

Yarra Enhanced Income Fund

Gross returns as at 31 May 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	0.69	2.02	9.67	5.78	6.52	6.37	6.36
Yarra Enhanced Income Fund (incl. franking)	0.69	2.02	9.67	6.05	6.93	6.86	7.03
RBA Cash Rate	0.01	0.02	0.16	0.80	1.09	1.99	3.42
Excess return [‡]	0.68	2.00	9.51	5.25	5.84	4.87	3.61

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 May 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	0.64	1.88	9.02	5.02	5.74	5.56	5.53
Yarra Enhanced Income Fund (incl. franking)	0.64	1.88	9.02	5.30	6.14	6.06	6.21
Growth return [†]	0.36	1.02	5.28	1.48	2.01	0.81	0.02
Distribution return [†]	0.28	0.86	3.74	3.82	4.13	5.25	6.18
RBA Cash Rate	0.01	0.02	0.16	0.80	1.09	1.99	3.42
Excess return [‡]	0.64	1.85	8.86	4.49	5.05	4.06	2.79

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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 0.64% (net basis) over the month, outperforming its benchmark by 64 bps. On a 12-month view the Portfolio returned 9.02%, outperforming the RBA Cash Rate by 886 bps (net basis, including franking).

During the month Suncorp announced they would be calling their old-style, Basel 2 SBKHB securities. Our bias towards these securities has once again paid off; the SBKHB contributed in excess of 100 bps to the Fund's 12-month return as at 31 May.

Market review

Caution crept into markets through May although risk on sentiment remained. It was a more subdued month on the

COVID-19 front as vaccination programs slowly gathered speed. Instead, investor focus became increasingly fixated on how central banks will respond to booming economic conditions as we begin to emerge from a period of unfathomable stimulus packages and highly restrictive lockdowns.

The fear of impending tapering was exacerbated by the US core CPI, up 0.9% (m/m) against consensus of 0.3%, triggering fears a normalisation of policy may come sooner than currently expected. The RBNZ led the way in flagging a rise in rates, indicating they intend to raise by the end of 2022. Government bond yields pushed higher early in the month before rallying, to close out May marginally lower.

The Reserve Bank of Australia (RBA) made no changes to policy over the month, although did significantly lift its forecast growth for 2021. The broader Australian economic story remains a positive one: the unemployment rate continues to fall and retail sales and home approvals remain persistently strong. Improvement in business conditions has begun to manifest in the form of wage growth, creeping up 0.6% (q/q) in March equating to a 1.5% rise since the same time last year.

While Australia's central bank acknowledged the much stronger economic growth outlook, this had relatively minor implications for forecast inflation. The RBA has not yet made the decision to roll the Yield Curve Control (YCC) target from April 2024 to November 2024.

The Australian sovereign yield moved marginally lower over the month. Inflationary expectations initially pushed yields higher, before dovish commentary from global central banks suppressed yields.

Corporate credit and Hybrids were far more subdued over the month of May as spreads remained relatively steady. The major banks reported their March half results during the month, with a common focus on the funding task post the roll-off of the Term Funding Facility (TFF). We may begin to see this have some impact on Tier 1 and 2 spreads as Senior issuance resumes. Issuance over the month was quiet; deals that did come to market were comfortably absorbed. The Australian iTraxx index was marginally tighter over the month, closing at 59 bps.

Outlook

The domestic economy remained robust over May. Australia's vaccine roll-out continues to lag much of the globe, although the Victorian outbreak late in the month is likely to create some momentum among the population seeking vaccination.

It appears evident that small lockdowns will be inevitable until a large portion of the population has received the full vaccine. However, ongoing RBA and government support are likely to diminish the severity of the impact. Australian remains fortunate to be able to maintain near eradication of COVID-19, which continues to underpin rapid economic growth following the tumultuous impact of the pandemic.

The Australian credit and hybrid market looks attractive relative to global peers given its superior credit quality, industry structure and floating rate nature. Corporate credit spreads maintained their downward momentum reflecting the continued demand for high yielding assets. The market for new issuance is robust, as ample liquidity moving around the market looks to find a home. We expect to see ongoing strength as the economic recovery continues to gather momentum.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	3.22
Option Adjusted Spread	2.56
Average weighted issue credit rating	BBB-
Estimated yield to maturity (%)	3.14
Fund duration (yrs)	0.15
Spread duration (yrs)	3.40
Number of securities	74
Listed	34
Unlisted	40

Sector allocation

	Portfolio %
Asset Backed	3.52
Banks	29.70
Consumer Discretionary	4.33
Consumer Staples	0.00
Diversified Finance	12.60
Energy	3.65
Health Care	2.71
Industrials	17.91
Information Technology	0.00
Insurance	11.50
Materials	1.47
Mortgage Backed	0.00
Real Estate	5.18
Utilities	1.42
Derivatives	-9.87
Cash and equivalents	15.88

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	5.01
Crown Resorts	AU0000CWNHB7	4.33
Suncorp-Metway	AU0000SBKHB3	3.80
Ampol	AU3FN0057683	3.65
Qube Holdings	AU0000QUBHA8	3.46
Insurance Australia Group	AU3FN0047544	3.22
Brisbane Airport Corp.	AU3CB0272854	3.00
Macquarie Group	AU0000040172	2.62
SEEK	AU3FN0052239	2.40
Australian Unity	AU0000059933	2.25

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	34.66
Callable	41.99
At Maturity	23.35

Security profile

	Portfolio %
Floating rate	76.46
Fixed rate	17.53
Cash & Other	6.01

Credit rating profile

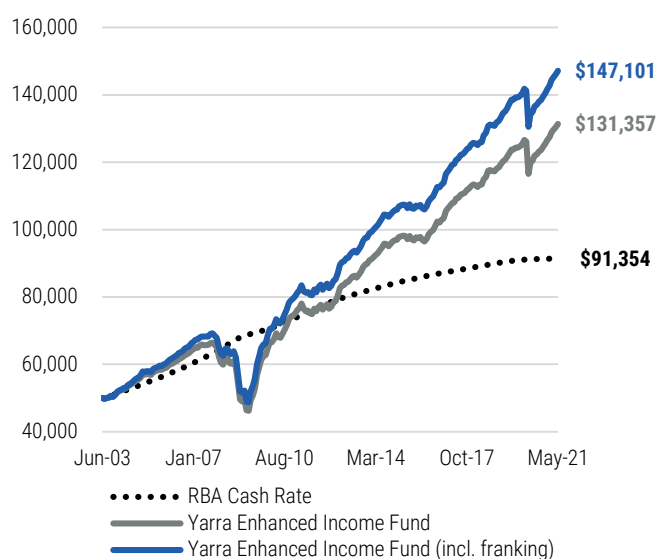
	Portfolio %
AA	1.79
A+	0.00
A	0.92
A-	0.92
BBB+	4.49
BBB	19.47
BBB-	28.05
BB+	16.92
BB	14.51
BB-	2.40
B+	2.27
B	1.47
B-	0.61
Not rated or below	0.17
Cash and Derivatives	6.01

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\$112.3 mn as at 31 May 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 May 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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