

Yarra Enhanced Income Fund (Direct)

Total returns as at 30 September 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 (Direct)	0.09	2.19	5.23	5.84	4.92	6.25	5.10
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.28	2.37	5.92	6.46	5.46	6.91	5.84
RBA Cash Rate	0.12	0.37	1.50	1.62	1.92	2.90	3.94
Excess return†	0.16	2.00	4.42	4.84	3.54	4.01	1.90

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.

Due to differences in business dates at month end, Fund performance returns are provided as at 27 September 2018, and benchmark performance returns are provided as at 30 September 2018. The monthly, quarterly and annual performance returns have been impacted.

* Inception date Yarra Enhanced Income Fund (Direct): August 2002

† 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

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.
Growth return	-0.77	1.31	2.25	2.58	1.42	1.85	-0.10
Distribution return	0.86	0.88	2.98	3.26	3.50	4.40	5.20
Distribution return (incl. franking)	1.04	1.07	3.67	3.88	4.03	5.05	5.94

Growth returns are measured by the movement in the Yarra Enhanced Income Fund's unit price (inclusive of fees) 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

US-China trade tensions continued to feature prominently during the September quarter. The US imposed a 10% tariff on US\$200bn of imports from China effective late September. US trade relations with the rest of the world (including Mexico and Canada, Korea and Japan) improved. In Europe, Brexit negotiations remained challenging and Italy's planned fiscal expansion continued to be a concern.

Sovereign bond yields were mostly higher over the quarter. The US Federal Reserve (Fed) increased rates as expected at its September meeting, and their projections indicated they expected rates to increase at the same pace as their previous forecasts. i.e. one further hike in December and three further hikes in 2019. Economic conditions were strong, with the Fed more confident on the inflation outlook. The European Central Bank sounded more confident on inflation and repeated it would reduce asset purchases to EUR15bn per month from October until December, and keep interest rates at its current low level until at least after the summer of 2019. The Bank of England increased rates in August for only the second time since 2007 and signalled a gradual and limited ongoing tightening in policy.

Australia economic data were mostly positive. Q1 GDP was a strong 0.9%q/q, 3.4%y/y. Consumption notably grew at 3.0%y/y as household spending was solid across a broad range of categories, including retail. Employment growth helped household incomes, but there was little sign of wage inflation accelerating. Employment rose 44k in August, with large gains in full time jobs reported. The pace of jobs growth was steady at 2.5%, as was the unemployment rate at 5.3%. Wage growth was slightly higher but remained relatively slow at 2.1%y/y.

Q2 headline CPI was below expectations at 0.4%q/q, 2.1%y/y. The biggest drivers of inflation were petrol, seasonal increases in health costs and the tobacco excise tax. Excluding fuel, inflation rose only 0.1%q/q. Core inflation rose 0.5%q/q, 1.9%y/y as expected. Terms of trade fell -1.3%q/q as import prices increased, but was still +2.1%y/y.

Consumer sentiment was neutral in September at 100.5 on mortgage rate increases and political instability, which saw Scott Morrison replacing Malcolm Turnbull as the party leader and Prime Minister. Business conditions remained at a historically high +15 as trading conditions, profitability and employment all remained firm. S&P reaffirmed Australia's AAA

rating and changed the outlook to AAA/stable from AAA/negative following the expectation that the government's fiscal position will return to surplus by 2020.

Portfolio review and outlook

The Yarra Enhanced Income Fund returned 2.59% (including franking) over the September quarter, or 221 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 6.79%, outperforming the RBA cash rate by 529 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) (%)	4.93
Option Adjusted Spread	2.49
Average weighted issue credit rating	BBB-
Estimated yield to maturity (%)	4.84
Fund duration (yrs)	-0.50
Spread duration (yrs)	6.38
Number of securities	44
Listed	33
Unlisted	11

Regional allocation

100% Australian as at 30 September 2018.

Security profile

	Portfolio %
Floating rate	93.64
Fixed rate	6.36

Top 5 holdings

		Portfolio %
AU0000NABHA7	National Australia Bank Limited	8.31
AU0000MBLHB4	Macquarie Bank Limited	6.54
AU0000CWNHB7	Crown Resorts Limited	6.09
AU0000CBAPD7	Commonwealth Bank Of Australia	6.04
AU0000SBKHB3	Suncorp-Metway Ltd.	5.22

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	60.26
Callable	20.23
At Maturity	13.12
Cash and Equivalents	6.39

Credit rating profile

	Portfolio %
A	3.15
BBB+	10.45
BBB	12.07
BBB-	16.90
BB+	38.60
BB	7.45
B+	3.33
B-	1.66
Cash and Equivalents	6.39

Sector Allocation

	Portfolio %
Banks	47.20
Consumer Discretionary	10.01
Diversified Finance	4.39
Industrials	9.76
Information Technology	1.60
Insurance	11.32
Materials	3.79
Real Estate	4.36
Utilities	1.18
Cash and Equivalents	6.39

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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	August 2002
Fund size	Pooled Fund A\$63.74 mn as at 30 September 2018
APIR code	JBW0118AU
Estimated management cost	1.60% p.a.
Buy/sell spread	+/- 0.10%

The Yarra Enhanced Income Fund (Direct) is not available for new investment. Where existing reinvestment instructions are in place, distributions may be reinvested.

Applications and contacts

The Yarra Enhanced Income Fund (Direct) is no longer available for new investment. The reinvestment of distributions is still allowed where an existing reinvestment instruction is in place.

Website www.yarracm.com

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com

Disclaimers

The Yarra Enhanced Income Fund (Direct) 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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