

Yarra Enhanced Income Fund

Total returns as at 30 June 2018

	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	1.35	2.06	5.07	5.74	6.04	6.64	5.70
Yarra Enhanced Income Fund (incl. franking)	1.53	2.23	5.73	6.35	6.56	7.30	6.46
RBA Cash Rate	0.12	0.37	1.50	1.66	1.97	3.04	3.94
Excess return after fees [†]	1.40	1.86	4.23	4.69	4.59	4.26	2.52

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 prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all 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.

[^] Inception date Yarra Enhanced Income Fund: June 2003

[†] The excess return figures shown represent the difference between the Fund's return including franking and the RBA Cash Rate.

Growth return and distribution returns

Yarra Enhanced Income Fund

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception [^] % p.a.
Growth return	0.42	1.12	1.43	1.63	1.55	1.32	-0.24
Distribution return	0.93	0.94	3.64	4.11	4.49	5.33	5.94
Distribution return (incl. franking)	1.11	1.12	4.30	4.71	5.01	5.98	6.70

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.

Market Summary

Geopolitics continued to dominate headlines over the June quarter. Global risk sentiment deteriorated on fears of an anti-EU Italian government forming. US trade tensions with other countries (China in particular, as well as Europe, Mexico and Canada) intensified. Reports of the US-North Korea summit oscillated between being strongly positive and negative, ultimately ending the quarter on an optimistic tone. Corporates warned that manufacturing jobs in the US and UK were at risk due to the trade outlook, threatening to move factories offshore.

The US Federal Reserve (Fed) increased rates as expected during their June meeting, and their projections indicated they saw rates hiking at a faster pace than previously expected. Economic conditions were strong, and the Fed sounded more confident on the inflation outlook. The European Central Bank signalled it would maintain its asset purchases at EUR30bn per month until September, then reduce to EUR15bn per month until December. It then indicated it would keep interest rates at its current low level until at least after the summer of 2019, a longer time than many had expected.

The Reserve Bank of Australia (RBA) left the cash rate on hold

at 1.50%. While it stated that the next move in rates was likely to be up, it repeatedly emphasised that progress towards its economic targets and thus the outlook for rate hikes was gradual. The RBA sounded more confident on the economy, especially around non-mining business investment and activity. While it's also positive on the labour market, its main concern was that it could not reach its inflation target without a sustained increase in wages. The RBA remained cautious on high levels of household debt. There were some increasing risks to the RBA's outlook base case from international developments on trade, political uncertainty in Italy and emerging markets. Medium term growth projections in the Statement on Monetary Policy were mostly unchanged, though inflation a little higher. The RBA projects that core inflation remain at the bottom of its 2-3% target band until end-2019.

Credit spreads for both financials and corporates widened over the quarter. Increasing trade tensions and geopolitical risks drove spreads wider. High issuance also had an impact. The hybrid market meanwhile ended the month positively. In credit derivatives, the Markit iTraxx Australia Index widened 10 bps to finish the quarter at 80.5 bps.

Portfolio review and outlook

The Yarra Enhanced Income Fund returned 2.23% (including franking) over the June quarter, or 186 bps above the RBA cash rate. Returns over the quarter were predominately driven by strong performance in financials and in particular, old-style hybrid securities. On a 12-month view, the Fund has returned 5.73%, outperforming the RBA cash rate by 423 bps on a net basis.

We continue to believe Australian credit will remain attractive versus global peers due to its higher quality and lower duration (high floating rate exposure). Should outright yields rise aggressively, we expect the asset class to outperform on a relative basis. We expect credit fundamentals (i.e. issuer quality) to continue to support Australian credit spreads.

Australian corporates continue to display a disciplined approach to their balance sheet and liability management and there appears to be little evidence of Australian Corporates appreciably increasing leverage. The Australian major banks also continue to be proactive, in raising capital and remain committed in their quest to become “unquestionably strong”. Finally, any new issuance will likely be met with strong demand, as supply/demand trends continues to be favourable, placing upward pressure on corporate credit and hybrid pricing.

Portfolio profile

Portfolio characteristics

	Portfolio %
Running yield (incl franking credits) (%)	5.20
Option Adjusted Spread	2.83
Average weighted issue credit rating	BBB-
Estimated yield to maturity (%)	5.20
Fund duration (yrs)	-0.66
Spread duration (yrs)	6.43
Number of securities	47
Listed	39
Unlisted	8

Regional allocation

100% Australian as at 30 June 2018.

Top 5 holdings

		Portfolio %
AU0000NABHA7	National Australia Bank Limited	8.37
AU0000CWNHB7	Crown Resorts Limited	6.27
AU0000MBLHB4	Macquarie Bank Limited	6.13
AU0000CBAPD7	Commonwealth Bank Of Australia	5.90
AU0000SBKHB3	Suncorp-Metway Ltd.	5.09

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	64.76
Callable	17.95
At Maturity	11.84
Cash and Equivalents	5.44

Security profile

	Portfolio %
Floating rate	93.73
Fixed rate	6.27

Credit rating profile

	Portfolio %
BBB+	9.08
BBB	11.90
BBB-	18.22
BB+	40.57
BB	8.33
BB-	1.58
B+	3.29
B	1.59
Cash and Equivalents	5.44

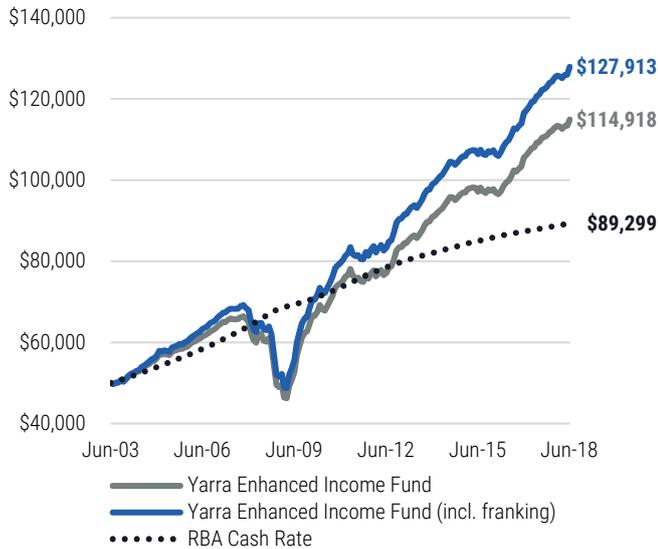
Sector Allocation

	Portfolio %
Banks	43.31
Insurance	10.05
Consumer Discretionary	10.99
Diversified Finance	10.87
Industrials	8.04
Real Estate	4.34
Materials	3.74
Utilities	2.42
Information Technology	0.79
Cash and Equivalents	5.44

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Investment performance comparison of \$50,000

After fees, since inception of the Yarra Enhanced Income Fund, June 2003 to June 2018.



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.

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	June 2003 – Fund	
Fund size	Pooled Fund A\$64.43 mn as at 30 June 2018	
APIR codes	JBW0018AU	
Estimated management cost	0.78% p.a.	
Buy/sell spread	+/- 0.10%	
Platform availability	Asgard BT Wrap BT Panorama Colonial FirstWrap Macquarie Wrap Consolidator	SimpleWrap PowerWrap SmartWrap Hub24 uXchange

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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