Yarra Income Plus Fund

Gross returns as at 31 March 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	1.18	0.22	8.05	4.15	4.32	5.30	6.41
Bloomberg AusBond Bank Bill Index	0.00	0.00	0.11	1.12	1.40	2.31	4.08
Excess return‡	1.18	0.22	7.94	3.04	2.91	2.99	2.34

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 %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
Yarra Income Plus Fund	1.12	0.06	7.32	3.45	3.61	4.57	5.65
Growth return†	0.57	-0.49	4.90	1.01	0.36	0.58	0.68
Distribution return†	0.55	0.54	2.42	2.44	3.25	3.99	4.97
Bloomberg AusBond Bank Bill Index	0.00	0.00	0.11	1.12	1.40	2.31	4.08
Excess return‡	1.12	0.05	7.21	2.33	2.21	2.26	1.57

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 0.06% (net basis) over the March quarter, outperforming the Bloomberg AusBond Bank Bill Index by 5 bps. The quarterly return was led by our exposure to Hybrids closely followed by Diversified Credit. Real Assets and Fixed Interest both detracted from performance over the period. On a 12-month view, the Fund returned 7.32%, outperforming its benchmark by 721 bps on a net basis.

We maintained our allocation to Real Assets over the quarter. While the rise in yields weighed on the sleeve's performance during the quarter, as they began to stabilise Real Assets significantly outperformed. Widespread economic re-opening will continue to support the sector and we remain confident in the sleeve's ability to provide further consistently strong yield. As such we remain comfortable in our overweight position.

We maintained our overweight Hybrids position during the quarter. The lack of new issuance and high demand for yield pushed spreads significantly tighter, before some stabilisation late in the month. New issuance returned to the market post-reporting season and, as previously forecast, received strong support. We expect the rise in underlying rates will drive an increase in outright yields moving forward.

Similarly, outright yield in the Diversified Credit sleeve appears attractive, reflecting our overweight position. The extremely bullish outlook for Australian house prices drove strong outperformance in the Fund's RMBS allocation. This was supported by further contraction in corporate credit spreads.

We maintained our underweight position in Fixed Interest through the quarter. We expect inflationary pressure will continue to push yields higher, adversely impacting the sleeve's future returns. As such, we remain comfortable holding a reduced exposure.

The RBA's reiteration of no planned changes to the cash rate left us comfortable with our large underweight cash position. We do not expect this to change in the near term.

Market review

The New Year brought new challenges for investors, as bullish sentiment had driven equity markets to what would historically be considered stretched valuations, with credit spreads having contracted significantly and interest rates remaining at record lows.

These trying conditions failed to extinguish widespread risk-on sentiment, as markets continued to hold faith in a robust economic recovery. However, as the quarter drew towards a close, the outlook became more clouded. Uncertainty was exacerbated by blood clots among a number of AstraZeneca vaccine recipients, prompting the temporary pause of distribution programs across the globe. Resulting investor caution was clear as the risk rally eased into the end of the March.

Global treasury yields followed a similar pattern over the quarter, moving significantly higher on expectations of impending inflationary pressure before stabilising in the back half of the quarter.

Globally, central banks remained prominent in their market activity, with tapering seemingly a while off. During the quarter, US President Biden announced his desired infrastructure package which weighed on the 10-year yield, albeit a large amount of the planned expenditure will be covered by increased taxes.

The RBA maintained the cash rate at 0.10% during the quarter, though still made some significant changes to policy. In February, the previously announced $100bn long-end purchasing program was extended to add a further $100bn in purchases. The RBA's rationale is its concerns that the AUD would appreciate significantly if the central bank was to taper before the rest of the globe.

Domestic economic conditions remain positive, evidenced by the strong Q4 GDP print of 3.1% (q/q) which comfortably beat expectations for a 2.5% rise.

Sector review

Listed Property, Infrastructure and Utilities

The equity rally pushed into the New Year, although came under pressure in the back half of the quarter as investors became increasingly concerned about rising yields and roadblocks in the vaccine roll-out. As to be expected, rising yields weighed particularly heavy on property exposed investments. The market cap weighted index of Australian listed property, infrastructure and utilities returned -1.22% over the quarter. In comparison, the broader S&P/ASX 200 Accumulation Index returned 4.26%.

Hybrids

Hybrids continued to rally for the early part of the March quarter, before gradually stabilizing in the second half, alongside the broader market. Although spreads stabilized, the significant rise in yields remained positive for outright performance. The major banks continued to rally despite impending Tier 2 issuance and the likely return of senior deals coming later in the year.

True to form there was very little issuance in the first two months of the year; this changed following the broadly credit positive reporting season which led to a number of new deals presenting to market. New issuance remained in high demand, with a large proportion of the deals being oversubscribed.

Diversified Credit

Corporate credit was another beneficiary of rising underlying yields coinciding with a contraction in credit spreads. The significant levels of new issuance at the back end of the quarter was comfortably absorbed, with little impact on secondary market spreads. It was a strong period for the RMBS sector as forecast house price appreciation drove spreads tighter. Similar to other corporates, RMBS was in high demand despite a significant number of deals coming to market. The Australian iTraxx index moved marginally wider over the quarter, to ~64 bps.

Fixed Income

Once again the Australian 10-year government yield pushed higher reflecting looming expectations of an impending climb in inflation. Domestic data were encouraging over the quarter. Employment figures painted the picture of a largely normalized economy, with job figures reaching pre-COVID levels and the unemployment was down to 5.8%. The Bloomberg AusBond Composite Index returned -3.22% over the quarter.

Cash

The RBA again reiterated its commitment to holding the cash rate until at least 2024. The question now at hand is whether they will extend purchasing to the Nov-24 note, or continue to pin the Apr-24 note to 10 bps.

Cash remains an extremely low yielding investment, with no reason to assume any meaningful change in the near term. Poor returns from the safe haven of cash investments, such as term deposit accounts, is pushing money further along the risk curve as investors seek a more desirable level of return.

Asset allocation

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

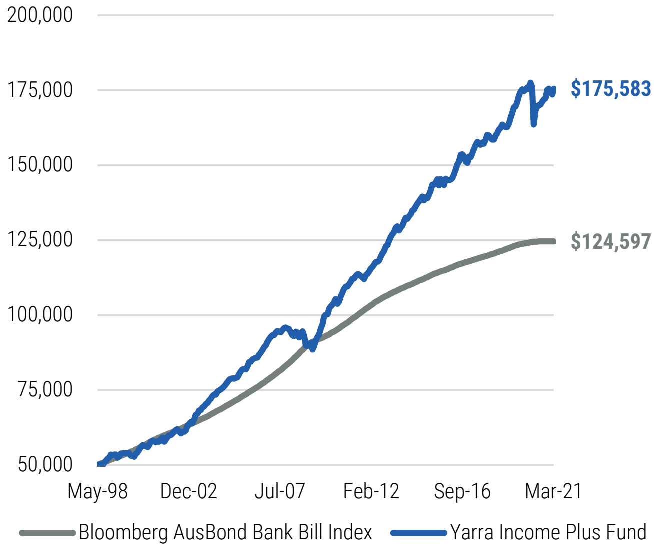
Source: Yarra Capital Management. Portfolio holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.
§ 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$87.8 mn as at 31 March 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 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 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.

Website www.yarracm.com

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