

Yarra Enhanced Income Fund

Gross returns as at 31 January 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	0.02	0.71	5.01	4.67	5.35	6.31	6.22
Yarra Enhanced Income Fund (incl. franking)	0.02	0.71	5.01	4.77	5.67	6.73	6.87
RBA Cash Rate	0.01	0.03	0.10	0.49	0.89	1.69	3.30
Excess return [‡]	0.01	0.68	4.91	4.28	4.78	5.04	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 January 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	-0.03	0.57	4.43	3.98	4.61	5.52	5.40
Yarra Enhanced Income Fund (incl. franking)	-0.03	0.57	4.43	4.07	4.92	5.94	6.05
Growth return [†]	-0.28	-0.19	1.17	0.72	1.18	1.31	-0.02
Distribution return [†]	0.25	0.76	3.27	3.36	3.75	4.64	6.07
RBA Cash Rate	0.01	0.03	0.10	0.49	0.89	1.69	3.30
Excess return [‡]	-0.04	0.54	4.33	3.58	4.03	4.25	2.75

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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 -0.03% (net basis) over the month, underperforming its benchmark by 4 bps, reflecting broad based risk-off market sentiment. On a 12-month view the Fund has returned 4.43%, outperforming the RBA Cash Rate by 433 bps (net basis, including franking).

There were few new deals issued during the month. The Fund remains active on the secondary market seeking to optimize the risk adjusted returns.

Market review

Financial markets stumbled through January as policy tightening, geopolitical tensions and elevated valuations all compounded bearish sentiment. These factors continue to

cloud the economic outlook, which began to weigh on investor optimism.

Around the globe employment data continued to impress and inflation prints remained well above targets, further adding to mounting pressure on central banks. Hawkish commentary from central bankers put further upward pressure on sovereign yields as they moved higher across most advanced economies.

The Reserve Bank of Australia (RBA) did not meet in January, hence there were no cash rate or policy changes. However, strong data printed through the month continues to put pressure on the RBA to respond. Employment numbers for December showed unemployment closed the year at 4.2% as 64.8k jobs were added, slightly better than consensus. The

inflation print added further pressure to the central bank as CPI reached a level of 3.5% (y/y) and for the trimmed mean, 2.65% (y/y), moving past the middle of the RBA's target range.

Corporate credit and hybrid spreads were modestly softer over the month. The sub-investment grade component of the market was most heavily impacted by broader weakness as investors sought to reduce risk. Strong economic conditions, however, should continue to limit the downside we see in the sector. New issuance remained muted as we entered the New Year, it will likely pick up post-reporting season. The Australian iTraxx index moved higher over the month, closing at ~75 bps.

Outlook

Economic uncertainty remains prevalent as inflation continues to spike, with Central Bank policy changes appearing 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 into the end of 2021 as high levels of 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	228
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB
Estimated yield to maturity (%)	3.77
Effective duration (yrs)	0.46
Spread duration (yrs)	3.44
Number of securities	86
Listed	54
Unlisted	32

Sector allocation

	Portfolio %
Asset Backed	1.83
Banks	30.78
Communication Services	1.38
Consumer Discretionary	4.86
Consumer Staples	0.00
Diversified Financials	10.11
Energy	4.24
Health Care	4.79
Industrials	15.22
Information Technology	1.07
Insurance	9.87
Materials	0.91
Mortgage Backed	0.00
Real Estate	4.38
Utilities	2.36
Cash & Other	8.21

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	5.70
Crown Resorts	AU0000CWNHB7	4.86
Aus Unity	AU0000059917	3.44
BOQ	AU3FN0064408	3.19
Resolution Life	AU3FN0057691	3.05
Ampol Ltd	AU3FN0057683	2.91
Qube Holdings	AU0000QUBHA8	2.73
Westconnex	AU3CB0279057	2.54
Challenger Life	AU3FN0039426	2.46
Melbourne Airport	AU3CB0284735	2.14

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	25.73
Callable	51.85
At Maturity	22.41

Security profile

	Portfolio %
Floating rate	72.73
Fixed rate	19.06
Cash & Other	8.21

Credit rating profile

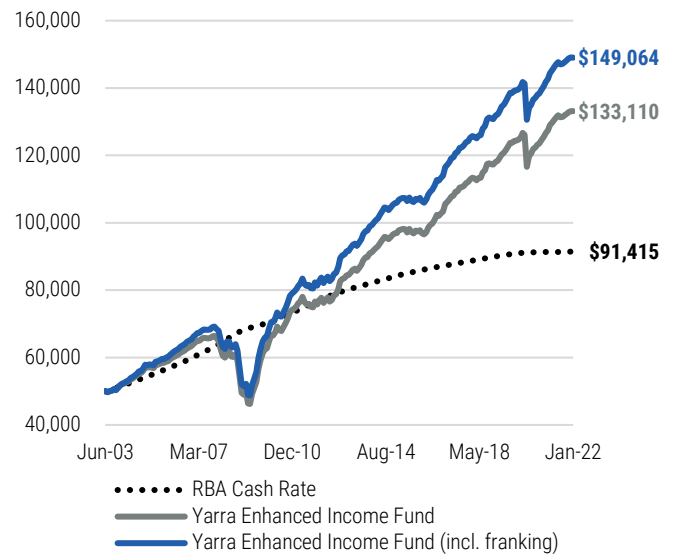
	Portfolio %
AA+	1.06
A	0.53
A-	0.54
BBB+	2.87
BBB	9.91
BBB-	19.81
BB+	27.52
BB	15.81
BB-	10.22
B+	0.00
B	3.08
B-	0.00
Not rated or below	0.36
Cash and Derivatives	0.08

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\$171.6 mn as at 31 January 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 January 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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