

Yarra Enhanced Income Fund

Gross returns as at 28 February 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	-0.15	0.12	3.61	4.34	5.18	6.49	6.18
Yarra Enhanced Income Fund (incl. franking)	-0.15	0.12	3.61	4.45	5.49	6.91	6.83
RBA Cash Rate	0.01	0.02	0.10	0.45	0.87	1.66	3.29
Excess return [‡]	-0.16	0.09	3.51	3.99	4.62	5.25	3.55

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 28 February 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	-0.19	-0.02	3.04	3.66	4.44	5.70	5.37
Yarra Enhanced Income Fund (incl. franking)	-0.19	-0.02	3.04	3.76	4.75	6.12	6.02
Growth return [†]	-0.44	-0.78	-0.15	0.32	0.96	1.45	-0.04
Distribution return [†]	0.25	0.76	3.19	3.44	3.79	4.67	6.05
RBA Cash Rate	0.01	0.02	0.10	0.45	0.87	1.66	3.29
Excess return [‡]	-0.20	-0.04	2.94	3.30	3.88	4.46	2.73

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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

Yarra Enhanced Income Fund returned -0.19% (net basis) over the month, underperforming its benchmark by 20 bps. On a 12-month view the Fund has returned 3.04%, outperforming the RBA Cash Rate by 294 bps (net basis, including franking).

Performance was again impacted by broader market risk-off sentiment. Leading into this period valuations were looking full and are now beginning to present more value.

It was another relatively quiet month on the new issuance front. The Fund participated in a new Tier 1 deal issued by ANZ which was attractive, pricing at a spread of 270 bps. Beyond that, we remain active in the secondary market to further optimise our positioning.

Market review

Geopolitical tensions boiled over as Russia sent troops into Ukraine, bringing with them devastating destruction. Western countries were quick to respond in the form of increasingly severe economic sanctions and the supply of military equipment to Ukraine. Financial markets had a tumultuous month as investors fled to quality.

Globally, the story remained familiar; elevated inflation and economic pressure threatening to push it higher without central bank intervention. Sovereign yields were volatile as investors sought safe haven assets, though this was tempered by the need to balance that out via upside risk to inflation.

The Reserve Bank of Australia (RBA) were again consistent in their messaging; they are comfortable on the sidelines until

underlying inflation is sustainably within their target range. The RBA acknowledged the developments in Ukraine will likely give another leg up to the inflation trend, although expect this component will be merely transitory. Domestic economic data painted the picture of robust conditions as job ads, retail sales and wages growth all printed strong results.

Corporate credit and hybrid spreads moved wider over the month as investor caution was exacerbated by Russia's invasion of Ukraine and the prospect of further inflationary pressure. Corporate reporting season was broadly credit positive, with earnings remaining strong and balance sheets robust, although we remain wary amidst the uncertain outlook. The market remained relatively subdued on the new issuance front, however it likely to ramp up in the coming weeks. The Australian iTraxx index moved higher over the month closing at ~92 bps.

Outlook

Both economic and geopolitical conditions remain uncertain. Inflationary pressure appears unrelenting and will soon force the hand of policy makers in our view. In this environment we continue to find pockets of the market where we can find exposure to attractive risk weighted opportunities.

We expect the first move in rates to come late in 2022, later than the market is currently pricing. It is likely the RBA will wait to ensure both inflation and wages growth are comfortably within or above their target range before they elect to move. We remain positioned to benefit from this thesis coming to fruition. Timing aside, it is likely that strong household liquidity and robust labour market conditions will ensure the domestic economy remains robust as we enter the hiking cycle.

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 reflected in the oversubscription of most new deals coming to market. We anticipate 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) (%)	2.86
Option Adjusted Spread	228
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB
Estimated yield to maturity (%)	3.92
Effective duration (yrs)	0.38
Spread duration (yrs)	3.24
Number of securities	87
Listed	33
Unlisted	54

Sector allocation

	Portfolio %
Asset Backed	0.68
Banks	32.58
Communication Services	1.25
Consumer Discretionary	4.44
Consumer Staples	-
Diversified Financials	10.31
Energy	3.83
Health Care	4.26
Industrials	13.31
Information Technology	0.94
Insurance	8.85
Materials	0.81
Mortgage Backed	-
Real Estate	3.90
Utilities	2.11
Cash & Other	12.74

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	5.09
Crown Resorts	AU0000CWNHB7	4.44
Commonwealth Bank of Australia	AU3FN0062600	3.31
Australian Unity	AU0000059917	3.05
Bank Of Queensland	AU3FN0064408	2.86
Resolution Life	AU3FN0057691	2.73
Ampol	AU3FN0057683	2.63
Qube Holdings	AU0000QUBHA8	2.44
Challenger	AU3FN0039426	2.20
WestConnex	AU3CB0279057	2.19

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	25.06
Callable	49.57
At Maturity	25.37

Security profile

	Portfolio %
Floating rate	70.59
Fixed rate	16.67
Cash & Other	12.74

Credit rating profile

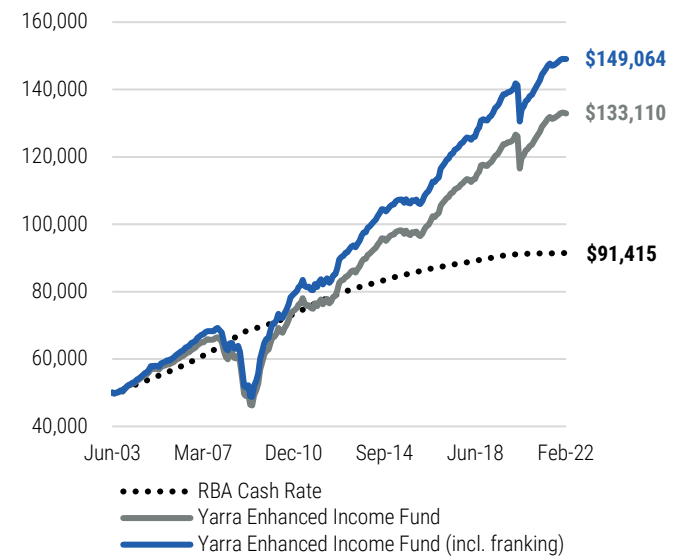
	Portfolio %
AA+	0.00
A	0.48
A-	0.49
BBB+	0.73
BBB	13.58
BBB-	17.62
BB+	26.30
BB	14.47
BB-	10.38
B+	0.00
B	2.83
B-	0.00
Not rated or below	0.32
Cash and Derivatives	0.07

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\$208.7 mn as at 28 February 2022
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 February 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 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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