

Yarra Enhanced Income Fund (Direct)

Gross returns as at 31 December 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)	0.69	0.50	5.34	7.30	6.18	10.04	6.80
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.82	0.63	6.03	7.92	6.72	10.69	7.53
Growth return [†]	0.12	-0.07	2.32	4.18	2.83	5.67	1.64
Distribution return [†]	0.70	0.70	3.71	3.74	3.89	5.02	5.89
RBA Cash Rate	0.12	0.37	1.50	1.58	1.87	2.80	3.90
Excess return [‡]	0.70	0.26	4.53	6.34	4.85	7.89	3.63

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 December 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)	0.55	0.10	3.68	5.60	4.50	8.31	5.03
Yarra Enhanced Income Fund (Direct) (incl. franking)	0.68	0.23	4.37	6.22	5.04	8.96	5.76
Growth return [†]	-0.02	-0.47	0.66	2.48	1.15	3.94	-0.13
Distribution return [†]	0.70	0.70	3.71	3.74	3.89	5.02	5.89
RBA Cash Rate	0.12	0.37	1.50	1.58	1.87	2.80	3.90
Excess return [‡]	0.56	-0.14	2.87	4.64	3.17	6.16	1.86

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 (Direct): August 2002

† 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.

Market Summary

Geopolitical events continued to impact markets in the December quarter. Despite a promising development following the G20 meeting, when a 90 day ceasefire in the US-China trade war was announced, the arrest of a senior Chinese telecommunications executive on allegations of violating US sanctions rekindled fears that relations between the US and China would once again deteriorate. In Europe, there was little progress on Brexit negotiations as the government delayed a parliamentary vote on a deal, though PM May survived a leadership contest. Economic activity in France appeared to be impacted by protests and German Chancellor Merkel

announced she would not contest the next election.

Sovereign bond yields were lower over the quarter. Sentiment around global growth turned negative, reflecting a combination of trade tensions, concerns around the end of fiscal stimulus in the US and interest rate increases. The Federal Reserve (Fed) raised rates by 0.25% to a target range of 2.25-2.5%, though markets had lowered their expectations for a rate hike prior to the meeting. The Fed lowered its interest rate projections for 2019 from three additional rate hikes to two. US mid-term elections saw Democrats win control of the House and Republicans hold the Senate, dampening any remaining hope of major policy measures being passed. Policy

disagreements over border security, meanwhile, led to a partial shutdown of the US government in December. US ISM surveys indicated activity was stronger than expectations, though payrolls were lower than expected, at 152K, while consumer spending during the holiday period was reported to have been strong. Some data releases in December, however, were delayed due to the government shutdown. Elsewhere, the European Central Bank confirmed it was ending its asset purchases in December 2018, and the Bank of England kept rates on hold amid Brexit uncertainty.

Australian economic data were mixed. Q3 GDP was notably weaker than expected at 0.3%q/q, though the annual pace was still in line with trend growth at 2.8%/y. Consumption slowed, and at 2.5%/y was the slowest quarterly growth since 2012. Housing weakness began to impact activity, with new housing construction was negative in the quarter. Public spending, however, remained robust. Despite strong employment growth, there was still little sign of wage growth accelerating. Employment rose 37K in November – which saw the unemployment rate fall to 5.1% – though gains were confined to part time jobs. Wage growth was slightly higher but remained relatively slow at 2.3%/y.

Australian credit spreads for both financials and corporates widened over the quarter. Spreads were impacted by international concerns, including geopolitics and risk-off investor sentiment. Domestically, primary issuance was the second largest on record in November, but was light in the rest of the quarter. The Australian Prudential Regulatory Authority (APRA) announced its long awaited proposal on “Increasing the loss-absorbing capacity of ADIs to support orderly resolution”, opting for the additional issuance of Tier 2 rather than the global standard of Tier 3. In credit derivatives, the Markit iTraxx Australia Index widened 20 bps to finish the quarter at 94.3bps.

Portfolio review and outlook

The Yarra Enhanced Income Fund returned 0.23% (net basis, including franking) over the December quarter, or 14 bps below the RBA cash rate. Returns over the period were predominately supported by strong performance in non-financials, with spreads consolidating after a heavy issuance period by financials in November. On a 12-month view, the Fund has returned 4.37%, outperforming its benchmark by 287 bps on a net basis.

We believe Australian credit remains attractive relative to global peers, reflecting its higher credit quality, industry structure and lower duration (high floating rate exposure). 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 Tier 1 capital, in support of commitments to meet “unquestionably strong” criteria. Finally, any new issuance will likely be met with strong demand, as supply/demand trends remain favourable, placing upward pressure on corporate credit and hybrid pricing.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (including franking credits) (%)	5.04
Option Adjusted Spread	2.68
Average weighted issue credit rating	BBB-
Estimated yield to maturity (%)	4.81
Fund duration (years)	-0.50
Spread duration (years)	6.30
Number of securities	52
Listed	37
Unlisted	15

Sector allocation

	Portfolio %
Banks	42.92
Consumer Discretionary	8.76
Diversified Financials	10.31
Industrials	6.06
Information Technology	1.45
Insurance	12.97
Materials	3.41
Mortgages	3.99
Real Estate	4.05
Utilities	1.10
Cash and Equivalents	4.97

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU0000NABHA7	7.38
Macquarie Bank	AU0000MBLHB4	5.88
Crown Resorts	AU0000CWNHB7	5.60
Commonwealth Bank of Australia	AU0000CBAPD7	5.56
Suncorp-Metway	AU0000SBKHB3	4.84
Westpac Banking	AU0000WBCPG4	3.34
ANZ Banking	AU0000ANZPF8	3.27
Tatts Group	AU0000TTSHA8	3.16
Qube Holdings	AU0000QUBHA8	3.10
CNH Industrial	AU3FN0043907	2.91

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.

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\$69.97 mn as at 31 December 2018
APIR code	JBW0118AU
ARSN code	101 266 755
Distribution frequency	Quarterly
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.

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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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