YARRA
CAPITAL MANAGEMENT

Investment Commentary
Month to 31 October 2018

Yarra Income Plus Fund

Total returns as at 31 October 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	-0.24	0.20	2.57	3.78	4.19	6.12	5.94
Growth return†	-0.24	-0.30	0.06	-0.54	0.03	1.37	0.67
Distribution return†	0.00	0.50	2.51	4.32	4.16	4.74	5.27
Bloomberg AusBond Bank Bill Index	0.17	0.49	1.89	1.93	2.18	3.13	4.46
Excess return‡	-0.40	-0.29	0.68	1.85	2.01	2.98	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 -0.24% in October, underperforming the Bloomberg AusBond Bank Bill Index by 40 bps on a net basis. The return was largely driven by the Fund's neutral position exposure to listed property, infrastructure and utilities. On a 12-month view, the Fund has returned 2.57%, outperforming the Bloomberg AusBond Bank Bill Index by 68 bps on a net basis.

During the month we altered the Fund's asset allocation, shifting its Global High Yield allocation to Diversified Credit, while keeping all other asset allocation classes and other asset allocation ranges unchanged. In our view, the change to Diversified Credit (which will comprise 0–20% of the Fund's total value) will provide investors with a number of benefits, enabling exposure to comparable returns and higher quality floating rate credit securities across multiple sectors (predominantly in Australian and New Zealand companies), while maintaining lower volatility.

Market review

US-China trade tensions and geopolitical concerns dominated in October, alongside rising concerns regarding emerging markets and oil prices. Global equity markets dropped sharply in response, with the MSCI World index delivering its worst monthly performance since 2012. US equities fell by 6.9% despite many companies reporting strong financial results and beating earnings expectations. US 10-year Treasury yields closed 8 bps higher at 3.14%, though retraced from the highest levels since May 2011 as risk sentiment deteriorated. US economic data remained mostly positive; Q3 GDP beat expectations and remained very strong by historical standards, while the unemployment rate notably fell to 3.7% – the lowest level since 1969 – to further support the case for additional tightening of monetary policy. The Federal Reserve (FOMC) did not meet in the month.

European equities fell amidst continued political uncertainty; there was a distinct lack of progress on a Brexit deal and German Chancellor Merkel announced she would not contest the next election. European economic activity softened, with the European Central Bank reducing its monthly net asset purchases to EUR15bn in October (previously EUR30bn). The performance of European sovereign long-term bond yields was mixed in the month.

In Australia, the S&P/ASX 200 Accumulation index returned -6.05%. All sectors recorded negative returns, with Information Technology the worst performer. The market cap weighted index of Australian listed property, infrastructure and utilities declined -2.89% in October, but outperformed the wider S&P/ASX 300 Index as investors increased allocations to defensive equities. Utilities performed relatively well despite regulatory uncertainty in the Australian energy market, while some infrastructure stocks outperformed in response to well-received September quarter updates.

The Australian yield curve steepened slightly, with spreads between short-term and long-term rates widening 2 bps: the 3-year government bond yield closed 6 bps lower at 1.99% and the 10-year bond yield 4 bps lower at 2.63%.

Australian investment grade credit spreads ended the month slightly tighter, despite offshore markets widening on higher volatility and equity market corrections, with Australian corporates performing slightly better than financials. Issuance in October was relatively light, though there were three new first time issuers in the Australian market. Hybrids were more sensitive to equity market volatility and underperformed credit markets. The Markit iTraxx Australia index finished the month 7 bps higher at 82 bps.

The Reserve Bank of Australia (RBA) left the cash rate unchanged at 1.50% and continued to signal that while there would be no near-term adjustment in policy the next move in rates would be higher. Q3 headline CPI was 0.4%q/q, 1.9%y/y and core was 0.3%q/q, 1.8%y/y. While core inflation slowed and missed market expectations, the RBA had expected the data to be impacted by a number of one-off factors and the release was in line with its own projections. Other data were broadly positive. Employment only gained by 5.6k, though notably the unemployment rate fell to 5.0%, the lowest level since 2012. Business conditions remained steady and well above long run average levels at +15 and consumer sentiment improved by 1% to 101.5. The trade surplus was much larger than anticipated, rising to AUD2.3bn due to higher iron ore and LNG exports and a drop in machinery, industrial equipment and civil aircraft imports. Housing data however showed further signs of softness, with property prices and housing finance falling, and building approvals continued to trend lower. Markets are still not pricing in a full RBA hike until 2020.

Asset allocation

	Portfolio %	Neutral position %§	Strategy
A-REITs, Infrastructure and Utilities	15.2	15.0	Neutral
Hybrid and FRNs	20.2	15.0	Overweight
Diversified Credit†	10.1	10.0	Neutral
Australian fixed interest	12.1	20.0	Underweight
Cash	42.5	40.0	Overweight

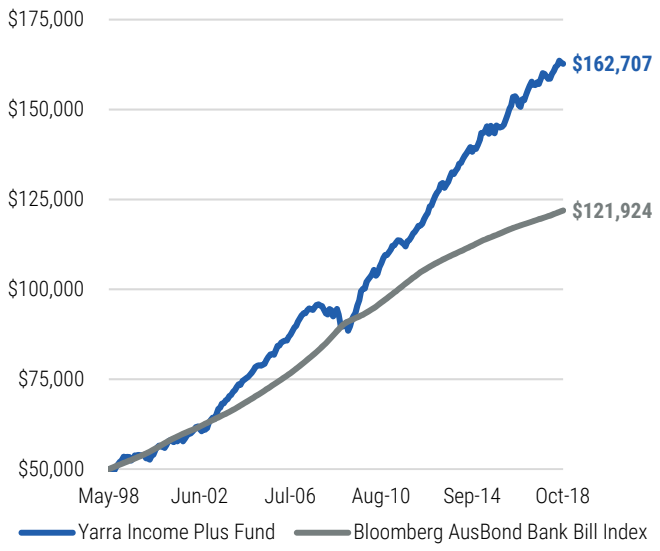
Source: Yarra Capital Management. Portfolio holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not 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	Pooled Fund A$95.10 mn as at 31 October 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 October 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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