

# Yarra Australian Bond Fund

## Fund Performance

	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)	0.02	2.67	3.50	-0.87	-1.83	0.42	-0.72	-0.39	0.23
Fund distribution return (net)	0.00	0.05	0.99	2.14	3.37	4.29	4.20	5.19	5.52
Total Fund return (net)	0.02	2.72	4.48	1.27	1.54	4.71	3.49	4.80	5.75
Benchmark	0.09	2.55	4.23	1.05	1.33	4.52	3.33	4.76	5.70
<b>Excess return</b>	<b>-0.07</b>	<b>0.17</b>	<b>0.25</b>	<b>0.22</b>	<b>0.21</b>	<b>0.19</b>	<b>0.16</b>	<b>0.04</b>	<b>0.05</b>

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 0.02% in August, underperforming the benchmark by 7 basis points (bps).

The Fund held a small underweight duration position in the early half of the month, which was moved to square as bonds rallied with global risk off sentiment, which was negative for performance. During the month the economic data has become more mixed, reflecting the worsening COVID-19 situation across New South Wales and Victoria. Based on current vaccination rates the economy should be able to reopen later this year, however the impact on GDP for 2021 is going to be substantial. Bond yields rallied over the month. The Fund is biased towards a flattening in yields, with an overweight in 10-15 year maturity bonds. This was a neutral on performance as long bonds and shorter dated maturities moved in similar magnitudes.

The Fund favours 10-15 year semi-government bonds, albeit the semi-government position has been reduced substantially compared to its overweight of last year, and 5-10 year supranational issuers with a focus on Government Guaranteed issuers. This was negative for performance over the month as semi-government spreads widened. We favour high grade spread (State government and Supranational issuers) at the moment as historically corporates have underperformed when QE programs begin to unwind, although the small sell-off in credit has seen the Fund add some longer dated exposures. The recent commentary from both the US Federal Reserve and Reserve Bank of Australia (RBA) suggest QE tapering could occur over the second half of this year and as such we hold a defensive spread position.

## Risk Characteristics

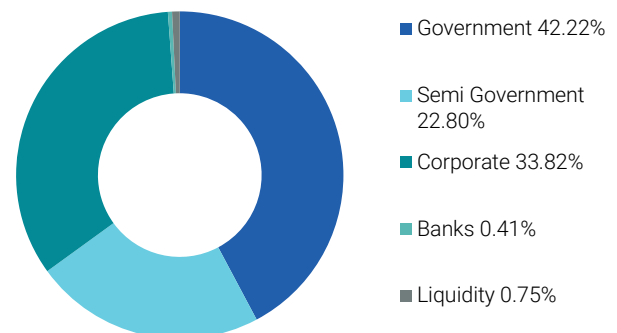
3 Year Volatility (p.a.)	3.76%
3 Year Tracking Error (p.a.)	0.39%

## Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	6.08	5.98	0.10
Corporate Spread Duration (yrs)	0.45	0.29	0.16
Yield to Maturity (%)	1.21	0.84	0.37
Weighted-average Credit Rating <sup>#</sup>	AA	AA	

<sup>#</sup>Standard & Poor's

## Portfolio Asset Allocation



## Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned 0.09% over the month. The yield curve was largely unchanged as 3-year government bond yields ended the month flat at 0.24%, while 10-year government bond yields fell by 2 bps to 1.16%. Short-term bank bill rates were only marginally lower. The 1-month rate was steady at 0.01%, the 3-month rate was 1 bp lower at 0.01%, while the 6-month rate was 2 bps lower at 0.03%. The Australian dollar was slightly weaker, closing the month at USD 0.73.

Monetary policy settings remained unchanged in August, as the Reserve Bank of Australia (RBA) maintained both the cash rate and 3 year yield target at 0.10%. The RBA also indicated it will maintain its government bond purchase program, purchasing AUD 5 billion a week until early September and then AUD 4 billion a week until at least mid November.

Domestic economic data releases in August were mixed. Employment rose by 2,200 positions in July. The unemployment rate fell unexpectedly to 4.6%, the ninth straight monthly fall, as the number of people looking for work fell. The NAB Survey of Business Conditions fell sharply, down 14 points, to 11 in July. Business confidence also plunged to -8 (from 11 the month prior) as the latest COVID-19 outbreaks and lockdowns dented confidence. Retail sales fell 1.8% in June, which was in line with expectations. National CoreLogic dwelling prices saw another consecutive monthly rise in August, ending the month up 1.5%.

## Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
New South Wales Treasury Corporation	AA+
Treasury Corporation of Victoria	AA
Export Finance & Insurance Corp	AAA
National Housing Finance & Investment Corporation	AAA
South Australian Govt Financial Authority	AA+
Queensland Treasury Corporation	AA+
International Finance Corporation	AAA
Kommunalbanken AS	AAA
International American Development Bank	AAA

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

## Market Outlook

The Australian economy has remained resilient and the recovery is ongoing. However the recent outbreaks of the highly contagious Delta strain and associated lockdowns in the most populous states are likely to put the brakes on growth. The RBA has maintained its central economic forecasts, expecting just over 4.00% GDP growth in 2022 and 2.5% over 2023. Their forecast unemployment rate continues to trend lower, with expectations it will fall to 4.25% by the end of 2022. Inflation is expected to remain subdued, with underlying inflation estimated to be 1.75% over 2022. There is growing downside risk to these expectations.

The RBA remains committed to its current policy settings and has repeatedly stated that it is not expecting to increase the cash rate until 2024. Lower interest rates continue to assist the recovery through: lower financing costs for borrowers; a lower exchange rate than otherwise; and support for asset prices and balance sheets.

The Australian economic outlook is highly dependent on how the transition to living with COVID-19 unfolds. Assuming the

domestic vaccine roll-out continues to ramp up, and we meet the 70% and 80% double-dose vaccination targets set by the Federal Government for re-opening, we expect a moderate economic recovery as many lead indicators have remained positive, including: business conditions, global PMI, employment indicators, lending statistics, retail sales, house prices and commodity prices. The risk to the recovery of a stop/start economy has come to fruition thanks to the Delta variant outbreak with extended lockdowns across New South Wales and Victoria. However the economy has shown it can bounce back strongly post lockdowns. From an external standpoint, with international borders still largely shut, the lack of international visitors and students also weighs on the outlook for the local economy, as do trade tensions with China.

## 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	
<b>Responsible Entity</b> Yarra Investment Management Limited	<b>Management Cost</b> 0.30% p.a.
<b>APIR Code</b> TYN0104AU	<b>Buy/Sell Spread</b> 0.05%/0.05%
<b>Portfolio Manager</b> Darren Langer	<b>Distribution Frequency</b> Quarterly
<b>Fund Size</b> AUD 248.8 million	<b>Benchmark</b> Bloomberg AusBond Composite 0+YR Index
<b>Minimum Investment</b> AUD 10,000	

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## Contact Us

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## Disclaimers

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