

Yarra Enhanced Income Fund

Gross returns as at 31 December 2021

	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	0.25	1.07	5.77	4.79	5.50	6.42	6.25
Yarra Enhanced Income Fund (incl. franking)	0.25	1.07	5.77	4.90	5.82	6.84	6.90
RBA Cash Rate	0.01	0.03	0.10	0.53	0.92	1.73	3.31
Excess return [‡]	0.24	1.05	5.67	4.37	4.90	5.11	3.59

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 2021

	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	0.20	0.93	5.19	4.09	4.75	5.63	5.43
Yarra Enhanced Income Fund (incl. franking)	0.20	0.93	5.19	4.20	5.07	6.05	6.08
Growth return [†]	-0.05	0.17	1.87	0.92	1.37	1.43	0.00
Distribution return [†]	0.25	0.76	3.32	3.28	3.70	4.62	6.08
RBA Cash Rate	0.01	0.03	0.10	0.53	0.92	1.73	3.31
Excess return [‡]	0.19	0.91	5.09	3.67	4.15	4.32	2.77

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[^] 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 0.93% (net basis, including franking) over the quarter, outperforming its benchmark by 91 bps. On a 12-month view the Fund returned 5.19%, outperforming the RBA Cash Rate by 509 bps (net basis, including franking).

A steady flow of new issuance made its way to market over the quarter. We continue to see attractive opportunities in high quality names at the long-end where the steep yield curve provides significant levels of yield relative to cash.

Market review

Volatility was ever-present through the last quarter of 2021. Significant inflation prints, a pull forward in expectations around monetary policy tightening, and the latest strain of COVID-19 all contributed to the rollercoaster quarter. The increasingly clouded outlook for 2022 was not significant enough to dampen investor sentiment as risk-on sentiment outperformed into year-end.

Inflationary pressure and supply chain disruption remained a significant issue, both of which were exacerbated by rising concerns regarding the Omicron COVID variant. Elevated inflation prints across the globe, meanwhile, continue to put Central Banks under pressure to act; in the US the annual rate

reached 6.8% (y/y) in November, prompting the Fed to resign itself to the fact it can no longer be labelled a transitory issue.

Once again long-end sovereign yields closed the quarter consistent with levels they had entered the period. Yields bounced around on news flow regarding the rapid spread of the Omicron variant and elevated levels of inflation. It was the shorter end of the yield curve where the largest moves were observed during the quarter, with investors pulling forward timing of rate hike and tapering expectations.

At the short-end, the Australian yield curve traded in line with global counterparts, climbing significantly higher. The decision to forego Yield Curve Control (YCC) and drop 2024 rate hike guidance resulted in a short-end sell-off. The 10-year yield was also wider over the period.

The Reserve Bank of Australia (RBA) made the decision to let go of both YCC and guidance of a 2024 rate hike. While this saw the market begin to price the beginning of the rate hike cycle in 2022, the RBA remains persistent in the linkage of wage growth and rate hikes and believes this may not happen for some time.

Domestic data were mixed over the period. The Q3 GDP release revealed the full impact of stringent lockdowns as the economy contracted 1.9%, the second largest quarterly fall on record. However, it seemed pent up demand quickly unwound as restrictions were eased; retail sales comfortably beat expectations, rising 4.9% (m/m) in October. Employment data also surprised to the upside, with the jobless rate falling to 4.6%.

Corporate credit and hybrids continued to perform well against the backdrop of strong investor appetite for yield. Once again there was a steady flow of new deals which were generally well supported by the market as reflected in the oversubscription of most opportunities. The Australian iTraxx index moved lower over the period, closing at ~64 bps.

Outlook

Economic uncertainty remains prevalent as inflation continues to spike and Central Bank policy changes seemingly imminent. However, market uncertainty has continued to present opportunities.

Our view on rates continues to dictate our positioning. The market has been aggressive on its rate hike expectations, which we expect will prove a little too aggressive; we anticipate rates will be lifted in early 2023. The disconnect between the cash rate and short-term rates has created compelling opportunities where outright yields relative to cash appear very attractive. As for the domestic economy, we anticipate favourable conditions throughout 2022 as high levels liquidity are coupled with elevated demand, driving robust conditions.

We expect the rising rate environment will push the outright return on hybrid securities higher, without having a material impact on spreads given the strong economic backdrop. Minimal returns on cash continue to underpin strong demand for hybrid securities, which is reflected in the oversubscription

of most new deals coming to market. We expect demand for yield to remain robust throughout 2022 resulting in strong returns over the year.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	3.03
Option Adjusted Spread	231
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB
Estimated yield to maturity (%)	3.50
Fund duration (yrs)	0.47
Spread duration (yrs)	3.50
Number of securities	85
Listed	32
Unlisted	53

Sector allocation

	Portfolio %
Asset Backed	1.90
Banks	31.61
Communication Services	1.44
Consumer Discretionary	4.29
Consumer Staples	0.00
Diversified Finance	10.54
Energy	4.42
Health Care	4.95
Industrials	14.37
Information Technology	1.12
Insurance	10.27
Materials	0.98
Mortgage Backed	0.00
Real Estate	4.87
Utilities	1.39
Cash & Other	7.86

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	5.89
Crown Resorts	AU0000CWNHB7	4.29
Aus Unity	AU0000059917	3.54
BOQ	AU3FN0064408	3.33
AMP Life	AU3FN0057691	3.16
Ampol Ltd	AU3FN0057683	3.03
Qube Holdings	AU0000QUBHA8	2.86
Challenger Ltd	AU3FN0039426	2.56
Macquarie Bank	AU0000088429	2.21
National Australia Bank	AU0000NABPE2	2.16

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	26.95
Callable	51.48
At Maturity	21.57

Security profile

	Portfolio %
Floating rate	74.84
Fixed rate	17.31
Cash & Other	7.86

Credit rating profile

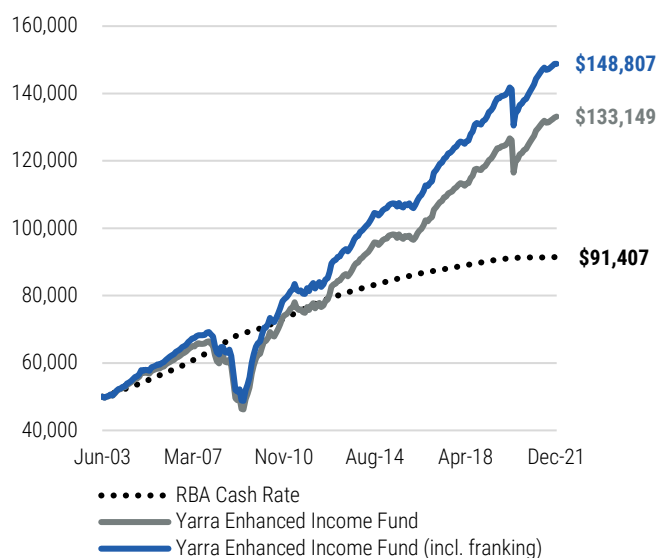
	Portfolio %
AA	1.11
A	0.57
A-	3.00
BBB+	9.32
BBB	19.16
BBB-	28.89
BB+	15.73
BB	10.65
BB-	0.00
B+	3.27
B	0.00
B-	0.38
Not rated or below	0.08
Cash and Derivatives	7.86

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\$181.2 mn as at 31 December 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 December 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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