

Yarra Absolute Credit Fund

Gross returns as at 31 March 2021

| | 1 month % | 3 months % | 6 months % | 1 year % | 2 years % p.a. | Since inception [^] % p.a. |
|----------------------------|--------------|---------------|---------------|-------------|-------------------|---|
| Yarra Absolute Credit Fund | 0.40 | 2.43 | 5.27 | 8.17 | 3.04 | 3.75 |
| RBA Cash Rate | 0.01 | 0.02 | 0.06 | 0.19 | 0.57 | 0.74 |
| Excess return [‡] | 0.39 | 2.40 | 5.21 | 7.98 | 2.47 | 3.01 |

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.

Net returns as at 31 March 2021

| | 1 month % | 3 months % | 6 months % | 1 year % | 2 years % p.a. | Since inception [^] % p.a. |
|----------------------------------|--------------|---------------|---------------|-------------|-------------------|---|
| Yarra Absolute Credit Fund | 0.34 | 2.26 | 4.93 | 7.47 | 2.38 | 3.08 |
| Growth return [†] | 0.01 | 1.44 | 3.26 | 3.20 | -1.23 | -0.72 |
| Distribution return [†] | 0.33 | 0.83 | 1.68 | 4.27 | 3.60 | 3.80 |
| RBA Cash Rate | 0.01 | 0.02 | 0.06 | 0.19 | 0.57 | 0.74 |
| Excess return [‡] | 0.33 | 2.24 | 4.87 | 7.28 | 1.81 | 2.34 |

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[^] Inception date Yarra Absolute Credit Fund: October 2018.

[†] Growth returns are measured by the movement in the Yarra Absolute Credit 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.

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

Portfolio review

The Yarra Absolute Credit Fund returned 2.26% (net basis) in the March quarter, outperforming the RBA Cash Rate by 224 bps. Performance was strong across all security types, led by the Fund's allocation to Tier 1.

The Fund participated in a series of new deals over the quarter. Despite a quiet start to the year, post-reporting season a number of new deals came to market, providing opportunities to access the corporate, financial and asset backed sectors.

The portfolio continues to take advantage of credit spreads above long run averages, yielding 3.7% (to maturity) whilst maintaining a strong investment grade rating.

Market review

An abundance of money supply and low rates again created strong support for risk-assets. Markets continued to look through the short-term pressures of vaccine distribution, and instead focused on a more appealing outlook. Unfortunately for bullish investors, caution crept back in, with AstraZeneca's vaccine prompting many countries to pause its use pending

further investigation. Despite risks to the timeline of the global economic re-opening, bond yields moved higher across most major global economies. No willingness to taper QE programs in the near-term and strong economic data are beginning set the scene for a period of elevated inflation, a catalyst for the rise in yields.

The Australian 10-year yield tracked in line with their global counterparts, moving far wider early in the quarter before beginning to stabilise through March. Inflationary expectations outweighed the RBA's announcement that it would extend the long-end bond buying program by a further \$100bn. True to its word, Australia's central bank held the cash rate to 0.10% and reiterated a commitment to keep it there for the next 3-years.

Domestic data remained favourable, with Q4 GDP data coming in well above expectations at 3.1% q/q (vs. consensus for 2.5%). Employment data remained positive, returning to pre-COVID levels which drove the unemployment rate down to 5.8%. The impact of the end of JobKeeper remains to be seen, although in our view it is unlikely to be significant.

Strength in the corporate credit market was unrelenting over the quarter. Heightened demand, a lack of new issuance and

the market's bullish outlook drove the rally. As new issuance returned post-reporting season, the pace at which spreads were contracting eased although remained strong. The Australian iTraxx Index moved wider late in the quarter to close at ~64 bps.

Outlook

While the global economic outlook has become increasingly uncertain, the domestic picture remains positive. Low rates, ample money supply and domestic insulation from the virus have combined to create robust economic conditions. While much of the world remains constrained by the virus, Australia's relative freedom has allowed for a strong recovery from the turmoil of 2020.

We remain constructive on Australia's credit and hybrid market. The local market continues to be more attractive than its global peers due to its superior credit quality, industry structure and floating rate nature. Corporate spreads have begun to stabilise at current levels, reflecting the large volumes of issuance that have returned to the market post-reporting season. There remains significant demand in the hybrid space, comfortably absorbing new deals over the period. We expect to see ongoing strength in the space as the economic recovery continues to gather momentum.

