

Yarra Enhanced Income Fund

Gross returns as at 31 March 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	-0.33	-0.46	2.55	3.92	4.92	6.34	6.14
Yarra Enhanced Income Fund (incl. franking)	-0.33	-0.46	2.56	3.96	5.21	6.74	6.78
RBA Cash Rate	0.01	0.02	0.10	0.41	0.85	1.63	3.27
Excess return [‡]	-0.34	-0.49	2.46	3.55	4.36	5.11	3.51

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 March 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	-0.37	-0.60	1.99	3.25	4.19	5.55	5.32
Yarra Enhanced Income Fund (incl. franking)	-0.37	-0.60	1.99	3.28	4.47	5.95	5.97
Growth return [†]	-0.63	-1.35	-1.14	0.19	0.79	1.42	-0.07
Distribution return [†]	0.25	0.76	3.14	3.09	3.69	4.53	6.04
RBA Cash Rate	0.01	0.02	0.10	0.41	0.85	1.63	3.27
Excess return [‡]	-0.38	-0.62	1.89	2.87	3.62	4.32	2.69

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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 -0.60% (net basis, including franking) over the quarter, underperforming its benchmark by 62 bps. On a 12-month view the Fund returned 1.99%, outperforming the RBA Cash Rate by 189 bps (net basis, including franking).

It was relatively quiet on the new issuance front until late in the quarter, although the Fund participated in a number of new deals at attractive levels of outright yield following the significant selling of sovereign bonds.

Market review

Consistent with previous quarters, which were disrupted supply chains, inflation and monetary policy tightening were all prevalent features of the first quarter of 2022. Compounding the big unknown of how the cycle will play out was the boiling over of geopolitical tensions as Russia invaded Ukraine. The sanctions that followed have exacerbated supply chains and sent commodity prices sharply higher. These inflationary forces have amped up the pressure on global policy makers who we have seen become increasingly hawkish. For many developing nations the hiking cycle has commenced and the speed of further hiking has continued to shorten.

Despite some weakness in the first half of the quarter, investor sentiment seemed to recover as commodity prices eased from

their most recent highs, although this seemed contrary to the broader economic forces at play.

Sovereign yields across the globe were unrelenting in their move higher. Duration was punished as markets priced in an aggressive hiking cycle. This trend ultimately saw an inversion of the 2s/10s US yield curve, historically a strong recessionary lead indicator.

The Australian yield curve traded in line with most developed nations, with market economists frequently moving forward their rate hike expectations as the Reserve Bank of Australia (RBA) adopted a more hawkish tone.

The RBA has opened itself up to an almost certainty of having interest rates in 2022 at levels contrary to the 2024 position they have taken over the past few years. The market has clearly devalued the word of the central bank, pricing in a particularly aggressive hiking cycle.

A strong consumer profile, labour market and elevated liquidity were again present in economic data. The jobless rate was just 4% at the conclusion of February and job ads remained elevated. Strong conditions have slowly started to show in the form of wages growth and continue to underpin strong retail sales.

Corporate credit and hybrid spreads were softer over the quarter. While liquidity in the sector remained high, broader market weakness flowed through to spreads. New issuance was largely muted – much of the market held its breath through the early phase of Russia's invasion – before markets calmed and a flurry of new deals came late in the quarter. The Australian iTraxx index moved higher over the period, closing at ~81 bps.

Outlook

Both economic and geopolitical conditions remain uncertain. Inflationary pressures appear unrelenting and, we expect, will soon force the hand of policymakers. In this environment we continue to find pockets of the market where we can add exposure to attractive risk weighted opportunities.

We now expect the first move in Australian rates to come in June 2022, with multiple moves to follow through the year. We continue to believe the market is pricing a far more aggressive hiking cycle than will come to fruition, however, and remain positioned as such. Strong household liquidity and robust labour market conditions will ensure the domestic economy continues to grow modestly, even as monetary policy is tightened.

The rising rate environment will push the outright return on hybrid securities higher without 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, supporting strong returns over the year.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	2.92
Option Adjusted Spread	243
Average weighted issue credit rating	BBB
Average weighted ESG Rating	BBB
Estimated yield to maturity (%)	4.75
Fund duration (yrs)	0.56
Spread duration (yrs)	3.33
Number of securities	92
Listed	34
Unlisted	58

Sector allocation

	Portfolio %
Asset Backed	0.55
Banks	31.63
Communication Services	0.99
Consumer Discretionary	3.75
Consumer Staples	0.00
Diversified Finance	13.88
Energy	3.01
Health Care	3.41
Industrials	11.23
Information Technology	0.73
Insurance	13.74
Materials	0.67
Mortgage Backed	0.00
Real Estate	3.24
Utilities	3.56
Cash & Other	9.61

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	4.21
Crown Resorts	AU0000CWNHB7	3.75
IAG Ltd	AU3FN0047544	3.09
AMP Ltd	AU3FN0045746	2.82
National Australia Bank	AU0000NABPE2	2.71
Westpac	AU3FN0058129	2.66
Westconnex Pty Ltd.	AU3CB0279057	2.63
Commonwealth Bank of Australia	AU3FN0062600	2.63
Resolution Life	AU3FN0057691	2.54
Aus Unity	AU0000059917	2.45

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	20.05
Callable	57.69
At Maturity	22.26

Security profile

	Portfolio %
Floating rate	74.58
Fixed rate	15.81
Cash & Other	9.61

Credit rating profile

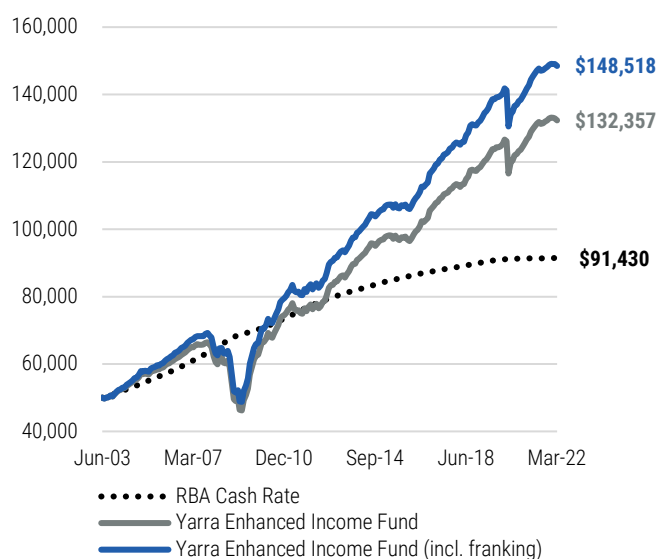
	Portfolio %
A+	0.38
A	0.39
A-	0.57
BBB+	14.52
BBB	23.88
BBB-	24.88
BB+	11.71
BB	11.47
BB-	-
B+	2.28
B	-
B-	0.26
Not rated or below	0.05
Cash and Derivatives	9.61

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\$261.7 mn as at 31 March 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 March 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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