

Yarra Enhanced Income Fund

Gross returns as at 31 August 2021

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception ^A % p.a.
Yarra Enhanced Income Fund	0.18	0.23	7.29	4.54	5.90	6.55	6.28
Yarra Enhanced Income Fund (incl. franking)	0.18	0.23	7.29	4.75	6.28	7.01	6.94
RBA Cash Rate	0.01	0.02	0.13	0.69	1.01	1.88	3.37
Excess return [‡]	0.17	0.21	7.16	4.07	5.27	5.14	3.57

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 2021

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception ^A % p.a.
Yarra Enhanced Income Fund	0.13	0.09	6.70	3.82	5.13	5.76	5.46
Yarra Enhanced Income Fund (incl. franking)	0.13	0.09	6.70	4.03	5.51	6.22	6.12
Growth return [†]	-0.12	-0.69	3.18	0.36	1.49	1.35	-0.01
Distribution return [†]	0.25	0.78	3.52	3.67	4.02	4.87	6.14
RBA Cash Rate	0.01	0.02	0.13	0.69	1.01	1.88	3.37
Excess return [‡]	0.12	0.07	6.58	3.34	4.50	4.34	2.75

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^A 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

Yarra Enhanced Income Fund returned 0.13% (net basis) over the month, outperforming its benchmark by 12 bps. On a 12-month view the Fund has returned 6.70%, outperforming the RBA Cash Rate by 658 bps (net basis, including franking).

New issuance returned to the market following a muted spell in the lead up to reporting season. The Fund participated in a number of new deals including Pacific National's new Senior issue. The deal presented an attractive opportunity to take advantage of the steepness of the yield curve in a quality, investment grade name.

Market review

An upbeat August reporting season drew some of the attention away from global Delta outbreaks which have put the brakes on the economic recovery. As such, risk-on sentiment remained prevalent during the month. In spite of growing case numbers, the commentary from Central Bankers became increasingly hawkish as we edge closer to an inevitable tapering.

Sovereign bond yields were lower in the first half of August following a combination of weak Chinese data and elevated geopolitical tensions after the Taliban reclaimed Afghanistan. However, tapering conjecture outweighed the aforementioned factors, pushing yields off their lows to eventually close the

month higher. Contributing further to the sell-off in sovereign bonds was increasing global vaccination coverage.

The Reserve Bank of Australia (RBA) stood by its decision to taper in September, contrary to the consensus view that this would be delayed. The RBA has maintained a flexible bond buying program, leaving the option open to extend purchases should it be deemed necessary. The Central Bank's release reiterated the link between strong labour market conditions and QE tapering.

Domestic data released over the month largely failed to capture the profound impact of current lockdowns. Evidence of a strong labour market persisted as the jobless rate moved to a 12-year low of 4.6%, though disappointingly, wage growth remained subdued at 1.7% (y/y). Post month-end Q2 GDP was released, coming in at 0.7% (consensus 0.4%) and resulting in the largest annual increase on record at 9.6%. The capex survey for financial year 2021/22 also painted a strong forward looking picture.

The Australian 10-year yield moved wider over the period despite weak Chinese data and extended lockdowns. Key drivers of the sell-off were increasing rates of inoculation and a clearer path towards re-opening.

August reporting season was upbeat thanks to ongoing strength in earnings momentum. Although lockdowns will have a significant impact on December half earnings, corporate liquidity remains sufficiently robust to withstand the stress. As the reporting period concluded, new issuance began to ramp up, with deals well-supported and generally pricing inside initial guidance. Positively, this had a muted impact on secondary market spreads, while corporate credit and hybrid spreads remained relatively stable over the month. The Australian iTraxx index moved tighter, closing at 58 bps.

Outlook

The rate at which the domestic economy bounced out of recession and back into an expansionary phase outpaced much of the globe. The Delta variant outbreak will inevitably halt economic growth, albeit the impact will be mitigated by accommodative economic policy and ample household liquidity which stands ready to be put to use.

