

# Yarra Income Plus Fund

## Gross returns as at 31 December 2020

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Income Plus Fund	0.28	2.19	0.72	3.85	4.59	5.49	6.47
Bloomberg AusBond Bank Bill Index	0.00	0.02	0.37	1.26	1.52	2.44	4.12
Excess return <sup>‡</sup>	0.28	2.17	0.35	2.59	3.07	3.05	2.35

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 December 2020

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Income Plus Fund	0.23	2.02	0.03	3.15	3.89	4.75	5.71
Growth return <sup>†</sup>	NA	NA	-2.22	0.74	0.51	0.72	NA
Distribution return <sup>‡</sup>	NA	NA	2.26	2.41	3.38	4.03	NA
Bloomberg AusBond Bank Bill Index	0.00	0.02	0.37	1.26	1.52	2.44	4.12
Excess return <sup>‡</sup>	0.22	2.00	-0.33	1.89	2.37	2.32	1.59

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\* Inception date of Yarra Income Plus Fund: May 1998.

† The Growth Return is measured by the movement in the Fund's units price, ex-distribution, and can be positive or negative as the unit price can fluctuate with changes in the underlying market value of the Fund's assets. The Distribution Return is the amount that is paid to unitholders by way of income distribution in a 12-month period. It does not include distributions amounts deemed as capital distributions.

‡ Excess Return: The excess return figures shown represent the difference between the Fund's return and the benchmark return.

### Market review

The December quarter proved to be the year's strongest for risk-assets. While COVID-19 ran rampant across the US and much of Europe, investors remained hopeful the beginning of vaccine distribution will see an easing in the spread of the virus. The reintroduction of harsh lockdowns across Europe and the development of a more virulent virus strain did little to dampen the mood of investors. Positive sentiment gained further traction as a deal was finally struck in the 4-year long Brexit saga. However, bond markets did reflect some of this mounting pressure, with a marginal reduction in sovereign yields across a number of major economies. US treasury bonds were one of a few notable outliers as yields rose over the quarter. While there were a number of factors at play, a preference for risk-assets following the US election and vaccine developments were the primary drivers.

Central banks continued to throw their weight around in global markets. Interest rates remained at record low levels and Quantitative Easing (QE) became further entrenched. As the year drew to a close, the US finally approved a stimulus

package amounting to US\$900bn. The ongoing abundance of monetary supply proved a significant tail-wind for cryptocurrencies which drew strong backing over the quarter.

The RBA surprised the market, making some significant changes over the quarter. While the cut to the cash rate to 0.10% was expected, the central bank's commitment to a \$100bn purchasing program at the long-end of the yield curve and the reduced reliance on forecast inflation in policy making both came as a surprise. It is clear the RBA is intent on driving down the value of the Australian Dollar in an effort to support robust domestic demand. The RBA, in conjunction with the Federal Government, has been instrumental in supporting a strong economic recovery; this was reflected in Q3 GDP data, with growth of 3.3% (q/q) comfortably ahead of expectations.

### Portfolio review

The Yarra Income Plus Fund returned 2.02% (net basis) over the December quarter, outperforming the Bloomberg AusBond Bank Bill Index by 200 bps. The quarterly return was led by the Fund's exposure to Real Assets, with all other sleeves also contributing positively to returns.

On a 12-month view, the Fund returned 0.03%, underperforming its benchmark by 33 bps on a net basis.

During the quarter we moved from neutral to overweight Real Assets. This proved to be well-timed as investors flocked to risk assets, particularly those most highly impacted by the lockdown. As the economic recovery continues, we anticipate this allocation to provide consistent yield which will be in high demand given the low rate environment. Such conditions will also continue to support strong valuations in the sector.

We further increased our overweight position in Hybrids during the period. New issuance remained elevated into the end of 2020, providing an abundance of opportunities within the sleeve. We continue to maintain a very high yielding sleeve that looks attractive on a risk-adjusted basis. While the market has rallied significantly, it remains above historical lows, and as a result we remain comfortable holding an increased overweight position.

We also moved further overweight Diversified Credit. Australia's outperformance in suppressing the virus continued to underpin a robust economic recovery. While small outbreaks are inevitable, we maintain the capacity to leave much of the economy open while clamping down on such incidences.

During the quarter we reduced our underweight position in Fixed Interest. Given the RBAs commitment to buying the long-end of the yield curve, we anticipate the Fixed Interest sleeve will trade within a predictable range. As such, we feel comfortable with an increased allocation.

We moved further underweight Cash over the quarter. The RBAs cash rate cut has put further downward pressure on the yield of our cash allocation; we remain confident in our ability to achieve far higher returns across the other sleeves of the portfolio.

## Sector review

### Listed Property, Infrastructure and Utilities

Equity markets were the main beneficiary of elevated risk-on sentiment in the December quarter. While the distribution of vaccine will prove challenging, the hope that this will be the beginning of the end drove investor decision-making. Contrary to the bias toward risk-assets were ever-increasing COVID-19 case numbers and fresh lockdowns, although this had a largely muted impact on markets. The market cap weighted index of Australian listed property, infrastructure and utilities returned 6.7% over the quarter. In comparison, the broader S&P/ASX 200 Accumulation Index returned 13.7%.

