

Yarra Income Plus Fund

Total returns as at 31 May 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	0.47	1.34	1.85	3.40	4.40	5.49	6.01
Growth return†	0.47	0.85	-1.51	-1.23	-0.05	0.54	0.69
Distribution return‡	0.00	0.49	3.36	4.64	4.45	4.95	5.32
Bloomberg AusBond Bank Bill Index	0.17	0.48	1.78	1.95	2.24	3.38	4.51
Excess return‡	0.30	0.86	0.08	1.45	2.16	2.10	1.50

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 0.47% in May, outperforming the Bloomberg AusBond Bank Bill Index by 30 bps on a net basis. The return was largely driven by the Fund's exposure to Australian listed property, infrastructure and utilities 'Real Assets'. On a 12-month view, the Fund has returned 1.85%, outperforming the Bloomberg AusBond Bank Bill Index by 8 bps on a net basis.

Over the month, we moved from an overweight to a neutral position in Real Assets and overweight cash. 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.

Market review

Sovereign long term bond yields were generally lower in advanced economies in May. US 10-year bond yields traded to as high as 3.12%, the highest levels since 2011, before falling sharply and closing the month at 2.86% as global risk sentiment deteriorated on fears of an anti-EU Italian government forming. Demand for safe haven assets saw the Euro 10-year government bond yield finish the month at 0.34%, with investors continuing to see Germany as a safe place to invest. Meanwhile, Italian government bond yields rose the most in 25 years. Headlines on US-China trade relations and a proposed US-North Korea summit oscillated between being strongly positive and negative.

Despite the volatility in bond markets, US equities gained 2.4% in May. US data were mixed but continued to support the case for higher yields and further hikes by the Federal Reserve (Fed) this year. Employment gains missed expectations, though the unemployment rate fell to 3.9%, while inflation rose. Retail

sales were softer. Markets are now pricing in around 90% probability of a hike at the June meeting.

European equities weakened. Economic data remained positive, though indicated that the pace of growth has likely peaked. Slowing Eurozone CPI inflation raised some concerns around the timing of the ECB tightening monetary policy (both withdrawing QE and raising rates). Expectations for the Bank of England to increase rates in May fell sharply just ahead of the meeting, with the next hike now expected in November.

In Australia, the S&P/ASX 200 Accumulation index returned 1.09%. By sector, the best performers were Health Care and Consumer Discretionary, while Telecommunications underperformed on competitive pressures. The market cap weighted index of Australian listed property, infrastructure and utilities returned 2.24% over the month.

The Australian yield curve flattened, with spreads between short term and long term rates narrowing 2 bps: the 3-year government bond yield closed 8 bps lower at 2.10% and the 10-year yield 10 bps lower at 2.67%.

Australian credit spreads widened further in May, led by a softening in global sentiment, which had a larger impact on Australian financials relative to corporates, which tightened. Geopolitical risks and trade tensions continued to see credit spreads widen globally. These factors impacted the Australian hybrid market, which ended the month down. The Markit iTraxx Australia index finished the month 5 bps wider at 69.5 bps.

In line with bond markets, global high yield continues to face increased volatility as spreads widen further. The ICE BofA Merrill Lynch Global High Yield Constrained Index returned -1.436% in AUD, driven by negative price returns and unfavourable currency movements. Option Adjusted Spreads widened 36 bps, closing at 381 bps over treasuries, and bond

yields (yield to worst) increased 25 bps to finish the month at 5.95%.

Domestically, the Australian government budget showed a return to surplus a year earlier than previously expected and included personal tax cuts while maintaining commitments to infrastructure investment. Consumers were positive on the budget, but sentiment still declined by 0.6% overall. Other economic data were mixed: despite business conditions (at 21pts) being the highest on record, capital expenditure data disappointed. Retail sales were flat m/m and Q1 volumes were only up 0.2%q/q. Housing data such as finance commitments and prices were weak. Employment growth slowed to 2.7%/y. A large trade surplus of \$1,527mn was recorded, indicating a strong contribution of net exports to GDP growth. The Reserve Bank of Australia kept rates on hold in its May meeting. Expectations for a rate hike in 2018 fell, with markets now pricing in less than a 10% probability of a rate hike by the end of the year.

Asset allocation

	Portfolio %	Neutral position %	Strategy	Yield %
A-REITs, Infrastructure and Utilities	15.0	15.0	Neutral	4.7
Global High Yield	3.0	10.0	Underweight	6.0
Hybrid and FRNs	24.6	15.0	Overweight	5.4
Australian fixed interest	15.0	20.0	Underweight	2.6
Cash	42.3	40.0	Overweight	1.5

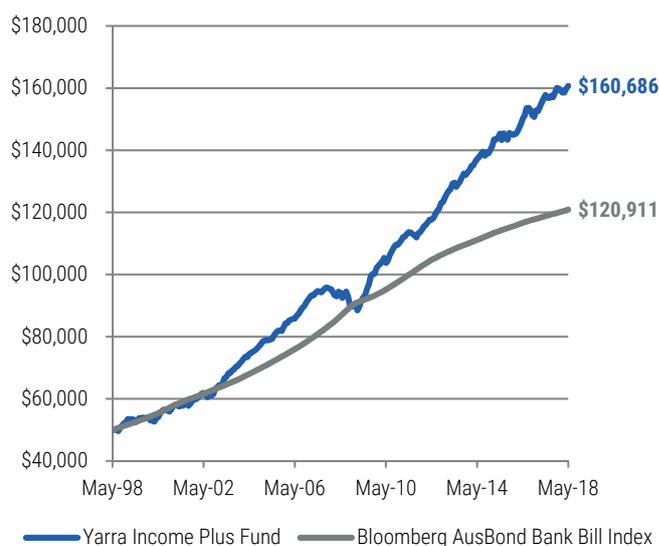
Portfolio holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not be profitable.

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\$101.16 mn as at 31 May 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 May 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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Disclaimers

The Yarra Income Plus Fund is substantially invested in the Yarra Income Plus Pooled Fund ('Pooled Fund'). References in this document to the underlying assets or investments of the Funds generally relate to the assets held in the Pooled Fund.

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