YARRA CAPITAL MANAGEMENT

Investment Commentary
Month to 30 November 2018

Yarra Income Plus Fund

Gross returns as at 30 November 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	0.09	-0.32	2.35	4.58	4.98	6.92	6.69
Growth return†	0.09	-0.82	-0.13	0.25	0.81	2.18	1.44
Distribution return†	0.00	0.50	2.48	4.32	4.17	4.74	5.25
Bloomberg AusBond Bank Bill Index	0.15	0.48	1.91	1.93	2.16	3.09	4.45
Excess return‡	-0.06	-0.80	0.44	2.65	2.81	3.82	2.24

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 November 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	0.03	-0.49	1.66	3.87	4.27	6.14	5.92
Growth return†	0.03	-0.99	-0.82	-0.45	0.10	1.40	0.67
Distribution return†	0.00	0.50	2.48	4.32	4.17	4.74	5.25
Bloomberg AusBond Bank Bill Index	0.15	0.48	1.91	1.93	2.16	3.09	4.45
Excess return‡	-0.12	-0.97	-0.25	1.94	2.10	3.05	1.47

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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 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 0.03% in November, underperforming the Bloomberg AusBond Bank Bill Index by -12 bps on a net basis. The return was largely driven by the Fund's overweight position in Hybrids & FRNs and neutral position in Diversified Credit. On a 12-month view, the Fund returned 1.66%, underperforming the Bloomberg AusBond Bank Bill Index by -25 bps on a net basis.

During the month, we moved from a neutral to overweight position in Real Assets (listed property, infrastructure and utilities) and reduced our underweight position in fixed income. This was funded by moving from an overweight to slightly underweight position in cash. We continue to maintain an overweight position in Hybrids and neutral position in Diversified Credit.

Market review

Global sovereign bond yields ended the month lower in November, while US 10-year Treasury yields also closed 16 bps lower at 2.99% after trading near multi-year highs. The S&P500 returned 1.8%, with defensive sectors including utilities and consumer staples outperforming. The Federal Reserve (Fed) left interest rates unchanged at 2-2.25% and markets interpreted comments from Fed Chair Powell as suggesting limited further interest rate hikes. Inflation expectations fell, partly driven by a decline in oil prices. Core PCE slowed to 1.8%, indicating that inflation pressures were not increasing. Other economic data were mixed: employment and retail sales were strong but housing and manufacturing softened. The unemployment rate remained at lows since 1969 at 3.7%. The outcome of US mid-term elections was as expected, seeing Republicans retaining the Senate and Democrats taking the House. Markets anticipate this will mean limited major policy measures.

In contrast to the US and emerging markets, European equities fell. Continued Brexit uncertainty weighed in the UK. While Cabinet approved of a deal, several ministers resigned and the deal was widely expected to fail its first attempt at passage in Parliament. European activity was impacted by slower exports, with the European Central Bank (ECB) President Draghi acknowledging economic data had been weaker than expected. The ECB still expects net asset purchases to end in December 2018.

In Australia, the S&P/ASX 200 Accumulation index returned -2.21% with most sectors recording negative returns. The energy sector dropped sharply as oil had its worst month since October 2008. The market cap weighted index of Australian listed property, infrastructure and utilities, however, rose 0.14% in October, outperforming the wider S&P/ASX 300 Index as investors increased allocations to defensive equities. Some infrastructure stocks benefitted from improved volume data, while office and diversified REITs outperformed their retail and industrial peers.

The Australian yield curve flattened, with spreads between short-term and long-term rates widening 5 bps: the 3-year government bond yield closed 2 bps higher at 2.01% and the 10-year bond yield 3 bps lower at 2.59%.

Australian investment grade credit and hybrid spreads ended the month wider. Spreads were impacted by international concerns, including geopolitics and risk-off investor sentiment. The Australian Prudential Regulatory Authority (APRA) announced its long awaited proposal on "Increasing the loss-absorbing capacity of ADIs to support orderly resolution", opting for the additional issuance of Tier 2 rather than the global standard of Tier 3. Primary issuance was also high after a relatively light October, with November being the second largest month of issuance on record. The Markit iTraxx Australia index finished the month 5 bps higher at 87 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. In its quarterly forecasts, the RBA revised GDP higher by 25 bps to 3.5% in Dec 2018, the unemployment rate 50 bps lower to 5.0%, and the inflation rate rising to 2.25% a quarter earlier. Housing data was soft, with lending data weak and house prices falling. Retail sales rose 0.2%, less than expected, and business conditions pulled back further to +12, though still remain above long run averages. Meanwhile, consumer sentiment improved by 2.8% to 104.3. Employment increased by a very strong 32.8k, but wage growth was only 0.6% - modest given the relatively large increase in minimum wages. GDP components such as construction activity and investment were weak. At the end of November, markets were still not pricing in a full RBA hike until 2020.

Asset allocation

	Portfolio %	Neutral position %§	Strategy
Property, Infrastructure and Utilities	17.2	15.0	Neutral
Hybrid and FRNs	19.7	15.0	Overweight
Diversified Credit†	10.1	10.0	Neutral
Fixed interest	13.7	20.0	Underweight
Cash	39.4	40.0	Underweight

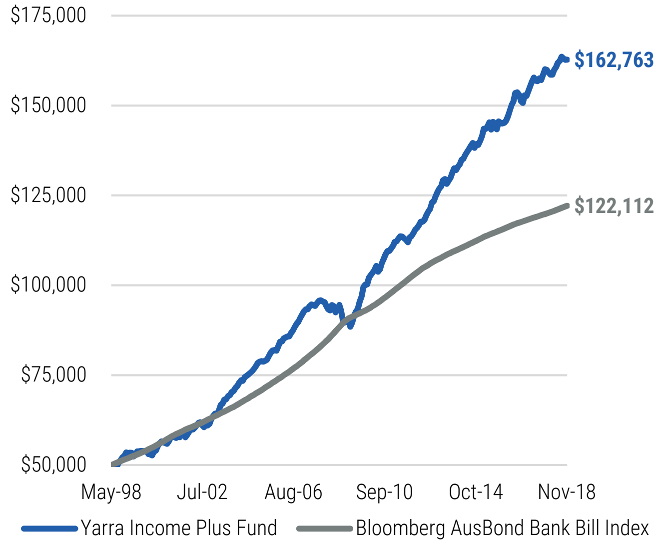
Source: Yarra Capital Management. Portfolio holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not 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	Pooled Fund A$94.73 mn as at 30 November 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 November 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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