

# Yarra Income Plus Fund

## Gross returns as at 30 June 2021

	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	1.07	1.99	5.81	4.06	4.13	5.37	6.43
Bloomberg AusBond Bank Bill Index	0.00	0.01	0.06	0.96	1.29	2.19	4.03
Excess return <sup>‡</sup>	1.07	1.98	5.75	3.10	2.83	3.18	2.40

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 30 June 2021

	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	1.02	1.82	5.09	3.36	3.42	4.64	5.67
Growth return <sup>†</sup>	-0.05	0.74	2.12	0.82	0.33	0.99	0.70
Distribution return <sup>†</sup>	1.07	1.08	2.97	2.54	3.09	3.66	4.97
Bloomberg AusBond Bank Bill Index	0.00	0.01	0.06	0.96	1.29	2.19	4.03
Excess return <sup>‡</sup>	1.02	1.81	5.03	2.40	2.13	2.45	1.64

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.

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

† The Growth Return is measured by the movement in the Fund's unit 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 distribution amounts deemed as capital distributions.

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

### Portfolio review

The Yarra Income Plus Fund returned 1.82% (net basis) over the June quarter, outperforming the Bloomberg AusBond Bank Bill Index by 102 bps. All sleeves contributed positively to return, led by our exposure to Real Assets. On a 12-month view, the Fund returned 5.09%, outperforming its benchmark by 503 bps.

Early in the quarter we increased our exposure to Real Assets, adjusting back to a neutral position late in the period. Real Assets produced a strong quarter, benefitting from the reduction in yields and risk asset rally. As valuations continued to climb we elected reduce the position, removing some risk given equity markets may struggle in the face of ongoing uncertainty regarding tapering and large inflation prints out of the US.

We moved further overweight Hybrids early in the quarter, with the contraction in credit spreads providing a strong source of performance. The positive environment for risk assets and lack of yield available elsewhere meant hybrids remained well

supported. New issues presented a number of attractive opportunities which we expect will perform well going forward.

Diversified Credit delivered another strong quarter as credit spreads continued to grind in. Corporate credit appears attractive as outright yields have lifted, and we continue to see value in this space. We took advantage of long-dated high quality names where the yield relative to cash was significant.

We maintained our underweight position in Fixed Interest. We expect inflationary pressure will continue to push yields higher, adversely impacting the performance of the sleeve. We remain comfortable with a reduced exposure.

The RBA's reiteration of no changes in the cash rate left us comfortable with our underweight cash position. However, during the quarter we added to our exposure as the possibility of a risk-off scenario increased.

### Market review

The continuation of global Quantitative Easing (QE), low rates and government stimulus packages in the face of a significant reduction in COVID-19 cases set the scene for an incredible

economic recovery. Bullish sentiment pushed equity markets higher, with credit spreads grinding in. Despite strong data and a US inflation print much higher than expectations, sovereign yields moved lower across most advanced economies. This was likely the combination of significant selling through the first quarter and dovish commentary out of central banks. In the back half of the quarter, focus was honed on central banks as investors look to forecast when the inevitable tightening of monetary policy will commence.

The RBA made no change to the cash rate during the period, reiterating their intention to hold rates at current levels until at least 2024. Australia's central bank increased its growth and employment forecasts, acknowledging surprise at the pace of the recovery. However, Governor Lowe stressed persistent wage growth is not yet on the horizon, one of the key criteria for rate hikes.

Domestic data remained positive; Q1 GDP printed a rise of 1.8% (q/q) against expectations for a 1.5% increase, while the unemployment rate fell to 5.1%, now below pre-COVID levels.

## Sector review

### Listed Property, Infrastructure and Utilities

Equity markets pressed on, reaching record levels late in June. The wave of strong data pushed markets consistently higher, despite concerns that tapering will be pulled forward. As valuations became increasingly elevated, so did conjecture around a potential looming correction, exacerbating investor caution. The rally in sovereign yields was positive for Australian listed property, infrastructure and utilities, which returned 4.41% over the quarter. Comparatively, the broader S&P/ASX 200 Accumulation Index returned 2.26%.

### Hybrids

Spreads on Hybrid securities continued to grind in. Australia's major banks reported HY results, with the funding task post the roll-off of the Term Funding Facility (TFF) a common thread. We may begin to see this have some impact on Tier 1 and 2 spreads as Senior issuance resumes. Favourable economic conditions continue to support the Hybrid market in conjunction with investor appetite for yield, with new issuance remaining a key theme.

### Diversified Credit

Corporate credit shared in the gains of risk assets as the contraction in spreads persisted. New issuance remained well supported as the sell-off in sovereign debt resulted in an attractive level outright. The RMBS market was again very active and continued to receive high levels of support from investors. The Australian iTraxx index moved marginally tighter over the quarter, to ~58 bps.

### Fixed Income

Australian 10-year yields tracked in line with their global counterparts in the June quarter. While domestic data was encouraging, it was insufficient in driving a sell-off in bonds. Instead, bond markets were reactive to the largely dovish

central bank commentary. Significant selling in the first quarter may have also contributed to some consolidation in Q2. The Bloomberg AusBond Composite Index returned -3.22%.

### Cash

The RBA held the cash rate at 0.10% and the central bank's commentary again suggested it does not foresee any change in the near future. Governor Lowe highlighted some of the key criteria for a rate hike, including wage growth, which he believes to be a long way off. Cash remains a low yielding asset class and we continue to see a more attractive risk-return premia among other asset classes.

## Asset allocation

	Target %*	Neutral position %§	Strategy
A-REITs, Infrastructure & Utilities	15.0	15.0	Neutral
Hybrid and FRNs	21.0	15.0	Overweight
Diversified Credit†	15.0	10.0	Overweight
Fixed interest	14.5	20.0	Underweight
Cash	34.5	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.

§ 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.

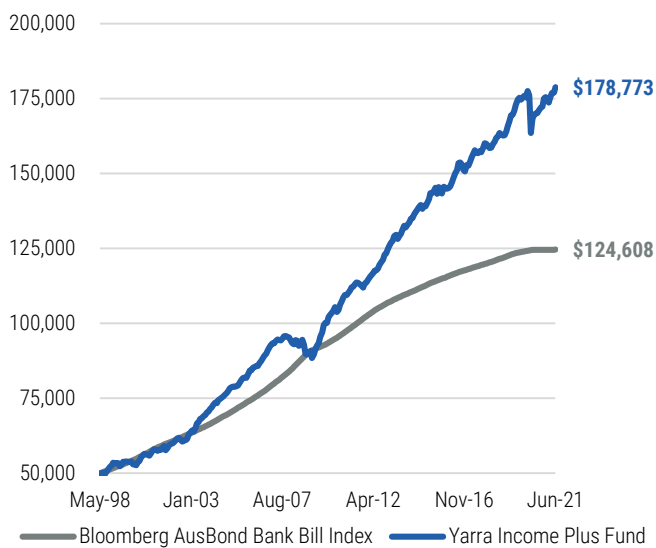
† Effective 25 October 2018 the Fund's asset allocation was modified, with Diversified Credit replacing Global High Yield. Further information in relation to this change can be found [here](#).

## 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\$87.3 mn as at 30 June 2021	
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 June 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 Bloomberg AusBond Bank Bill Index is for comparative purposes only.

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## Applications and contacts

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

**Website** [www.yarracm.com](http://www.yarracm.com)

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

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