

Yarra Australian Bond Fund

Net returns as at 30 April 2022

	1 month %	3 months %	6 months %	1 year %	2 years % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.
Fund growth return (net)	-1.64	-6.85	-5.84	-8.00	-5.88	-4.20	-2.22	-1.61	-0.29
Fund distribution return (net)	0.00	0.00	0.00	0.11	1.60	3.29	3.67	4.73	5.32
Total Fund return (net)	-1.64	-6.85	-5.84	-7.90	-4.29	-0.91	1.44	3.12	5.03
Benchmark	-1.49	-6.33	-5.27	-7.47	-4.39	-0.91	1.40	3.12	5.01
Excess return	-0.16	-0.53	-0.57	-0.42	0.10	0.01	0.04	0.00	0.02

Source: BNP Paribas. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund Return minus Fund growth return. Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Past performance is not an indicator of future performance. Benchmark: Bloomberg AusBond Composite 0+YR Index. Inception date: July 2000

After fees and expenses, the Fund returned -1.64% to underperform the benchmark by 16 basis points (bps).

The Fund held an overweight duration position throughout the month as the market has been pricing in rate hikes to a higher terminal level than we believe possible. Market pricing now expects a cash rate of over 3.30% in 18 months time, which would be one of the fastest cash rate moves in the past 20 years. During the month, yields continued their moves higher, with 10 year bonds ending the month at 3.16%. The Fund holds a steepening curve positioning, with the majority of its duration exposure in 3 year bonds as the front-end of the bond curve is extremely steep. Overall duration and curve positioning was a key detractor for the month.

The Fund currently favours 5-10 year supranational issuers, with a focus on government guaranteed issuers and holds an underweight to Semi-government issuers. The Semi-government position is short in the 5-10 year maturities, as this is where the RBA concentrated their Quantitative Easing (QE) buying and is the most prone to spreads widening. Credit spreads sold-off slightly during April, with spread widening occurring globally. The Fund held an overweight to credit, which has been added as spreads widened. New issuers are offering substantial new issue premiums, with new issues from Volkswagen and Athena good examples of this. Credit positioning was negative for the month as we continued to accumulate bonds into the spread widening.

Risk Characteristics

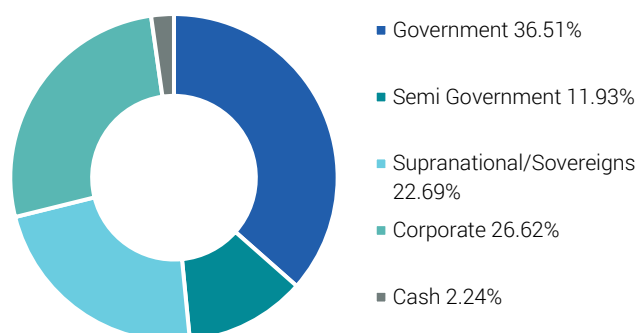
3 Year Volatility (p.a.)	5.22%
3 Year Tracking Error (p.a.)	0.44%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.74	5.38	0.37
Corporate Spread Duration (yrs)	0.81	0.27	0.54
Total Spread Duration (yrs)	3.41	2.07	1.34
Yield to Maturity (%)	3.49	2.98	0.51
Average Coupon (%)	2.02	2.74	-0.72
Weighted-average Credit Rating [#]	AA-	AA	

[#]Standard & Poor's

Portfolio Asset Allocation



Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned -1.49% over the month. The yield curve flattened as 3-year government bond yields rose by 37 basis points (bps) to 2.71%, while 10-year government bond yields rose by 29 bps to 3.13%. Short-term bank bill rates were sharply higher. The 1-month rate rose 20 bps to 0.21%, the 3-month rate was up 48 bps to 0.71%, and the 6-month rate spiked 74 points to 1.45%. The Australian dollar was weaker, closing the month at USD 0.71.

Monetary policy settings remained unchanged in April as the Reserve Bank of Australia (RBA) waited until its May meeting to raise the cash rate target by 25 bps, to 0.35%.

Domestic economic data releases in April were largely positive. Employment rose by 17,900 positions in March, taking the number of employed persons in Australia to a new record high. The unemployment rate was unchanged at 4.0%, the lowest jobless rate since August 2008. The NAB Survey of Business Conditions rose to 18 points in March, the largest one-month jump since June 2020. Business confidence reached a five-month high, rising to 16 points in March. Retail sales were up 1.8% in February. National CoreLogic dwelling prices saw another consecutive monthly rise in April, up 0.6%, the lowest monthly growth reading since October 2020.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
National Housing Finance & Investment Corporation	AAA
Treasury Corporation of Victoria	AA
Export Finance & Insurance Corp	AAA
South Australian Govt Financial Authority	AA+
International American Development Bank	AAA
Asian Development Bank	AAA
International Finance Corporation	AAA
Flexi Trust	AAA
Western Australia Treasury Corporation	AA+

All of the above portfolio securities are Australian dollar denominated issues and include fixed interest and FRNs.

Market Outlook

The global economy faces a number of challenges, including the continuing war in Ukraine, ongoing disruptions from COVID-19, particularly in China, and declining consumer purchasing power due to higher inflation. The Australian economy has remained resilient however, and the recovery is ongoing despite the effects of increasing COVID-19 cases. All the states remain open and are committed to 'living with COVID', providing support to growth. The RBA has recently revised some of its economic forecasts. The RBA's central economic forecasts for GDP are largely unchanged, showing expectations for 4.25% GDP growth in 2022 and 2.00% over

2023. However, their forecast unemployment rate continues to trend lower, with expectations it will fall to around 3.50% by early 2023 and remain around this level. This would be the lowest unemployment rate in almost 50 years. Inflation is expected to rise further in coming quarters but then moderate. Headline inflation is now expected to reach 6.00%, while underlying inflation is estimated to reach 4.75% over 2022 but ease by mid-2024 to around 3.00%.

The RBA has begun to withdraw the extraordinary monetary support that was initiated during the pandemic. The RBA expects its balance sheet to decline significantly over the next couple of years as the Term Funding Facility comes to an end and the Board has stated is not currently planning to sell the government bonds that the RBA purchased during the pandemic. The RBA has acknowledged that further interest rates are needed but will closely monitor the balance of risks as it determines the timing and extent of future rate increases. Despite the increasing cash rate, we maintain our view that the markets expectation of the terminal cash rate is far too high.

Regardless of any COVID related setbacks, the economy has shown it can bounce back strongly post lockdowns. The resilience of the economy is evident in the labour market as we head to a record low in the unemployment rate and a record high in the participation rate. From an external standpoint, while international borders have been opened, international visitors will take some time to return to normal, and this weighs on the outlook for the local economy, as does the situation in China and the flow-on effects of the situation in the Ukraine.

Fund Objective

The Fund aims to outperform the Bloomberg AusBond Composite 0+YR Index over any three-year rolling period, before fees, expenses and taxes.

Key Facts	
Responsible Entity Yarra Investment Management Limited	Management Cost 0.30% p.a.
APIR Code TYN0104AU	Buy/Sell Spread 0.05%/0.05%
Portfolio Managers Darren Langer Chris Rands	Distribution Frequency Quarterly
Fund Size AUD 201.38 million	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment AUD 10,000	

Contact Us

Yarra Capital Management Limited

Level 26, One International Towers Sydney
100 Barangaroo Avenue, Barangaroo NSW 2000, Australia

Phone 1800 251 589

Fax +61 2 8072 6304

Email sales.au@yarracm.com

Website www.yarracm.com

Disclaimers

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