

# Yarra Enhanced Income Fund

## Gross returns as at 31 December 2020

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Enhanced Income Fund	0.88	2.57	1.70	4.66	6.09	6.25	6.27
Yarra Enhanced Income Fund (incl. franking)	0.88	2.57	1.70	4.99	6.53	6.76	6.96
RBA Cash Rate	0.01	0.04	0.32	1.00	1.24	2.19	3.50
Excess return <sup>‡</sup>	0.88	2.53	1.38	3.99	5.28	4.57	3.46

**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 December 2020

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception <sup>^</sup> % p.a.
Yarra Enhanced Income Fund	0.84	2.43	1.00	3.88	5.29	5.43	5.45
Yarra Enhanced Income Fund (incl. franking)	0.84	2.43	1.00	4.21	5.72	5.94	6.13
Growth return <sup>†</sup>	0.55	1.54	-1.78	0.51	1.64	0.73	-0.11
Distribution return <sup>†</sup>	0.29	0.88	2.79	3.70	4.08	5.22	6.24
RBA Cash Rate	0.01	0.04	0.32	1.00	1.24	2.19	3.50
Excess return <sup>‡</sup>	0.83	2.39	0.68	3.22	4.48	3.76	2.64

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<sup>^</sup> Inception date Yarra Enhanced Income Fund: July 2003.

<sup>†</sup> 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.

<sup>‡</sup> 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 2.43% (net basis) over the quarter, outperforming its benchmark by 239 bps. On a 12-month view the Portfolio returned 1.00%, outperforming the RBA Cash Rate by 68 bps (net basis, including franking).

Significant issuance in the quarter presented a number of investment opportunities for the Fund. These deals were predominately concentrated in the financials space.

### Market review

The December quarter proved far more optimistic than the preceding nine months. Contrary to COVID-19 ravaging the US and much of Europe, bullish sentiment seemed unstoppable, spurred on as the vaccine testing phase drew to a close and

distribution commenced. The US election, passing of a stimulus package and eventual signing of a Brexit deal put even more momentum behind the risk rally.

Sovereign debt was mixed over the quarter, with a modest reduction in yields across the majority of major economies as the virus ran rampant. The US was one notable outlier, with yields rising due to investor bias for risk assets.

The RBA surprised the market during the quarter with a number of changes. In addition to lowering the targeted cash rate to 0.10%, Australia's central bank committed to buying the long-end of the yield curve and reduced the weight placed on forecast inflation in policy making. Despite their best efforts, these changes did little to dampen sentiment surrounding the

Australian dollar as it continued to rally into the end of the quarter.

Australia's outperformance in virus suppression has paved the way for widespread geographic and economic re-opening. Resulting strong economic data as well as a risk-on bias resulted in sovereign yields moving wider over the quarter. Notably, the unemployment data continued to positively surprise, with unemployment at year-end (6.8%) just 1.7% above its pre-COVID low.

Corporate credit shared in the glory of the market-wide rally, tightening dramatically over the quarter. An abundance of new issuance continued to come to market, particularly in the early part of the quarter as companies looked to get deals away prior to year-end. Positive sentiment drove the Australian iTraxx index down to 57 bps, a total reduction of 19 bps over the period.

## Outlook

Much of the world remains constrained by the continual spread of COVID-19. While many developed markets are still in the heat of the battle, Australia has been able to return to some normality, albeit with added vigilance around ongoing virus risk. As such, we have been fortunate enough to largely re-open in both an economic and geographic sense. While we are bound to see minor outbreaks that temporarily change restrictions, the RBA's commitment to keeping interest rates pinned to the floor – while supplying ample liquidity – should ensure a continued, robust domestic economic recovery.

We remain constructive on the Australian credit and hybrid market. The local market remains more attractive than its global peers due to its superior credit quality, industry structure and floating rate nature. While the extensive rally in credit has seen spreads dramatically tighten, they remain elevated relative to previous lows. As such, we expect to see further downward pressure through 2021.

These conditions make now the opportune time to gain exposure to Australian credit and we remain confident in our ability to extract the most positive risk-adjusted returns.

## Portfolio profile

### Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	3.16
Option Adjusted Spread	3.20
Average weighted issue credit rating	BBB-
Estimated yield to maturity (%)	3.64
Fund duration (yrs)	-0.26
Spread duration (yrs)	6.63
Number of securities	70
Listed	34
Unlisted	36

### Sector allocation

	Portfolio %
Asset Backed	3.90
Banks	32.89
Consumer Discretionary	5.19
Consumer Staples	2.47
Diversified Finance	7.33
Energy	1.60
Health Care	2.43
Industrials	15.65
Information Technology	0.00
Insurance	17.00
Materials	1.60
Mortgage Backed	0.00
Real Estate	3.49
Utilities	1.63
Derivatives	-10.71
Cash and equivalents	15.53

## Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU0000NABHA7	6.54
Crown Resorts	AU0000CWNHB7	5.19
Insurance Australia Group	AU3FN0047544	3.68
Suncorp-Metway	AU0000SBKHB3	3.55
Brisbane Airport Corp.	AU3CB0272854	3.39
David Jones Finance	AU3FN0051793	2.47
Pacific National Finance	AU3CB0244325	2.39
Australian Unity	AU0000059933	2.31
Downer Group Finance	AU3CB0262673	2.20
Aurizon Network	AU3CB0274173	2.18

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	36.75
Callable	43.72
At Maturity	19.53

## Security profile

	Portfolio %
Floating rate	92.04
Fixed rate	7.96

## Credit rating profile

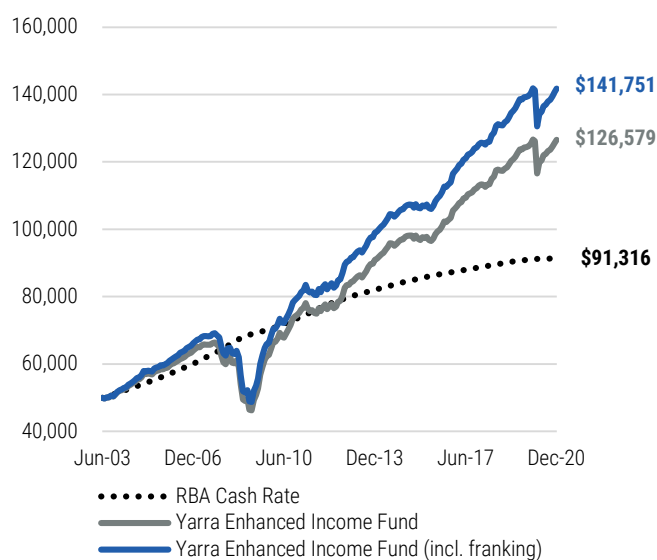
	Portfolio %
AA	2.08
A+	0.00
A	1.06
A-	1.07
BBB+	8.89
BBB	22.89
BBB-	25.16
BB+	11.00
BB	14.53
BB-	3.52
B+	2.65
B	1.60
B-	0.53
Not rated or below	0.20
Cash and Derivatives	4.82

## 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\$96.3 mn as at 31 December 2020
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 December 2020.



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.

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## Applications and contacts

Investment into the Yarra Enhanced Income Fund can be made by Australian resident investors only.

**Website** [www.yarracm.com](http://www.yarracm.com)

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