) makes no warranty as to the content's accuracy or reliability; and (b) accepts no liability for any direct or indirect loss or damage arising from any errors, omissions, or information that is not up to date. No part of this material may, without the Yarra Capital Management Group's prior written consent be copied, photocopied, duplicated, adapted, linked to or used to create derivative works in any form by any means.

YFM manages the Fund and will receive fees as set out in each PDS. To the extent that any content set out in this document discusses market activity, macroeconomic views, industry or sector trends, such statements should be construed as general advice only. Any references to specific securities are not intended to be a recommendation to buy, sell, or hold such securities. Past performance is not an indication of, and does not guarantee, future performance. Information about the Fund, including the relevant PDS, should not be construed as an offer to any jurisdiction other than in Australia. With the exception of some Funds that may be offered in New Zealand from time to time (as disclosed in the relevant PDS), we will not accept applications from any person who is not resident in Australia or New Zealand. The Fund is not intended to be sold to any US Persons as defined in Regulation S of the US federal securities laws and have not been registered under the U.S. Securities Act of 1933, as amended.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. Holdings may change by the time you receive this report. Future portfolio holdings may not be profitable. The information should not be deemed representative of future characteristics for the strategy. There can be no assurance that any targets stated in this document can be achieved. Please be advised that any targets shown are subject to change at any time and are current as of the date of this document only. Targets are objectives and should not be construed as providing any assurance or guarantee as to the results that may be realized in the future from investments in any asset or asset class described herein. If any of the assumptions used do not prove to be true, results may vary substantially. These targets are being shown for informational purposes only.