

Yarra Enhanced Income Fund

Gross returns as at 30 November 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	0.44	1.21	6.44	4.95	5.92	6.57	6.26
Yarra Enhanced Income Fund (incl. franking)	0.44	1.21	6.44	5.09	6.26	7.02	6.91
RBA Cash Rate	0.01	0.02	0.10	0.57	0.94	1.77	3.33
Excess return [‡]	0.43	1.18	6.34	4.53	5.32	5.25	3.59

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 November 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	0.39	1.07	5.86	4.24	5.16	5.78	5.45
Yarra Enhanced Income Fund (incl. franking)	0.39	1.07	5.86	4.39	5.50	6.23	6.10
Growth return [†]	0.14	0.30	2.48	0.87	1.53	1.40	0.00
Distribution return [†]	0.25	0.76	3.38	3.52	3.97	4.83	6.10
RBA Cash Rate	0.01	0.02	0.10	0.57	0.94	1.77	3.33
Excess return [‡]	0.39	1.04	5.76	3.82	4.56	4.46	2.77

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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 0.39% (net basis) over the month, outperforming its benchmark by 39 bps. On a 12-month view the Fund has returned 5.86%, outperforming the RBA Cash Rate by 576 bps (net basis, including franking).

There was a significant flow of new deals over the month, several of which the Fund elected to participate in. The Melbourne Airport deal presented a very attractive opportunity; given the current environment the spread was attractive relative to similar rated peers, and the overall yield on the deal was substantial at ~3.7%.

Market review

Headlines were once again dominated by the latest COVID-19

updates as the latest variant, Omicron, was discovered in South Africa. Initial fears that the strain is more virulent than its predecessors and could be resistant to existing vaccines sparked a global risk-off response. The continuation of elevated inflation prints added to the valuation pressure across high-risk assets.

Central Banks across the globe continued to cautiously lean into the tightening of monetary policy. One of the most notable moves was the Fed's announcement that it may accelerate the pace of tapering. However, somewhat contrary to rate hikes and tightening of monetary policy, sovereign bonds rallied over the month on an increasingly risky market outlook.

The Reserve Bank of Australia (RBA) officially abandoned its Yield Curve Control (YCC) targets during the month, confirming

a move which was obvious to market participants in late October. Australia's central bank has now also stepped away from previous guidance of the first rate hike coming in 2024. The announcement had a subdued impact on sovereign yields as the decision had been largely priced by the market.

The impact of widespread lockdowns continued to weigh on domestic data released through November. The unemployment rate surged to 5.2%, well above consensus expectations, while private capex came in weak, printing a decline of 2.2% over the September quarter.

Once again corporate credit and hybrids were somewhat insulated from broader market volatility, attributable to ongoing low interest rates, large levels of liquidity and strong corporate balance sheets. The steepness of the yield curve continues to provide desirable opportunities to lock in substantial yields relative to cash. The Australian iTraxx index moved higher over the month closing at ~74 bps.

Outlook

Economic uncertainty remains prevalent as inflation continues to spike and 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 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) (%)	3.04
Option Adjusted Spread	236
Average weighted issue credit rating	BBB-
Average weighted ESG Rating	BBB
Estimated yield to maturity (%)	3.62
Effective duration (yrs)	0.40
Spread duration (yrs)	3.54
Number of securities	84
Listed	35
Unlisted	49

Sector allocation

	Portfolio %
Asset Backed	2.09
Banks	30.71
Communication Services	1.63
Consumer Discretionary	4.19
Consumer Staples	0.00
Diversified Financials	11.69
Energy	4.93
Health Care	5.42
Industrials	14.22
Information Technology	1.23
Insurance	8.10
Materials	1.08
Mortgage Backed	0.00
Real Estate	4.51
Utilities	1.53
Cash & Other	8.66

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	5.27
Crown Resorts	AU0000CWNHB7	4.19
Aus Unity	AU0000059917	3.88
BOQ	AU3FN0064408	3.65
Ampol Ltd	AU3FN0057683	3.41
Qube Holdings	AU0000QUBHA8	2.67
Macquarie Bank	AU0000088429	2.43
AMP Life	AU3FN0057691	2.22
National Australia Bank	AU0000NABPE2	2.15
Brisbane Airport	AU3CB0272854	2.00

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	28.43
Callable	48.34
At Maturity	23.23

Security profile

	Portfolio %
Floating rate	73.85
Fixed rate	17.49
Cash & Other	8.66

Credit rating profile

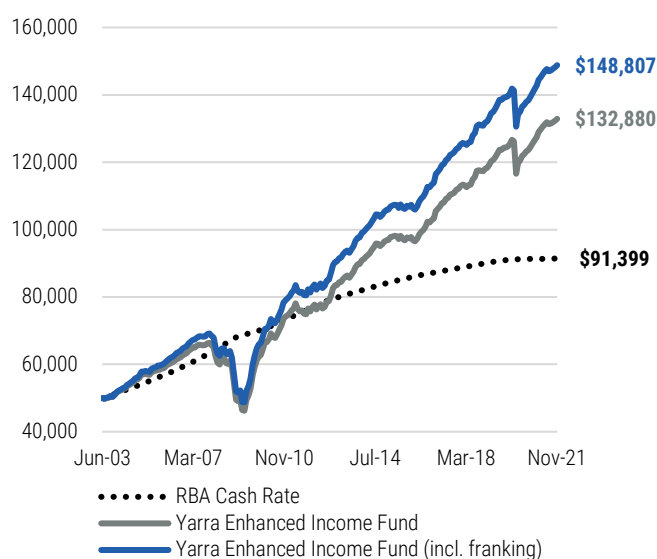
	Portfolio %
AA+	1.22
A	0.62
A-	0.93
BBB+	8.76
BBB	19.07
BBB-	28.40
BB+	16.35
BB	11.40
BB-	0.00
B+	4.07
B	0.00
B-	0.41
Not rated or below	0.11
Cash and Derivatives	8.66

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\$164.9 mn as at 30 November 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 November 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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