

Yarra Australian Bond Fund

Net returns as at 31 December 2021

	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)	0.11	-1.48	-1.27	-4.07	-1.70	-0.84	-0.33	-0.56	0.08
Fund distribution return (net)	0.00	0.00	0.06	0.98	2.54	3.90	3.85	4.78	5.42
Total Fund return (net)	0.11	-1.48	-1.21	-3.09	0.84	3.06	3.52	4.22	5.51
Benchmark	0.09	-1.46	-1.15	-2.87	0.74	2.87	3.36	4.15	5.46
Excess return	0.02	-0.02	-0.06	-0.22	0.11	0.19	0.17	0.07	0.05

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 0.11% to outperform the benchmark by 2 basis points (bps).

The Fund held an overweight duration position throughout the month, which was predominately held in 3 year maturity bonds as the market has begun pricing in rate hikes earlier than we anticipate. During the month yields moved marginally higher, consolidating the levels that they reached in November. The volatility of the Reserve Bank of Australia (RBA) removing its Yield Curve Control policy has begun to dissipate, with the market now speculating on what they will do with the Quantitative Easing program. The Fund is biased towards a flattening in longer dated maturities, with an overweight in 10-20 year maturity bonds, and an overweight in 3 year maturity bonds on the basis that the market appears to have priced in an overly aggressive path for the RBA. Overall duration positioning was neutral for the month.

The Fund currently favours 5-10 year supranational issuers, with a focus on Government guaranteed issuers and holds a small overweight to 10-15 year Semi-government issuers. The Semi-government position has been reduced considerably, with the Fund being short in the 0-10 year maturities, as this is where the RBA concentrated their QE buying. Given the improvement in the economy and hawkish tones from central banks offshore, the RBA is expected to reduce its Quantitative Easing over the coming months and potentially exit in February. We currently favour high grade spread in Supranational issuers, particularly those guaranteed by the Australian government, as historically corporates have underperformed when QE programs begin to unwind and state government bonds are relatively tight.

Risk Characteristics

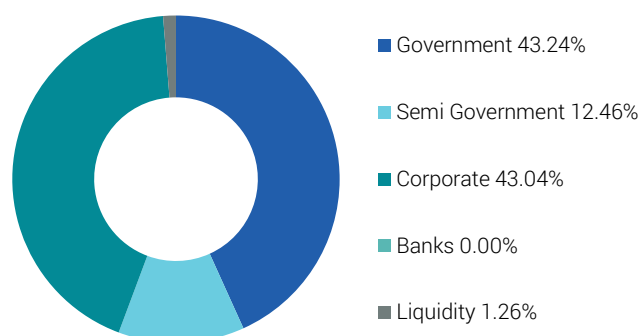
3 Year Volatility (p.a.)	4.55%
3 Year Tracking Error (p.a.)	0.39%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	6.10	5.79	0.31
Corporate Spread Duration (yrs)	0.45	0.29	0.16
Total Spread Duration (yrs)	3.37	2.17	1.20
Yield to Maturity (%)	1.88	1.46	0.42
Average Coupon (%)	2.24	2.80	-0.56
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 0.09% over the month. The yield curve flattened as 3-year government bond yields rose by 4 basis points (bps) to 0.91%, while 10-year government bond yields fell by 2 bps to 1.67%. Short-term bank bill rates were generally higher. The 1-month rate was steady at 0.02%, the 3-month rate was 2 bps higher at 0.07%, while the 6-month rate was 7 bps higher at 0.21%. The Australian dollar was stronger, closing the month at USD 0.73.

Monetary policy settings remained unchanged in December, as the Reserve Bank of Australia (RBA) indicated it would maintain the cash rate at 0.10% and also reaffirmed its government bond purchase program, intending to purchase AUD 4 billion a week until at least mid February 2022.

Domestic economic data releases in December were mixed. As widely anticipated, Q3 GDP fell 1.9% due to the prolonged lockdowns, but was nevertheless better than consensus expectations. The annual GDP rate also exceeded expectations at 3.9%. Employment spiked by 366,100 positions in November, which was well above market expectations, as restrictions eased in the major states. The unemployment rate fell to 4.6%. The NAB Survey of Business Conditions rose 2 points, to 12 in November, while business confidence fell to 12 (from 20 in October). Retail sales rose 4.9% in October. National CoreLogic dwelling prices saw another consecutive monthly rise in December, ending the month up 1.0%, as the trend of milder price growth continues.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
National Housing Finance & Investment Corporation	AAA
Asian Development Bank	AAA
Export Finance & Insurance Corp	AAA
South Australian Govt Financial Authority	AA+
Treasury Corporation of Victoria	AA
Western Australia Treasury Corporation	AA+
International Finance Corporation	AAA
International American Development Bank	AAA
International Bank for Reconstruction	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 despite the Omicron wave spreading across the country. The rapid pace of vaccination achieved over recent months has seen most Australian states reopening and committing to 'living with COVID', giving upside to growth. The RBA's central economic forecasts are for 5.5%

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 and 4.00% by the end of 2023. Inflation is expected to remain subdued, with underlying inflation estimated to be 2.25% over 2022 and 2.50% by the end of 2023.

The RBA remains committed to maintaining highly supportive monetary conditions and has stated that it is not expecting to increase the cash rate until actual inflation is "sustainably within the 2-3% range". The RBA has stated that it will reconsider its bond buying program at its February meeting.

The Australian economic outlook is highly dependent on how the transition to living with COVID unfolds. Regardless of any COVID related setbacks, including the latest Omicron variant, the economy has shown it can bounce back strongly post lockdowns. As double-dose vaccination targets are met, and more states reopen their borders, we expect a moderate economic recovery as many lead indicators have remained positive. From an external standpoint, with international borders still largely shut to tourists, the lack of international visitors 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

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 233.3 million	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment AUD 10,000	

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Disclaimers

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