

Yarra Income Plus Fund

Gross returns as at 31 January 2019

	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	1.25	2.15	4.98	5.26	5.13	6.99	6.74
Growth return [†]	1.25	1.32	2.34	1.16	1.02	2.28	1.49
Distribution return [‡]	0.00	0.83	2.64	4.10	4.11	4.71	5.25
Bloomberg AusBond Bank Bill Index	0.18	0.49	1.95	1.91	2.14	3.04	4.43
Excess return [‡]	1.07	1.66	3.03	3.35	2.99	3.95	2.31

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 January 2019

	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	1.19	1.97	4.27	4.55	4.42	6.21	5.97
Growth return [†]	1.19	1.14	1.63	0.45	0.30	1.50	0.72
Distribution return [‡]	0.00	0.83	2.64	4.10	4.11	4.71	5.25
Bloomberg AusBond Bank Bill Index	0.18	0.49	1.95	1.91	2.14	3.04	4.43
Excess return [‡]	1.01	1.48	2.32	2.64	2.27	3.17	1.54

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 1.19% in January, outperforming the Bloomberg AusBond Bank Bill Index by 101 bps on a net basis. The return was largely driven by the Fund's overweight position in Real Assets (listed property, infrastructure and utilities), followed by our overweight position in Hybrids. On a 12-month view, the Fund has returned 4.27%, outperforming the Bloomberg AusBond Bank Bill Index by 232 bps on a net basis.

Towards month end, we reduced our overweight position in Real Assets, taking some of the profits driven by the fall in long term interest rates, and reduced our underweight position in cash. We continue to maintain an overweight position in hybrids, and underweight position in fixed income.

Market review

Performance of global sovereign bond yields was mixed in a month of heightened volatility. US 10-year Treasury yields closed 5 bps lower at 2.63% as the Federal Reserve (FOMC) shifted its tone to be more dovish than expected. While interest rates were kept at a target range of 2.25-2.5% as widely expected, the FOMC removed reference to "further gradual increases" in interest rates and made a separate announcement regarding balance sheet normalisation. Markets interpreted the removal of this reference as increasing the possibility of an earlier end to efforts from the FOMC to unwind its balance sheet. US business surveys (ISM) indicated activity was weaker than expected, though employment was stronger, up 312k. Several data prints were delayed due to the partial US government shutdown.

Equity markets globally, including in the US and Europe, ended the month positively. The European Central Bank (ECB)

sounded more cautious in their assessment of the economy but did not change its monetary policy or guidance.

In Australia, the S&P/ASX 200 Accumulation index returned 3.87% over the month, with all sectors except financials recording positive returns. The market cap weighted index of Australian listed property, infrastructure and utilities rose 4.91% in January, outperforming the wider S&P/ASX 300 Index on strong returns in REITs. At a subsector level, Retail REITs continued to underperform given the deterioration of shopping mall fundamentals. The top performer in the infrastructure and utility space, Spark Infrastructure (SKI), rose without any material company-specific news.

The Australian yield curve steepened, with spreads between short and long-term rates widening 3 bps: the 3-year government bond yield closed 10 bps lower at 1.75% and the 10-year bond yield 7 bps lower at 2.24%.

Australian investment grade credit spreads ended the month tighter, with non-financials outperforming financials. Liquidity continued to be subdued, though primary issuance was relatively active in financials. Hybrid returns were positive, driven by Tier 2 securities consolidating over the month (Tier 2 securities widened significantly post APRA's proposed announcement on TLAC in late 2018). The Markit iTraxx Australia index finished the month 19 bps lower at 76 bps.

In Australia, macroeconomic monthly data was concerning. Volatility around the December/January period may have had an impact: business conditions fell sharply to +2, consumer sentiment weakened by 4.7% to 99.6 – the largest decline in three years – while November building approvals tumbled 9.1%. November retail sales, though, beat expectations at 0.5%, likely helped by consumers pulling forward purchases due to increased prevalence of earlier sales such as Black Friday. The RBA did not hold a policy meeting in the month of January.

Asset allocation

	Portfolio %	Neutral position % [§]	Strategy
Property, Infrastructure & Utilities	16.4	15.0	Overweight
Hybrid and FRNs	20.1	15.0	Overweight
Diversified Credit [†]	10.2	10.0	Neutral
Fixed interest	13.9	20.0	Underweight
Cash	39.3	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.

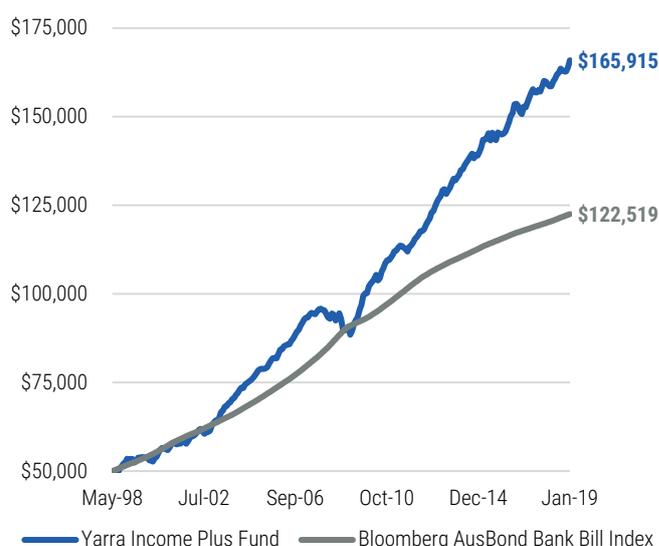
[†] Effective 25 October 2018 the Fund's asset allocation was modified, with Diversified Credit replacing Global High Yield. Further information in relation to this change can be found [here](#).

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\$94.92 mn as at 31 January 2019	
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 January 2019.



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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