

Yarra Enhanced Income Fund

Gross returns as at 31 October 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	0.38	0.94	6.82	4.78	5.94	6.41	6.26
Yarra Enhanced Income Fund (incl. franking)	0.38	0.94	6.82	4.93	6.28	6.86	6.92
RBA Cash Rate	0.01	0.02	0.10	0.61	0.96	1.80	3.34
Excess return [‡]	0.37	0.92	6.72	4.32	5.32	5.06	3.58

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 October 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	0.33	0.80	6.24	4.07	5.18	5.62	5.45
Yarra Enhanced Income Fund (incl. franking)	0.33	0.80	6.24	4.22	5.52	6.07	6.10
Growth return [†]	0.08	0.04	2.81	0.79	1.60	1.27	0.00
Distribution return [†]	0.25	0.76	3.43	3.42	3.92	4.80	6.11
RBA Cash Rate	0.01	0.02	0.10	0.61	0.96	1.80	3.34
Excess return [‡]	0.33	0.78	6.14	3.61	4.56	4.26	2.76

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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 0.33% (net basis) over the month, outperforming its benchmark by 33 bps. On a 12-month view the Fund has returned 6.24%, outperforming the RBA Cash Rate by 614 bps (net basis, including franking).

It was a quiet month on the new issuance front following a busy September. The Fund did not participate in any new deals, though we continue to actively trade in the secondary market.

Market review

Volatility was ever present through October, most notably in global bond markets. A significantly higher than expected New Zealand inflation print had repercussions across the globe.

Following the release, investors began to price an aggressive period of rate hikes as inflation begins to prove increasingly persistent.

A raft of monetary policy tightening appears set to spread internationally. The Reserve Bank of New Zealand (RBNZ) joined Norway as the first developed economies to raise rates, while the US flagged it would announce tapering in November.

Inflation data had a profound impact on sovereign bond yields across the world, pushing higher in most advanced economies. The Reserve Bank of Australia's (RBA) messaging remained consistent: our central bank remains confident that inflation will be limited for some time yet and expects a robust labour market as locked down states re-emerge.

The big story of the month, however, arose from the RBA's inaction at the end of October, the consequences of which spoke volumes about forward looking policy. Following strong inflationary prints in New Zealand and Australia, markets began to price rate hikes sooner which pushed the yield curve outside the central bank's targeted range. By electing not to buy the April 2024 bond and drive yields lower, the RBA effectively abolished Yield Curve Control (YCC). It appears the RBA may now be resigned to the fact rate hikes will come prior to 2024.

The sell-off in domestic sovereign bonds was even more prolific relative to other global players, given the domestic upside inflation surprise and the unofficial termination of YCC.

Domestic data were mixed over the month. Employment numbers captured the impact of prolonged lockdowns, with the number of employed people falling by 138k through September, driving up unemployment to 4.6%. Trimmed mean inflation surprised to the upside, climbing into the RBA's targeted band at 2.1% (consensus 1.8%). Retail sales lifted, led by non-lockdown states which hit record highs. Credit growth also drifted higher, with the six-month annualised rate now at 8.7%.

Corporate credit and hybrid spreads were relatively flat over the month. The underlying yield pushed higher creating a number of attractive opportunities at the long end. Credit and Hybrid spreads were insulated from the bond market sell-off and continue to attract strong demand. The Australian iTraxx index was tighter over the month closing at ~65 bps.

Outlook

Global economic conditions remain uncertain as the Chinese property sector continues to hurt and power shortages across Europe and China push energy prices higher. Stagflation is now seemingly a significant risk.

As domestic lockdown states emerge from stringent restrictions, we anticipate abundant consumer activity as a result of elevated household liquidity and pent-up demand. It appears the worst of the COVID-19 restrictions have come to pass, which will likely drive strong economic conditions into the end of 2021.

The Australian credit and hybrid market looks attractive relative to global peers given its superior credit quality, industry structure and floating rate nature. Although the pace of the rally in spreads has eased, we continue to see well supported deals and strong market liquidity. Steepness of the yield curve has presented a number of attractive long-dated opportunities. We expect to see strong returns from the sector throughout the remainder of calendar 2021.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (incl franking credits) (%)	3.21
Option Adjusted Spread	2.51
Average weighted issue credit rating	BBB-
Average weighted ESG Rating	BBB
Estimated yield to maturity (%)	3.85
Effective duration (yrs)	0.47
Spread duration (yrs)	3.45
Number of securities	82
Listed	35
Unlisted	47

Sector allocation

	Portfolio %
Asset Backed	2.41
Banks	30.55
Communication Services	1.87
Consumer Discretionary	4.18
Consumer Staples	0.00
Diversified Financials	14.66
Energy	3.91
Health Care	3.17
Industrials	15.15
Information Technology	0.00
Insurance	9.33
Materials	1.20
Mortgage Backed	0.00
Real Estate	5.17
Utilities	1.77
Cash & Other	6.63

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU3FN0055224	5.37
Crown Resorts	AU0000CWNHB7	4.18
Ampol Limited	AU3FN0057683	3.91
Qube Holdings	AU0000QUBHA8	3.07
Macquarie Bank Ltd	AU0000088429	2.80
AMP Life	AU3FN0057691	2.56
National Australia Bank	AU0000NABPE2	2.48
AMP Limited	AU0000067860	2.31
Brisbane Airport Corp.	AU3CB0272854	2.23
ANZ	AU0000160905	2.16

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	32.26
Callable	46.46
At Maturity	21.28

Security profile

	Portfolio %
Floating rate	75.91
Fixed rate	17.46
Cash & Other	6.63

Credit rating profile

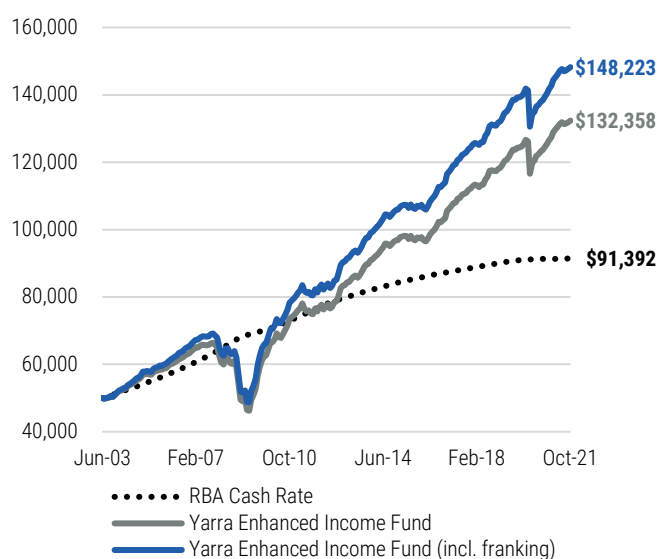
	Portfolio %
AA+	1.40
A	0.72
A-	1.07
BBB+	7.90
BBB	19.82
BBB-	25.69
BB+	18.17
BB	13.14
BB-	0.00
B+	3.65
B	1.20
B-	0.48
Not rated or below	0.13
Cash and Derivatives	6.63

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\$143.4 mn as at 31 October 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 October 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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