

Yarra Australian Bond Fund

Net returns as at 31 August 2023

	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)	0.95	-0.80	1.15	2.04	-5.37	-3.89	-1.94	-1.25	-0.27
Fund distribution return (net)	0.00	0.39	0.77	0.78	0.39	0.95	2.66	3.82	5.04
Total Fund return (net)	0.95	-0.42	1.92	2.82	-4.98	-2.94	0.72	2.57	4.77
Benchmark	0.74	-0.72	1.38	1.78	-5.09	-3.09	0.56	2.50	4.72
Excess return	0.22	0.30	0.54	1.04	0.11	0.15	0.16	0.07	0.06

Source: Citi. 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. Excess return is the difference between the Fund's net return and its benchmark. 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 0.95% to outperform the benchmark by 22 basis points (bps).

The fund maintained an overweight duration position throughout the month, starting at 0.63 years overweight and ending at 0.64 years overweight. The overweight duration position was the main contributor to the fund's outperformance. Looking ahead in the coming months, we may consider reducing the portfolio's duration if yields experience significant declines. However, we do not anticipate such a scenario in the near term.

The fund's strategic positioning, which anticipated a yield curve steepening (widening gap between the 3-year bond yield and the 10-year bond yield) contributed positively to the fund's performance relative to the benchmark. The Fund is overweight the shorter maturities out to 3 years and underweight the 5–10-year bonds. We will also look to reduce this position in coming months if we assess that the yield curve has reached a level of steepness that we consider appropriate given the prevailing market conditions.

Sector positioning favours an overweight in spread, mostly senior financials and residential mortgage-backed securities as well as high grade issuers such as state governments, supranationals and Australian government guaranteed borrowers, which have remained attractive relative to government bonds. The slight contraction of spreads this month have also contributed to the fund's performance.

Risk Characteristics

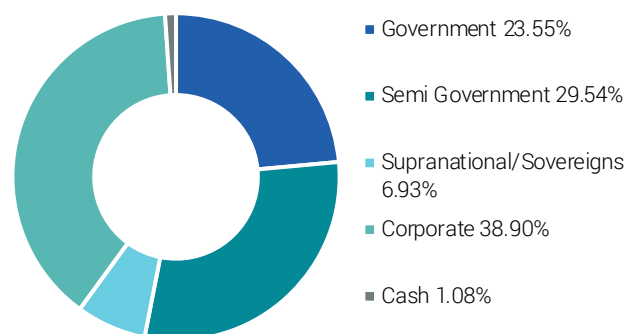
3 Year Volatility (p.a.)	6.65%
3 Year Tracking Error (p.a.)	0.76%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.73	5.09	0.64
Corporate Spread Duration (yrs)	0.88	0.25	0.62
Total Spread Duration (yrs)	3.62	2.14	1.48
Yield to Maturity (%)	4.70	4.19	0.51
Average Coupon (%)	3.26	2.67	0.59
Weighted-average Credit Rating [#]	A+	AA	-

[#]Standard & Poor's

Portfolio Asset Allocation



Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned 0.74% over the month. Australian bonds exhibited a moderate level of volatility throughout the month, and by the end of the period, the yield curve had slightly steepened, 3-year government bond yields were down 13 basis points (bps) to 3.74%, while 10-year government bond yields were down 3 bps to 4.03%. Short-term bank bill rates were lower, 3-month rates down 13 bps to 4.13% while the 6-month rate fell 27 bps to 4.37%. During the first half of the month, the Australian dollar experienced a significant depreciation against the US Dollar due to concerns about a widening interest rate gap and China's surprisingly weak economic rebound, closing the month at USD 0.65.

The Reserve Bank of Australia kept its cash rate unchanged at 4.1% at its August meeting, extending the rate pause for the second successive month and defying market consensus of a 25bps rate hike. The Board acknowledged the reduction in cost pressures within the country but expressed its concern that an inflation rate of 6% was still excessively high. While they repeat the respective arguments for holding or raising the cash rate target, given the final decision was to retain the current cash target, it would seem an unchanged cash rate is the Board's default position unless something of significance occurs.

Domestic data releases through August were mixed. Australia's seasonally adjusted unemployment increased to 3.7% in July from 3.5% in the previous month, above market expectations of 3.6%, and pointing to the highest level since April. Retail sales in Australia increased by 0.5% month-on-month in July 2023, topping market estimates of 0.3% and reversing from a 0.8% fall in the previous month. Most non-food industries rose following larger falls in June. CoreLogic's national Home Value Index (HVI) marked a sixth consecutive monthly rise, up 0.8% in August. The monthly gain was a slight acceleration from the 0.7% increase in July, interrupting a two-month trend of slowing capital gains. Since bottoming out in February, the national HVI is up 4.9%.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
Queensland Treasury Corporation	AA+
New South Wales Treasury Corporation	AA+
South Australian Govt Financial Authority	AA+
Treasury Corporation of Victoria	AA
Suncorp	A+
Athene Global Funding	A+
Western Australia Treasury Corporation	AAA
Triton Trust	AAA
Airservices Australia	AAA

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

Market Outlook

The global economy faces several challenges, including the continuing war in Ukraine, concern around the impact of China's weaker growth forecasts and troubled property sector, as well as declining consumer purchasing power due to higher inflation. The Australian economy has remained resilient however, and the recovery is ongoing despite the effects of ongoing COVID-19 cases.

Global growth had slowed during 2022, in part reflecting the end of the initial bounce-back from the pandemic. The Reserve Bank of Australia is expecting economic growth to moderate, as a synchronised global tightening in monetary policy, high energy prices and cost-of-living pressures weigh on demand over the year ahead. The Bank's central forecast for GDP growth has growth slowing to 1¼ per cent this year, around 1¾ per cent over 2024 and a little above 2 per cent over the following year. Given the expected below-trend growth in the economy, the unemployment rate is forecast to increase gradually to be around 4½ per cent in mid-2025. Headline inflation had reached 7.8 percent over the year to the December quarter but has since comeback to 6% in the June quarter. Looking further out the Bank forecast is for CPI inflation to continue to decline, to be around 3¼ per cent by the end of 2024 and to be back within the 2–3 per cent target range in late 2025.

With inflation well outside of its target range, the RBA has increased interest rates a cumulative 4 percent since May last year to rein in inflation. It appears to be taking effect with a range of indicators, suggesting that inflation has peaked in Australia but remains stubbornly high. Although we believe that the current cash rate is already quite restrictive, there is a possibility that the RBA may opt for further tightening measures if they view the current levels insufficient to sufficiently curb inflation within a reasonable timeframe, despite the weakening growth outlook.

More recently economic data has begun slowing in the United States and Europe, creating concerns that recessionary conditions could be occurring. There is some merit to these expectations as the pace at which global central banks have been removing policy accommodation is the fastest in decades. While the economic situation in Australia is robust, any concerns seen offshore will likely influence our market over the next few quarters.

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 Funds Management Limited	Management Cost 0.30% p.a.
APIR Code TYN0104AU	Buy/Sell Spread +0.05% / -0.05%
Portfolio Manager Darren Langer	Distribution Frequency Quarterly
Fund Size AUD 219.30 million	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment AUD 10,000	

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