Portfolio profile

Portfolio characteristics

| | Portfolio |
|--------------------------------------|-----------|
| Current yield (%) | 3.78 |
| Credit spread (%) | 308 |
| Average weighted issue credit rating | BBB- |
| Yield to expected maturity (%) | 3.73 |
| Fund duration (years) | 0.17 |
| Spread duration (years) | 3.63 |
| Number of securities | 47 |

Sector allocation

| | Portfolio % |
|----------------------------|-------------|
| Asset Backed Securities | 6.59 |
| Banks | 21.95 |
| Consumer Discretionary | 0.00 |
| Consumer Staples | 0.00 |
| Diversified Financials | 2.15 |
| Energy | 2.25 |
| Industrials | 16.57 |
| Information Technology | 0.00 |
| Insurance | 15.43 |
| Materials | 0.00 |
| Mortgage Backed Securities | 19.91 |
| Real Estate | 11.43 |
| Utilities | 2.28 |

Security allocation

| | Portfolio % |
|------------------------------------|-------------|
| Tier 1 | 17.53 |
| Tier 2 | 19.84 |
| Subordinated | 9.73 |
| Mortgage Backed | 19.91 |
| Asset Backed | 4.37 |
| Senior | 24.96 |
| Private Debt | 2.22 |
| Cash and Other (incl. derivatives) | 1.44 |

Top 10 holdings

| Issuer | ISIN | Portfolio % |
|--------------------------------|--------------|-------------|
| National Australia Bank | AU3FN0055224 | 4.54 |
| Brisbane Airport | AU3CB0272854 | 3.55 |
| Macquarie Bank | AU0000088429 | 3.53 |
| Lendlease | AU3CB0275550 | 3.42 |
| Australian Prime Property Fund | AU3CB0244408 | 3.39 |
| Pacific National Finance | AU3CB0229680 | 2.44 |
| Downer | AU3CB0262673 | 2.34 |
| Macquarie Bank | AU3FN0054284 | 2.30 |
| Clearview | AU3FN0057170 | 2.29 |
| AusNet | AU3FN0056594 | 2.28 |

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.

Credit rating profile

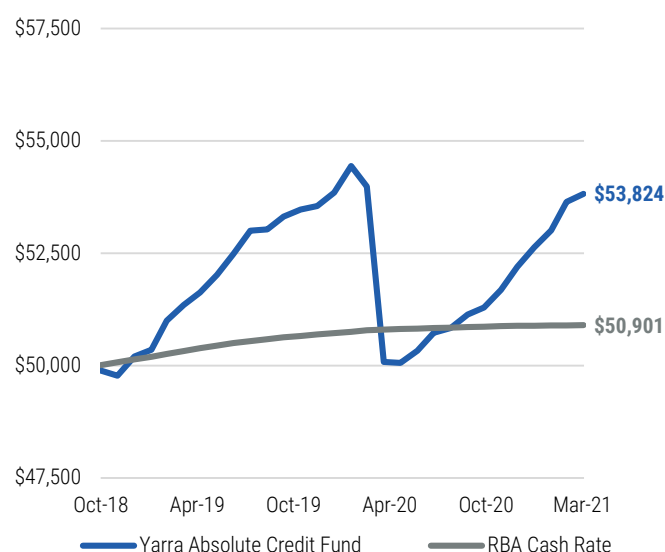
| | Portfolio % |
|-------------|-------------|
| AA- | 1.44 |
| A | 8.95 |
| A- | 3.39 |
| BBB+ | 0.00 |
| BBB | 23.55 |
| BBB- | 23.77 |
| BB+ | 13.79 |
| BB | 16.15 |
| BB- | 6.40 |
| B+ | 0.00 |
| B | 0.00 |
| B- | 2.22 |
| NR or Below | 0.36 |

Features

| | | |
|---------------------------|---|-----------|
| Investment objective | Over the medium-to-long term, the Fund seeks to earn higher returns than traditional fixed income by investing in a highly diversified floating rate portfolio of predominantly Australian domiciled credit securities. | |
| Fund inception | October 2018 | |
| Fund size | Fund A\$23.1mn as at 31 Mar 2021 | |
| Estimated management cost | 0.65% p.a. | |
| Buy/sell spread | +/- 0.10% | |
| Distribution frequency | Monthly | |
| Platform availability | Hub24 | Netwealth |
| | Macquarie Wrap | |

Investment performance comparison of \$50,000

After fees, since inception of the Yarra Absolute Credit Fund, October 2018 to March 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 Absolute Credit Fund is \$10,000.

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