

Yarra Income Plus Fund

Gross returns as at 30 June 2023

	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	-0.25	0.32	5.22	3.14	3.16	4.32	6.06
Bloomberg AusBond Bank Bill Index	0.30	0.90	2.89	1.01	1.17	1.69	3.83
Excess return [‡]	-0.55	-0.58	2.33	2.13	1.99	2.62	2.23

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 2023

	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	-0.30	0.15	4.51	2.44	2.46	3.61	5.30
Growth return [†]	-1.30	-0.84	1.46	-0.16	-0.02	0.27	0.54
Distribution return [‡]	0.99	1.00	3.05	2.60	2.49	3.34	4.76
Bloomberg AusBond Bank Bill Index	0.30	0.90	2.89	1.01	1.17	1.69	3.83
Excess return [‡]	-0.60	-0.75	1.62	1.43	1.30	1.92	1.48

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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 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 0.15% (net basis) over the June quarter, underperforming the Bloomberg AusBond Bank Bill Index by 75 bps.

Performance in the Real Assets sleeve was positive, with a shift in sentiment offset selling in long-duration assets which helped to support the position.

Diversified Credit and Hybrid sleeves also contributed meaningfully to performance. Running yield has provided a significant tailwind, comfortably offsetting a modest widening of spreads. We expect this thematic to persist for some time given the large increase in cash rates.

The Fixed Income sleeve was weak over the period. Bond markets priced in another round of rate hikes across global central banks, pushing yields significantly higher. Selling in the sleeve is making future opportunities increasingly compelling.

No changes were made to the Fund's tactical asset allocation during the quarter. We continue to hold conviction in our

overweight Fixed Income position, confident that duration will come back into favour.

Market review

Yet another banking collapse did little to subdue desensitised and very bullish investors. Risk assets continued their upward trend despite bond markets pricing an even higher terminal rate. Many professional investors have been caught on the sideline amidst the recent rally as caution remains prevalent across the market.

Further deterioration in economic leading indicators did little to spook central bankers. While inflation trended down, it was at a pace unsatisfactory to many policy makers. Making their jobs more challenging has been the prevalence of labour market resilience which has helped to avoid a complete destruction of consumer demand.

The Federal Reserve finally decided to hold off on hiking rates at their latest meeting, however their commentary remains overwhelmingly cautious. It seems likely that further weakness in the data is imminent and the rate peak may be near. Bond

markets did not share the same view, as yields trended far higher over the quarter. Investors priced in a higher terminal rate, largely influenced by tight labour markets and policy maker commentary.

Closer to home, the Reserve Bank of Australia (RBA) remained on hold for their first meeting of the quarter, before adding a cumulative 50 bps to the cash rate over the following two months, taking it to 4.1% in June. The RBA has further confused the market by shifting the narrative, citing climbing unit labour costs in their justification for the hikes.

On the data front Q1 GDP printed at 0.2% growth (q/q), which fell short of consensus expectations of 0.3%. Inflation also showed signs of easing as the monthly indicator fell to 5.6% in May, well below the 6.1% expected. The labour market continued to show resilience with employment gains late in the quarter exceeding expectations, pushing unemployment down to 3.6%. This news led to an inversion of the Australian yield curve (3s/10s) for the first time since 2008.

Sector review

Listed Property, Infrastructure and Utilities

Equity markets were higher over the period. Softening CPI and the absence of a significant labour market downturn helped markets push higher. It seems there is downside risk to current equity market valuations, however, we expect real assets may be more protected due to their long duration nature. The Australian listed property, infrastructure and utilities outperformed the broader market, returning 3.33%. Comparatively, the broader S&P/ASX 200 Accumulation Index returned 1.01%.

Hybrids

The Hybrid market returned to more normalized levels during the quarter. In Q1, the collapse of Credit Suisse induced panic selling across Tier 1, the market settled through June and began recouping losses. Domestic Tier 1 continues to look tight relative to Tier 2 counterparts.

Diversified Credit

Despite the 2Q23 risk rally, corporate credit spreads generally moved wider. Coupled with higher bond yields, outright returns appeared very attractive by the end of the period. The return of new issuance provided new opportunities to put money to work, with these new deals well supported by the market and likely to encourage other potential issuers to follow. The Australian iTraxx index moved marginally tighter to 81 bps.

Fixed Income

A shift higher in yields has increased our conviction in an overweight fixed Income position. We expect to see economic data deteriorate further and consequently a rally in duration.

Cash

The RBA added a further 50 bps to the cash rate during the quarter, now sitting at 4.10%. It seems likely the RBA may be at or on the verge of the peak cash rate. The sleeve is now

offering reasonable returns, however, we continue to see better value on offer in other sleeves at our disposal.

Asset allocation

	Target %*	Neutral position %§	Strategy
A-REITs, Infrastructure & Utilities	15.0	15.0	Neutral
Hybrid and FRNs	13.0	15.0	Underweight
Diversified Credit†	16.0	10.0	Overweight
Fixed interest	30.0	20.0	Overweight
Cash	26.0	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.

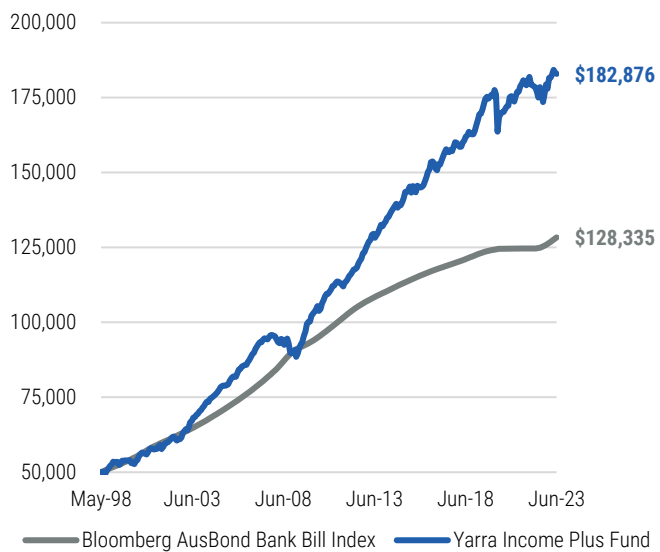
† Effective 25 October 2018 the Fund's asset allocation was modified, with Diversified Credit replacing Global High Yield. Further information in relation to this change can be found [here](#).

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\$78.4 mn as at 30 June 2023	
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 2023.



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.

Applications and contacts

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

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