

Yarra Enhanced Income Fund (Direct)

Gross returns as at 31 March 2020

	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)	-7.55	-6.82	-2.33	3.43	4.33	6.43	6.28
Yarra Enhanced Income Fund (Direct) (incl. franking)	-7.55	-6.82	-2.21	3.89	4.83	7.01	6.97
RBA Cash Rate	0.04	0.16	0.96	1.32	1.52	2.51	3.70
Excess return [‡]	-7.58	-6.98	-3.17	2.57	3.31	4.50	3.27

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 March 2020

	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)	-7.67	-7.19	-3.87	1.80	2.68	4.75	4.53
Yarra Enhanced Income Fund (Direct) (incl. franking)	-7.67	-7.19	-3.75	2.26	3.18	5.33	5.22
Growth return [†]	-8.14	-7.66	-5.88	-0.87	-0.28	0.80	-0.41
Distribution return [†]	0.47	0.47	2.12	3.13	3.46	4.53	5.63
RBA Cash Rate	0.04	0.16	0.96	1.32	1.52	2.51	3.70
Excess return [‡]	-7.71	-7.35	-4.71	0.94	1.67	2.82	1.52

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 (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.

Portfolio review

The Yarra Enhanced Income Fund returned -6.99% (net basis, including franking) over the March quarter, or 715 bps below the RBA cash rate. Returns over the period were predominately driven by the risk-off movement caused by the COVID-19 pandemic, which led to a vast widening of credit spreads. On a 12-month view the Fund returned -2.95%, underperforming the RBA cash rate by 390 bps (net basis, including franking).

Market review

Government bond yields decreased across most advanced economies as the COVID-19 pandemic drove an unprecedented global market sell-off. Risk-off sentiment resulting from the US-Iran tensions, followed by the bushfires

that ravaged large parts of South-East Australia, was only exacerbated by the outbreak. The economic crisis was met with phenomenal and coordinated stimulus by governments around the world in an effort to quell the impending recession. The ongoing battle between alarming news of the outbreak and stimulus measures was reflected in the gold prices volatility over the quarter, eventually closing higher at \$US1,583.40. Notably, conflict between Saudi Arabia and Russia, in conjunction with low oil demand, has more than halved the price of crude oil. It closed the March quarter at \$US22.74 a barrel.

Global monetary easing continued through the quarter in an effort to ensure access to cheap debt in the economic recovery. The US Federal Reserve slashed rates (down to a

record low of 0 bps), and was quickly followed by many central banks including the RBNZ, BoE and the RBA. Following its extensive rate cuts (now down to 0.25%), the RBA also announced it would commence Quantitative Easing through the purchase of government bonds to drive down borrowing rates, with the target of attaining a 3-year yield of around 25 bps.

Corporate credit spreads traded in increasingly tight ranges early in the quarter, before the mass risk-off movement due to COVID-19 created a significant blow out. This presented an opportunity to lock in abnormally high yields. New corporate issuance was largely muted over the quarter as the focus shifted to reducing leverage in order to survive the economic crisis. The Australian iTraxx index tracked in line with corporate credit spreads, recording increasingly tight levels before moving far wider in March and closing the quarter at 185 bps.

Outlook

From an economic perspective, the full impact of the coronavirus remains uncertain. However, we believe Australia's ability to inject large amounts of stimulus into the economy will be very effective in reducing the duration of the impending recession. The \$130bn wage subsidy will be imperative in ensuring that the unemployment rate remains manageable, and eases the process for organisations to re-engage full production as the lockdowns are lifted. Furthermore, the recovery will be supported by a low interest rate environment, enabling access to cheap debt. We anticipate the fiscal stimulus put in place will be successful in creating longer term economic growth.

We remain constructive on the Australian credit and hybrid market, and still believe Australia is attractive relative to global peers due to its superior credit quality, industry structure and floating rate nature. The vast widening of corporate credit spreads has created an exceptional opportunity to participate in high yielding deals. We continue to be particularly active in the Tier 1 space: spreads on these securities have blown out severely and we anticipate they will tighten significantly in the recovery.

Portfolio profile

Portfolio characteristics

	Portfolio
Running yield (including franking credits) (%)	3.70
Option Adjusted Spread	5.24
Average weighted issue credit rating	BBB-
Estimated yield to maturity (%)	5.66
Fund duration (years)	-1.09
Spread duration (years)	7.05
Number of securities	53
Listed	23
Unlisted	30

Sector allocation

	Portfolio %
Asset Backed Securities	5.03
Banks	32.94
Consumer Discretionary	5.56
Consumer Staples	3.29
Derivatives	-8.45
Diversified Financials	11.68
Health Care	2.27
Industrials	9.62
Information Technology	3.81
Insurance	17.48
Materials	3.01
Mortgage Backed Securities	0.00
Real Estate	1.35
Utilities	0.00
Cash and Other	12.41

Top 10 holdings

Issuer	ISIN	Portfolio %
National Australia Bank	AU0000NABHA7	7.39
Crown Resorts	AU0000CWNHB7	5.56
Westpac Banking	AU3FN0043238	4.92
Insurance Australia Group	AU3FN0047544	4.59
Suncorp-Metway	AU0000SBKHB3	4.41
Macquarie Finance	AU0000MBLHB4	3.52
David Jones	AU3FN0051793	3.29
Pacific National	AU3CB0244325	3.09
Cnh Industrial NV	AU3FN0043907	2.68
Aai Ltd. (Australia)	AU3FN0032710	2.55

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	32.15
Callable	49.06
At Maturity	18.79

Security profile

	Portfolio %
Floating rate	95.29
Fixed rate	4.71

Credit rating profile

	Portfolio %
AA	2.68
A+	0.00
A	0.00
BBB+	20.29
BBB	18.61
BBB-	16.54
BB+	13.17
BB	21.13
BB-	0.00
B+	1.98
B	0.00
B-	0.68
CCC+	0.94
Cash and Equivalents	12.41

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\$74.93 mn as at 31 March 2020
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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