### Hybrids

Low yields once again supported strong demand the hybrid space. While spreads contracted significantly over the quarter, they maintain capacity for further tightening through 2021 if they are to threaten historical lows. The major banks continued to rally significantly over the month in the presence of a more supportive economic backdrop. Significant loss absorption ahead of hybrid capital for the majors provides

further conviction that spreads on offer still offer attractive relative value. It was another large quarter for issuance, particularly amongst financials. Many of these deals were lucrative, pricing at a premium to the broader market.

### Diversified Credit

Corporate credit spreads roared in over the quarter, although still appear elevated compared to historical lows. A steady flow of new issuance came to market and proved to be a strong source of alpha over the period. Positive sentiment drove the Australian iTraxx index down to 57 bps, a total reduction of 19 bps. It was also a strong quarter within the securitized space, particularly for RMBS: record low interest rates continue to underpin strong valuations, ultimately reflected in the national house price index which climbed for three consecutive months to close the year.

### Fixed Income

The Australian 10-year government bond moved wider over the quarter. Similar to the US, the sell-off was caused by an overwhelming bias for risk-assets as the domestic economy largely re-opened. This was reflected in the economic data which showed employment levels are now just 1.7% above pre-COVID-19 levels. The Bloomberg AusBond Composite Bond Index returned -0.1%.

### Cash

As previously mentioned the RBA made significant changes, with a further cut in the cash rate to 0.10%. The RBA again accentuated its commitment to ensuring rates remain at historically low levels for at least three years. This has ultimately left cash allocations yielding close to zero, prompting investors to chase yield in other asset classes.

## Asset allocation

	Target %	Neutral position % <sup>§</sup>	Strategy
A-REITs, Infrastructure & Utilities	17.0	15.0	Overweight
Hybrid and FRNs	20.5	15.0	Overweight
Diversified Credit <sup>†</sup>	14.5	10.0	Overweight
Fixed interest	14.5	20.0	Underweight
Cash	33.5	40.0	Underweight

Source: Yarra Capital Management. 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.

<sup>§</sup> Neutral position is calculated by Yarra Capital Management and is believed to be the optimal asset allocation for this portfolio over the long term.

\* Projected estimation as at the date of this commentary.

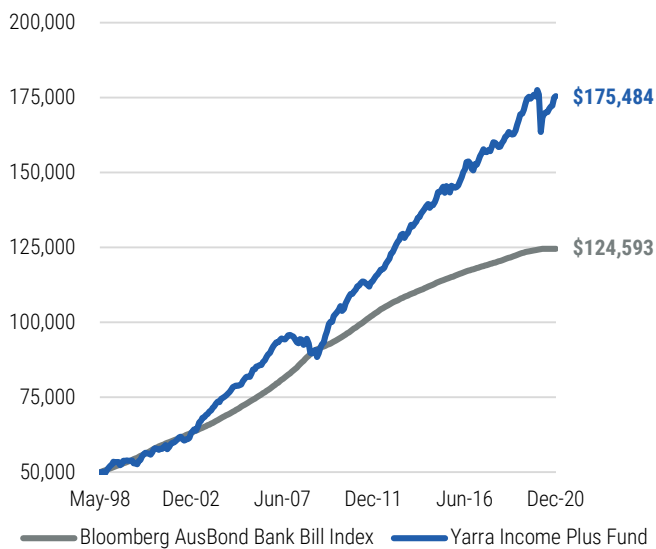
<sup>†</sup> Effective 25 October 2018 the Fund's asset allocation was modified, with Diversified Credit replacing Global High Yield. Further information in relation to this change can be found [here](#).

## Features

Investment objective	To provide regular income and to achieve medium term capital growth through exposure to cash, money market products, domestic fixed interest and a range of high yielding investments, including domestic hybrid investments, property, infrastructure and utilities securities and international fixed interest assets. In doing so, the aim is to outperform the Bloomberg AusBond Bank Bill Index over rolling 3-year periods.	
Benchmark	Bloomberg AusBond Bank Bill Index	
Fund inception	May 1998	
Fund size	A\$89.1 mn as at 31 December 2020	
APIR code	JBW0016AU	
Estimated management cost	0.68% p.a.	
Buy/sell spread	+/- 0.10%	
Distribution frequency	Quarterly	
Platform availability	Asgard BT Wrap BT Panorama Colonial FirstWrap Hub24 Macquarie Wrap Consolidator MLC Wrap	Netwealth Oasis OnePath PortfolioOne PowerWrap SmartWrap Wealthtrac

## Investment performance comparison of \$50,000

After fees, since inception of the Yarra Income Plus Fund, May 1998 to December 2020.



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 Bloomberg AusBond Bank Bill Index 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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## Applications and contacts

Investment into the Yarra Income Plus Fund can be made by Australian resident investors only.

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