Such is the level of confidence that investors have placed on central bank and federal government support, risk assets have been left largely unencumbered by the outbreak. Any weakness we do see is unlikely to be enduring in nature as monetary policy remains supportive.

The Australian credit and hybrid market remains attractive relative to global peers given its superior credit quality, industry structure and floating rate nature. Although the pace of the rally in spreads has eased, market liquidity remains strong and new deals have been well-supported. Post-reporting season, new issuance will present a number of attractive opportunities. We expect to see strong returns from the sector throughout calendar 2021.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	3.24
Option Adjusted Spread	2.60
Average weighted issue credit rating	BBB-
Average weighted ESG Rating	BBB
Estimated yield to maturity (%)	3.15
Fund duration (yrs)	0.08
Spread duration (yrs)	3.71
Number of securities	81
Listed	34
Unlisted	47

Sector allocation

	Portfolio %
Asset Backed	3.01
Banks	31.18
Communication Services	2.05
Consumer Discretionary	3.55
Consumer Staples	0.00
Diversified Financials	12.70
Energy	4.34
Health Care	3.45
Industrials	17.02
Information Technology	0.00
Insurance	11.41
Materials	1.25
Mortgage Backed	0.00
Real Estate	4.67
Utilities	1.21
Derivatives	-12.35
Cash and equivalents	16.51

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	5.11
Ampol Limited	AU3FN0057683	4.34
Crown Resorts	AU0000CWNHB7	3.55
Qube Holdings	AU0000QUBHA8	3.36
AMP Life	AU3FN0057691	2.81
Insurance Australia Group	AU3FN0047544	2.76
National Australia Bank	AU0000NABPE2	2.72
Challenger Life Company	AU3FN0039426	2.70
Brisbane Airport Corp.	AU3CB0272854	2.62
Macquarie Bank Ltd	AU0000088429	2.41

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	30.85
Callable	48.72
At Maturity	20.43

Security profile

	Portfolio %
Floating rate	76.87
Fixed rate	18.97
Cash & Other	4.16

Credit rating profile

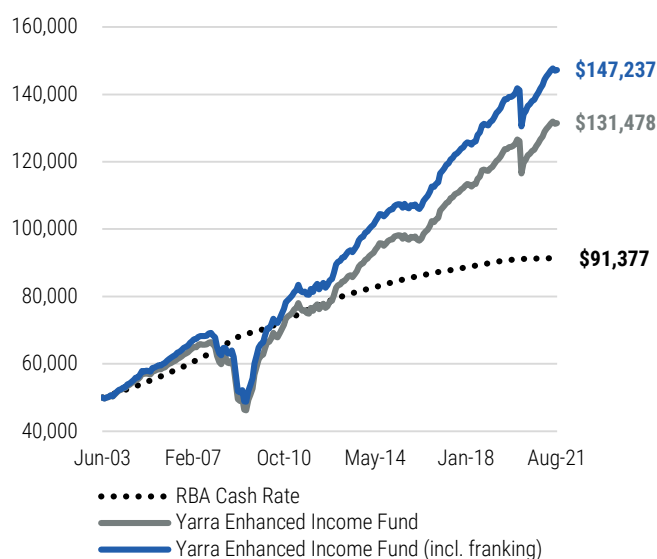
	Portfolio %
AA	1.53
A	0.79
A-	1.19
BBB+	9.01
BBB	15.51
BBB-	32.17
BB+	17.17
BB	15.41
BB-	0.00
B+	1.14
B	1.25
B-	0.52
Not rated or below	0.14
Cash and Derivatives	4.16

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	A\$115.0 mn as at 31 August 2021
APIR code	JBW0018AU
Estimated management cost	0.55% p.a.
Buy/sell spread	+/- 0.10%

Investment performance comparison of \$50,000

After fees, since inception of the Yarra Enhanced Income Fund, July 2003 to August 2021.



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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