

Yarra Enhanced Income Fund

Gross returns as at 30 June 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	0.45	1.77	8.77	5.44	6.51	6.50	6.35
Yarra Enhanced Income Fund (incl. franking)	0.45	1.77	8.77	5.65	6.89	6.96	7.02
RBA Cash Rate	0.01	0.02	0.15	0.76	1.06	1.96	3.40
Excess return [‡]	0.44	1.74	8.62	4.89	5.82	5.01	3.62

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 30 June 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	0.40	1.63	8.15	4.69	5.73	5.70	5.53
Yarra Enhanced Income Fund (incl. franking)	0.40	1.63	8.15	4.90	6.10	6.16	6.20
Growth return [†]	0.12	0.78	4.80	1.38	2.17	1.34	0.03
Distribution return [†]	0.28	0.85	3.35	3.53	3.94	4.82	6.17
RBA Cash Rate	0.01	0.02	0.15	0.76	1.06	1.96	3.40
Excess return [‡]	0.39	1.60	8.00	4.14	5.04	4.20	2.80

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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 1.63% (net basis, including franking) over the quarter, outperforming the RBA Cash Rate by 160 bps. On a 12-month view the Fund returned 8.15%, outperforming by 800 bps.

The Fund remained active during the period, trading in both the primary and secondary markets in order to position for the most positive risk-adjusted returns. The Fund's bias towards old-style Basel 2 securities paid off once again, with Suncorp announcing its intentions to call the SBKHB securities.

Market review

The unrelenting nature of COVID-19 was again a feature of the June quarter, as India faced the challenge of suppressing a

new Delta variant. The outbreak threatened the pace of the booming post-pandemic recovery, though the potential impact appeared to be largely discounted by the markets.

It was another strong quarter for those market bulls riding the wave of ongoing QE programs, which continued to push investors into risk-assets in order to earn more desirable returns. Conjecture around how and when global central banks will begin to taper became a hot topic late in the quarter, although this had a muted impact on positive risk sentiment.

Long-end sovereign yields were lower across most advanced economies despite strength in economic data, with US inflation surprising to the upside and heightened commentary around the timing of rate hikes. This was likely the result of

some consolidation, following significant selling in the first quarter in conjunction with dovish central bank commentary.

The RBA made no change to the cash rate and reiterated its intention to hold rates at current levels until at least 2024. Australia's central bank increased its growth and employment forecasts, acknowledging surprise at the pace of the recovery. However, Governor Lowe stressed that persistent wage growth is not yet on the horizon, a key criteria for rate hikes.

Domestic economic data remained robust; Q1 GDP printed a rise of 1.8% (q/q), against expectations for a 1.5% increase, while the unemployment rate fell to 5.1%, now below pre-COVID levels. First quarter ABS capex data also painted a more positive picture; private capex, up 6.3%, was the largest quarterly increase since 2012. S&P shared the RBA's view of the domestic economy, taking the sovereign rating off negative outlook and back to AAA stable, citing better-than-expected virus suppression and the resulting economic recovery.

The contraction in corporate credit and hybrid spreads continued through the quarter. Strong economic momentum and a desire to chase yield created heavy interest in credit. The outright return on credit was also made more attractive as a result of the steep yield curve. The Australian iTraxx index moved tighter in the quarter, closing at ~58 bps.

Outlook

On a global scale we continue to edge closer to life after COVID-19, as an increasing proportion of the population becomes vaccinated. Domestically, the pace of Australia's vaccine distribution continues to lag, albeit with less dire consequences given the small number of cases experienced. We are bound to see outbreaks until we have achieved the all-important herd immunity, however, given the responses observed from state governments across the country, it is unlikely they will be as dire as 2020.

Once again the federal government has shown a willingness to step-in and provide support when snap lockdowns occur, reducing the likely detriment that would otherwise be experienced. The RBA, meanwhile, has maintained its desire to support a low rate environment, further encouraging strong investment and robust economic growth going forward.

We remain constructive on the Australian credit and hybrid market. The local market remains more attractive than global peers due to its superior credit quality, industry structure and floating rate nature. Corporate credit and hybrid spreads have continued to contract as investors seek out yield in the market.

An abundance of new corporate deals continue to come to market with attractive new issuance premia. We expect to see ongoing attractive issuance given investor support remains elevated.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	3.21
Option Adjusted Spread	2.41
Average weighted issue credit rating	BBB-
Average weighted ESG Rating	BBB
Estimated yield to maturity (%)	3.06
Fund duration (yrs)	0.12
Spread duration (yrs)	3.55
Number of securities	76
Listed	34
Unlisted	42

Sector allocation

	Portfolio %
Asset Backed	3.46
Banks	32.31
Consumer Discretionary	4.19
Consumer Staples	0.00
Diversified Finance	12.38
Energy	3.58
Health Care	2.66
Industrials	17.98
Information Technology	0.00
Insurance	11.28
Materials	1.45
Mortgage Backed	0.00
Real Estate	4.84
Utilities	1.38
Derivatives	-11.62
Cash and equivalents	16.11

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	4.96
Crown Resorts	AU0000CWNHB7	4.19
Qube Holdings	AU0000QUBHA8	3.85
Suncorp-Metway	AU0000SBKHB3	3.72
Ampol Limited	AU3FN0057683	3.58
Insurance Australia Group	AU3FN0047544	3.15
Brisbane Airport Corp.	AU3CB0272854	2.94
Macquarie Group	AU0000040172	2.59
SEEK	AU3FN0052239	2.34
Australian Unity	AU0000059933	2.21

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	34.10
Callable	45.93
At Maturity	19.97

Security profile

	Portfolio %
Floating rate	78.54
Fixed rate	16.97
Cash & Other	4.49

Credit rating profile

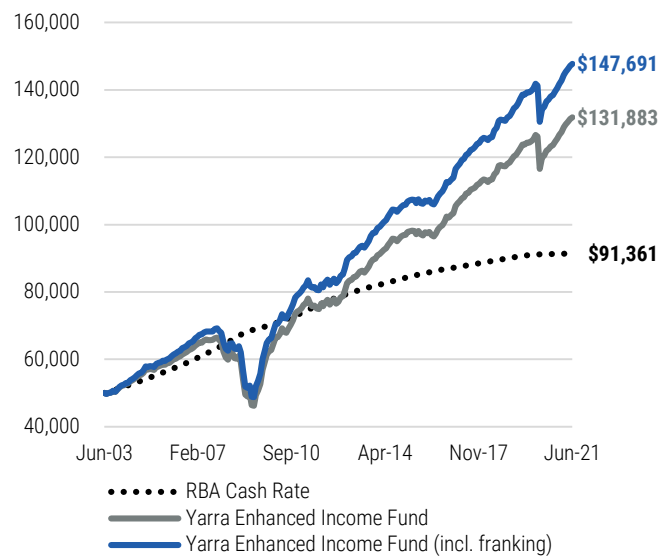
	Portfolio %
AA	1.76
A	0.90
A-	0.90
BBB+	7.11
BBB	17.21
BBB-	29.29
BB+	17.02
BB	14.56
BB-	2.34
B+	2.20
B	1.45
B-	0.60
Not rated or below	0.17
Cash and Derivatives	4.49

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\$114.0 mn as at 30 June 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 June 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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