Investment Commentary
Month to 31 January 2023

Yarra Income Plus Fund

Gross returns as at 31 January 2023

	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	2.11	3.29	1.94	1.44	3.37	4.42	6.12
Bloomberg AusBond Bank Bill Index	0.27	0.77	1.52	0.61	1.03	1.67	3.83
Excess return‡	1.85	2.53	0.42	0.83	2.34	2.75	2.29

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 2023

	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	2.05	3.12	1.25	0.75	2.67	3.72	5.36
Growth return†	2.05	2.20	-1.44	-1.62	0.24	0.24	0.59
Distribution return†	0.00	0.92	2.69	2.37	2.43	3.48	4.77
Bloomberg AusBond Bank Bill Index	0.27	0.77	1.52	0.61	1.03	1.67	3.83
Excess return‡	1.79	2.35	-0.27	0.15	1.64	2.05	1.53

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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 2.05% (net basis) in January, outperforming the Bloomberg AusBond Bank Bill Index by 179 bps.

No changes were made to tactical positioning during the month. We continue to see value in long duration assets which look to have been oversold.

Market review

Financial markets enjoyed a strong start to 2023. Signs of easing inflation and less hawkish central banks prompted a risk rally enjoyed across the market. An improving outlook for China following a COVID policy pivot added further to positive risk sentiment.

Market moving data prints were favourable through January. US core CPI printed at 5.7% (y/y), down from 6.3%, and China's Q4 GDP comfortably beat expectations, expanding at an annual pace of 2.9%. Global labour markets also continued to withstand the impact of tightening monetary conditions.

Long end sovereign yields declined amidst improving risk sentiment and a downward shift in the pace of hikes in the benchmark interest rate by the US Federal Reserve. The Fed lifted the cash rate by 25 bps to 4.75% and the European Central Bank and Bank of England also hiked, bringing their policy rates to 2.5% and 4.0% respectively.

Equity markets had a great start to the year following a challenging 2022. Signs that inflation will continue to ease and the rally in sovereign yields were supportive for risk sentiment. The market cap weighted index of Australian listed property, infrastructure and utilities underperformed the broader market, however, returning 5.66%.

Corporate credit and hybrid spreads moved tighter over the period, driven by improving risk sentiment, falling long term interest rates and a high level of cash sitting on the sidelines. Retail and institutional investors continue to be attracted to high income paying hybrid securities. Investor appetite remains strong, despite a slight pickup in new issuance in January. We expect to see corporates return to the market post reporting season. The Australian iTraxx index closed the period 11 bps lower at 82 bps.

Post month-end, the Reserve Bank of Australia increased the cash rate by a further 25 bps to 3.35% and announced further interest rate increases are expected over the coming months to ensure that inflation returns to target. In seeking to return to its 2-3% inflation target, the RBA notes "the path to achieving a soft landing remains a narrow one."

Prior to the latest monetary decision in Australia, the headline inflation print fell a little below the RBA's 8.0% forecast, to 7.8%. The labour market also remains tight, despite unemployment rising 10 bps to 3.5%.

Across the available sleeves, we see several opportunities which look to have been over-sold. At this point in time, we view long duration sleeves favourably, however, remain poised to adjust positioning as required.

Asset allocation

	Target %*	Neutral position %§	Strategy
A-REITs, Infrastructure & Utilities	15.0	15.0	Neutral
Hybrid and FRNs	13.0	15.0	Underweight
Diversified Credit†	16.0	10.0	Overweight
Fixed interest	30.0	20.0	Overweight
Cash	26.0	40.0	Underweight

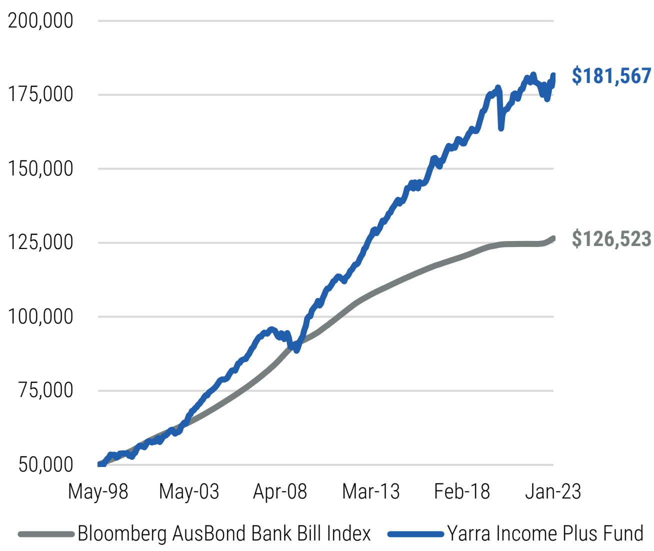
Source: Yarra Capital Management. Portfolio holdings may not be representative of current or future investments. The securities discussed may not represent all of the portfolio's holdings and may represent only a small percentage of the strategy's portfolio holdings. Future portfolio holdings may not 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$82.4 mn as at 31 January 2023
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 2023.



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

Investor Services Team 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) IST@yarracm.com