

Yarra Higher Income Fund

Gross returns as at 31 August 2022

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception [^] % p.a.
Yarra Higher Income Fund*	0.68	0.53	1.08	1.94	NA	3.22
RBA Cash Rate	0.15	0.32	0.41	0.36	NA	0.58
Excess return [‡]	0.53	0.21	0.67	1.58	NA	2.63

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 31 August 2022

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception [^] % p.a.
Yarra Higher Income Fund*	0.63	0.36	0.43	1.28	NA	2.55
Growth return [†]	0.25	-3.90	-6.28	-4.04	NA	-2.25
Distribution return [†]	0.38	4.26	6.71	5.32	NA	4.80
RBA Cash Rate	0.15	0.32	0.41	0.36	NA	0.58
Excess return [‡]	0.47	0.04	0.01	0.92	NA	1.97

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.

* 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 0.63% (net basis) in July, outperforming the RBA Cash Rate by 47 bps. Positive performance was driven by strong running yield, offsetting modestly wider spreads.

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

We are seeing compelling deals in both primary and secondary markets thanks to wide spreads and strong underlying yield. We remain active participants in new deals at these levels. The Fund's yield to maturity now sits at ~6.7%.

Market review

Market momentum continued into August. Positive sentiment was supported by a strong reporting season where earnings remained robust and balance sheets well capitalised. However, the back half of August proved vastly different, following Jerome Powell's speech at the Jackson Hole conference,

where he conceded the Fed will continue to tighten financial conditions until they are certain inflation is under control. Sovereign yields moved far wider over the month, pre-empting the hawkish speech from Powell.

Economic data is showing signs of stress as tightening conditions begin to weigh. UK GDP detracted 0.1% in Q2, albeit marginally above consensus estimates. Exacerbating UK woes was July inflation data, with CPI now running at 10.1% (y/y). On a somewhat lighter note, US ISM data printer higher than forecasts at 55.3 (vs 53.5).

The Reserve Bank of Australia (RBA) continues to move rapidly towards normalising monetary conditions, raising the cash rate another 50 bps to 1.85%. This latest move takes the cash rate to the highest level since 2016, and it seems likely the RBA will push through multiple more hikes into year-end before pausing over the holiday break.

Domestic economic conditions were somewhat mixed. Strong employment numbers continue to underpin strength in retail sales and wage growth. However, the impact of tightening

conditions has begun to flow through in the form of weaker house prices and a significant fall in loan approvals (-8.5% (m/m) vs expected -3.5%).

Positive market sentiment pushed corporate credit and hybrid spreads modestly lower over the period. Supporting corporate spreads was a relatively strong 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

Investors continue to expect further monetary policy tightening is imminent. The RBA's haste in raising rates has led markets to price cuts within the next 12-months.

It seems inevitable the RBA will push through a number of rate hikes in the back end of the year. While this will undoubtedly have significant implications for economic conditions, we remain confident there is available capacity to absorb tighter monetary policy settings. Underpinning our thesis is corporate balance sheets, which remain conservative, high employment levels and strong household liquidity. August reporting season consolidated our view.

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. Elevated levels of spread and strong running yield will likely drive positive performance into year end.

Portfolio profile

Portfolio characteristics

	Portfolio
Current yield (%)	5.16
Credit spread (bps)	319
Average weighted issue credit rating	BBB-
Average weighted ESG rating	BBB+
Yield to expected maturity (%)	6.73
Effective duration (years)	0.34
Spread duration (years)	3.44
Number of securities	61

Sector allocation

	Portfolio %
Asset Backed Securities	1.55
Banks	26.55
Communication Services	0.00
Consumer Discretionary	0.00
Consumer Staples	0.00
Diversified Financials	8.65
Energy	3.13
Industrials	15.98
Information Technology	1.42
Insurance	4.66
Materials	0.00
Mortgage-Backed Securities	16.56
Private Debt	3.07
Real Estate	9.97
Utilities	1.57

Security allocation

	Portfolio %
Tier 1	16.44
Tier 2	19.51
Subordinated	7.44
Mortgage Backed	16.56
Asset Backed	1.55
Senior	28.55
Private Debt	3.07
Cash and Other (incl. derivatives)	6.88

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	4.80
Air New Zealand	AU3CB0289213	2.39
Commonwealth Bank of Australia	AU3FN0067989	2.31
Brisbane Airport Pty Ltd.	AU3CB0272854	2.15
Westpac	US96122UAA25	2.09
Qantas Airways	AU3CB0283182	2.03
Pacific National Pty Ltd.	AU3CB0282812	1.95
Centuria Industrial Reit	AU3CB0285310	1.95
Qube Holdings Ltd.	AU0000QUBHA8	1.77
Clearview Wealth Ltd.	AU3FN0057170	1.63

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

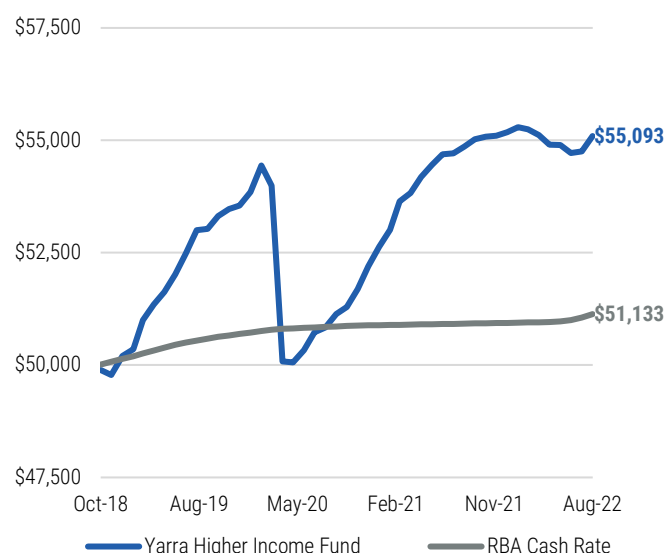
	Portfolio %
AA-	8.27
A	1.56
A-	2.59
BBB+	13.21
BBB	23.21
BBB-	16.62
BB+	13.15
BB	14.20
BB-	4.66
B+	2.34
B	0.00
B-	0.00
NR or Below	0.19

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\$31.9 mn as at 31 August 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 August 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.

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