

Yarra Income Plus Fund

Gross returns as at 30 June 2022

	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	-1.03	-1.95	-1.46	1.08	2.90	4.71	6.09
Bloomberg AusBond Bank Bill Index	0.05	0.07	0.10	0.33	0.95	1.73	3.87
Excess return [‡]	-1.08	-2.02	-1.55	0.74	1.95	2.97	2.23

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 June 2022

	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	-1.08	-2.12	-2.12	0.39	2.20	4.00	5.34
Growth return [†]	-2.31	-3.33	-3.95	-1.89	-0.21	0.54	0.51
Distribution return [‡]	1.23	1.21	1.82	2.28	2.41	3.45	4.83
Bloomberg AusBond Bank Bill Index	0.05	0.07	0.10	0.33	0.95	1.73	3.87
Excess return [‡]	-1.13	-2.18	-2.22	0.06	1.25	2.26	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 unit 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 distribution 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 -1.08% (net basis) over the June quarter, underperforming the Bloomberg AusBond Bank Bill Index by 113 bps. On a 12-month view, the Fund returned -2.12%, underperforming its benchmark by 222 bps on a net basis.

We made a number of changes to the Fund's tactical asset allocation during the quarter. We reduced our allocation to Cash and Hybrid sleeves in favour of the longer duration Fixed Interest sleeve. We remained neutral Real Assets and overweight Diversified Credit.

The Real Assets sleeve detracted from performance. The sleeve underperformed the broader market as long duration assets were heavily sold off. Exacerbating negative returns was weakened risk sentiment.

Diversified Credit also detracted from performance, with elevated investor risk aversion driving a widening in credit spreads. With the underlying yield moving far higher and credit

spreads wider, the risk-return dynamics may be looking increasingly attractive.

Long duration assets sold off significantly on persistent inflation pressures and hawkish central bank commentary. As such, the Fixed Income sleeve was a large detractor from performance.

The Reserve Bank of Australia (RBA) began hiking rates at its May meeting with a 25 bps rise, followed by another 50 bps in June, taking the cash rate to 0.85%. Several more hikes to follow between now and year-end appear inevitable. At this stage we still see better value across the other sleeves at the Fund's disposal.

Market review

Global monetary policy tightening is now in full swing inducing the capitulation of bond markets and widespread risk-off behaviour. Investors are increasingly hypersensitive to central bank commentary and are now pricing in an aggressive number of rate hikes, the extent of which could likely induce

recession. Long-duration assets suffered significant selling, pushing yields higher across most advanced economies

Orchestrating a 'soft landing' appears increasingly unlikely for many central banks, most notably the US where GDP shrank an annualised 1.6% in the first quarter of 2022. Data across other key markets showed signs of weakness as persistent inflation and tightening conditions began to bite. The labour market has remained resilient, however, particularly in the UK where the unemployment rate fell to 3.7% (the lowest level since 1974).

Domestically, the RBA seems poised to push through several more rate hikes into the end of 2022. While this will likely have significant implications for economic conditions, we remain confident there is sufficient capacity to absorb tightening monetary policy settings. Underpinning our thesis are corporate balance sheets, which generally remain conservative, high employment and strong household liquidity.

Sector review

Listed Property, Infrastructure and Utilities

Equity markets were softer during the period, with the materialization of long discussed rate hikes inducing risk-off behaviour across the market. Australian listed property, infrastructure and utilities returned -8.84% over the quarter. Comparatively, the broader S&P/ASX 200 Accumulation Index returned -11.90%.

Hybrids

Hybrid spreads were also softer during the quarter. Tier 1 securities were particularly weak progressively moving wider as new deals came to the market. Reassuringly, however, these deals were met with strong demand.

Diversified Credit

Corporate credit spreads pushed wider over the quarter, weighed by weak investor risk sentiment, with the sell-off in spreads potentially exacerbated by an increasingly compelling risk-free yield. New issuance was again subdued by market volatility. The Australian iTraxx index moved higher over the period, closing at ~130 bps.

Fixed Income

The Fixed Income sleeve has become increasingly attractive as the market prices an aggressive RBA rate hike cycle. While expect the RBA to continue to tighten into the end of the year, we do not foresee hikes to the extent that is priced into the curve. With bonds oversold we deemed it the right time to increase our exposure to Fixed Income securities.

Cash

The RBA lifted the cash rate to 0.85%. At this point in time we continue to see better value across other sleeves at the Fund's disposal.

Asset allocation

	Target %*	Neutral position %§	Strategy
A-REITs, Infrastructure & Utilities	15.0	15.0	Neutral
Hybrid and FRNs	15.0	15.0	Neutral
Diversified Credit†	15.5	10.0	Overweight
Fixed interest	27.0	20.0	Overweight
Cash	27.5	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.

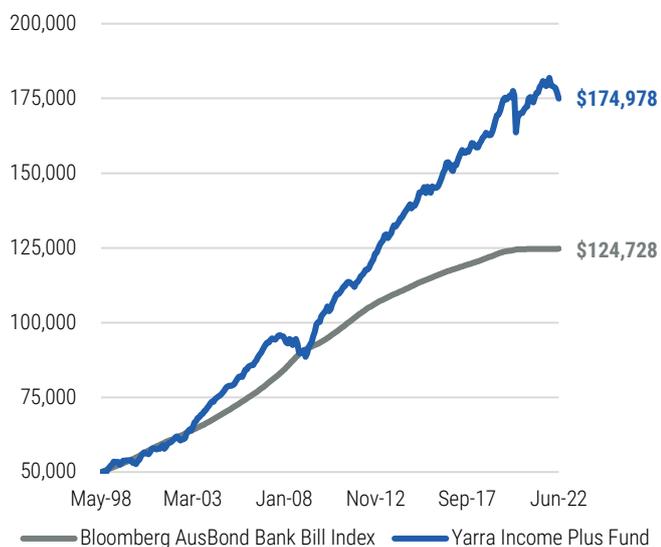
† Effective 25 October 2018 the Fund's asset allocation was modified, with Diversified Credit replacing Global High Yield. Further information in relation to this change can be found [here](#).

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	A\$80.1 mn as at 30 June 2022	
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 June 2022.



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.

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