YARRA
CAPITAL MANAGEMENT

Investment Commentary
Month to 30 April 2018

Yarra Income Plus Fund

Total returns as at 30 April 2018

	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	0.85	0.51	2.10	3.52	4.36	5.40	6.01
Growth return†	0.85	0.02	-1.27	-1.13	-0.09	0.46	0.67
Distribution return†	0.00	0.49	3.37	4.64	4.45	4.95	5.34
Bloomberg AusBond Bank Bill Index	0.16	0.44	1.75	1.96	2.26	3.43	4.52
Excess return‡	0.69	0.07	0.35	1.55	2.10	1.97	1.49

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 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.

Portfolio review

The Yarra Income Plus Fund returned 0.85% in April, outperforming the Bloomberg AusBond Bank Bill Index by 69 bps on a net basis. The return was largely driven by the Fund's overweight exposure to Australian listed property, infrastructure and utilities. On a 12-month view, the Fund has returned 2.10%, outperforming the Bloomberg AusBond Bank Bill Index by 196 bps on a net basis.

Over the month, we maintained our overweight position in corporate credit, expressed via an overweight to domestic investment grade, partially offset by an underweight to Global High Yield. We also maintained our overweight position in Australian listed property, infrastructure and utilities, underweight Australian Fixed Income, and neutral cash.

Market review

US equities were only slightly higher over the month of April. This was despite a strong majority of US companies reporting quarterly earnings above consensus estimates. US 10-year bond yields briefly traded above the 3% level to as high as 3.03%, and remained near four-year highs. US data supported higher yields and the case for further hikes by the Federal Reserve (Fed) this year, with GDP strong and inflation rising, even as employment gains slowed. Global risk sentiment brightened as geopolitical events turned more favourable, with Korean peninsula risks seemingly improving. Markets are pricing in around 95% probability of a hike at the Fed's June meeting.

European equities performed better than their US counterparts. Economic data remained positive, though indicated that the pace of growth may be slowing, with Eurozone Q1 GDP growth falling from 0.7% to 0.4%q/q. This marked the weakest rate of expansion since mid-2016, as per Eurostat.

In Australia, the S&P/ASX 200 Accumulation index returned 3.91%. The Energy sector was the best performer, up 10.7% as crude oil prices spiked. Financials underperformed as the Financial Services Royal Commission dominated media headlines. The market cap weighted index of Australian listed property, infrastructure and utilities returned 4.07% over the month.

Sovereign long term bond yields were generally higher in advanced economies. The Australian yield curve steepened, with spreads between short and long-term rates widening 4 bps: the 3-year government bond yield closed 13 bps higher at 2.18% and the 10-year yield 16 bps at 2.78%.

Australian credit spreads ended the month slightly wider for the second consecutive month, led by softening global sentiment. Geopolitical risks and trade tensions, as well as high offshore primary issuance, continued to see spreads widen globally. In contrast, the Australian hybrid market ended the month positively (partly recovering prior month losses), reflective of a stronger technical environment. The Markit iTraxx Australia index finished the month 6 bps tighter at 65 bps.

The global high yield market continues to face increased volatility and macro-uncertainty as spreads widen further. The ICE BofA Merrill Lynch Global High Yield Constrained Index returned 1.655% in AUD, however this was mostly due to continued favourable currency movements. Option Adjusted Spreads widened 2 bps, closing at 345 bps over treasuries, while bond yields (yield to worst) increased 1 bps to finish the month at 5.71%.

Domestically, Q1 CPI data was weaker than expected. However, annualised core inflation reached 2.0%, the bottom

of the Reserve Bank of Australia's (RBA's) target range. Retail sales were stronger than expected, rising 0.6%m/m. Despite slowing in the past three months, the labour market is still seeing jobs growth with approximately 4,900 jobs created in March. A higher participation rate, though, kept the unemployment rate flat at 5.5%. In other news, consumer sentiment fell 0.6% and business conditions fell 7pts, while export prices improved notably on the back of higher commodity prices. As widely expected, the RBA kept rates on hold in its April meeting, with markets pricing in a 20% probability of a rate hike by December 2018.

Asset allocation

	Portfolio %	Neutral position %	Strategy	Yield %
A-REITs, Infrastructure and Utilities	19.1	15.0	Overweight	4.4
Global High Yield	3.0	10.0	Underweight	6.0
Hybrid and FRNs	24.0	15.0	Overweight	4.8
Australian fixed interest	14.7	20.0	Underweight	2.6
Cash	39.1	40.0	Neutral	1.6

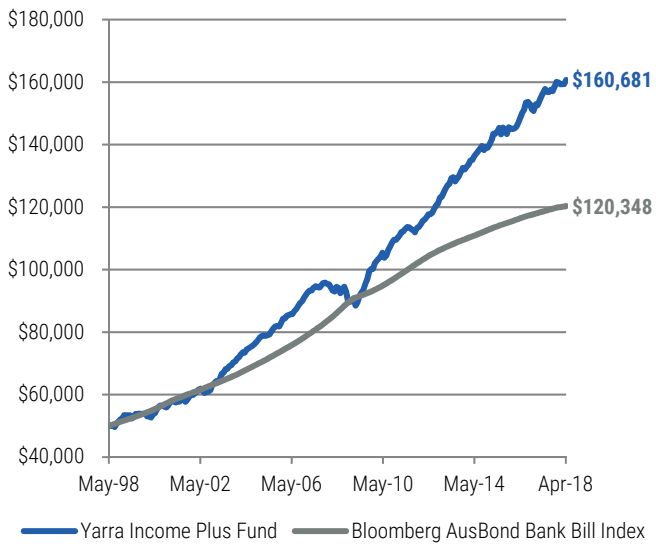
Portfolio holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.

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	Pooled Fund A$103.69 mn as at 30 April 2018
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, Macquarie Wrap, Consolidator, MLC Wrap, OnePath, PortfolioOne, Oasis, Netwealth, PowerWrap, SmartWrap, Hub24

Investment performance comparison of $50,000

After fees, since inception of the Yarra Income Plus Fund, May 1998 to April 2018.



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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