

# Yarra Australian Bond Fund

## Net returns as at 31 December 2022

|                                | 1 month<br>% | 3 months<br>% | 6 months<br>% | 1 year<br>%  | 2 years<br>% p.a. | 3 years<br>% p.a. | 5 years<br>% p.a. | 10 years<br>% p.a. | Since<br>inception<br>% p.a. |
|--------------------------------|--------------|---------------|---------------|--------------|-------------------|-------------------|-------------------|--------------------|------------------------------|
| Fund growth return (net)       | -2.04        | 1.08          | 0.13          | -10.21       | -7.19             | -4.63             | -2.44             | -1.67              | -0.40                        |
| Fund distribution return (net) | 0.00         | 0.00          | 0.00          | 0.00         | 0.47              | 1.64              | 2.98              | 4.02               | 5.15                         |
| Total Fund return (net)        | -2.04        | 1.08          | 0.13          | -10.21       | -6.72             | -2.98             | 0.54              | 2.35               | 4.75                         |
| Benchmark                      | -2.06        | 0.38          | -0.27         | -9.71        | -6.35             | -2.87             | 0.44              | 2.33               | 4.73                         |
| <b>Excess return</b>           | <b>0.01</b>  | <b>0.70</b>   | <b>0.40</b>   | <b>-0.51</b> | <b>-0.37</b>      | <b>0.11</b>       | <b>0.00</b>       | <b>0.02</b>        | <b>0.02</b>                  |

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. 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 -2.04% to outperform the benchmark by 1 basis point (bp).

The Fund held an overweight duration position, however this was reduced throughout the month as short dated bonds rallied towards 3.00%. We continue to hold an overweight duration position as we believe the market is pricing a higher terminal cash rate than is possible. The Australian bond market has become extremely volatile over the past six months as it comes to grips with how fast and how far the RBA will move the cash rate. The market pricing expects a cash rate of approximately 4.0% in 6 months' time, which would complete one of the fastest rate tightening cycles in history. During the month, yields were volatile, rallying for the first part of the month before ending the month at 4.075%, 54 basis points higher than where they started. The Fund holds a steepening curve positioning, with the majority of its duration exposure in 3 year bonds and bank bills, as the front-end of the bond curve is extremely steep. Overall duration was a detractor for the month.

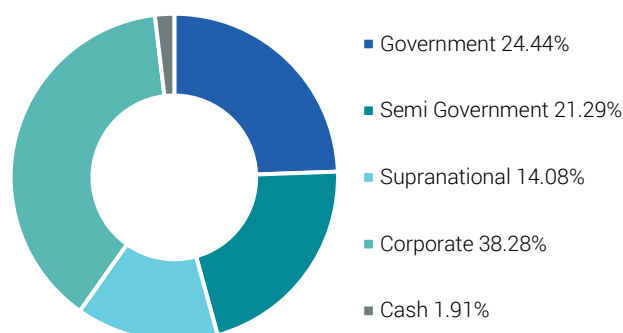
The Fund currently favours 5-10 year supranational issuers, with a focus on government guaranteed issuers and holds an underweight to Semi-government issuers. The Semi-government position is short in the 5-10 year maturities, as the borrowing profiles sees the State Government issuers consistently tap the market. Credit spreads consolidated in December, as swap spreads stopped widening. The Fund held an overweight to credit, which has been focussed in the 0-5 year maturities in order to keep the effects of spread volatility low. Credit positioning was positive for the month as spread tightening contributed to performance and provided additional running yield.

## Fund Overview

| Characteristics                             | Fund | Benchmark | Difference |
|---|------|-----------|------------|
| Modified Duration (yrs)                     | 5.84 | 5.19      | 0.65       |
| Corporate Spread Duration (yrs)             | 1.09 | 0.26      | 0.83       |
| Total Spread Duration (yrs)                 | 3.44 | 2.01      | 1.43       |
| Yield to Maturity (%)                       | 4.71 | 4.09      | 0.62       |
| Average Coupon (%)                          | 2.87 | 2.78      | 0.09       |
| Weighted-average Credit Rating <sup>#</sup> | A+   | AA        | -          |

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

## Portfolio Asset Allocation



## Risk Characteristics

|                              |       |
|------------------------------|-------|
| 3 Year Volatility (p.a.)     | 6.02% |
| 3 Year Tracking Error (p.a.) | 0.73% |

## Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned -2.06% over the month. Australian bonds were sold off, with the yield curve steepening during the month, 3-year government bond yields were up by 34 basis points (bps) to 3.50%, while 10-year government bond yields rose by 52 bps to 4.05%. Short-term bank bill rates were higher. The 1-month rate rose 7 bps to 3.02%, the 3-month rate was up 17 bps to 3.26%, and the 6-month rate rose 21 bps to 3.77%. The Australian dollar was stronger, closing the month at USD 0.68.

Monetary policy settings continued to tighten as the Reserve Bank of Australia (RBA) maintained the pace of increases in line with the prior two months, raising the cash rate target by another 25 bps, to 3.10% in December, matching market forecasts and taking borrowing costs to a level not seen since November 2012. The RBA expects that interest rates will need to increase further in the months ahead to return inflation to within the target range of 2-3%. Future increases, however, do remain subject to the RBA's assessment of the outlook for inflation and the labour market.

Domestic data releases through December continue to point to robust activity levels, albeit with softening in some sectors. The ABS Business Turnover Data indicated 4 of 13 sectors saw a decline in turnover in October, including retail trade which saw its first drop in nine months, as cost pressures and rising interest rates started to weigh in on consumer spending. The unemployment rate in Australia stood at 3.4% in November 2022, unchanged from October's 3-month low, and matching market estimates. CoreLogic's National Home Value Index was down 1.1% in December, taking values -5.3% lower over 2022, the largest calendar year decline since 2008, where values were down 6.4% amid the Global Financial Crisis.

The NAB Monthly Business Survey results for November saw business conditions remain strong, while business confidence has turned negative reflecting a more uncertain outlook. The report also highlighted that inflationary pressures remain, with labour costs rising at a quarterly rate of 3.0% and purchases costs up 3.9%. By comparison, final product prices increased by 2.0%, suggesting margin pressure for business.

## 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 ongoing COVID-19 cases.

The RBA revised economic forecasts in November. Economic growth is expected to moderate over the year ahead as the global economy slows, as the bounce-back in spending on services runs its course, and growth in household consumption slows due to tighter financial conditions. The Bank's central forecast for GDP growth has been revised down

a little, with growth of around 3 per cent expected this year and slowing to 1½ per cent in 2023 and 2024. Inflation was also revised upward and is now expected to peak at around 8 percent later this year, while forecast is for CPI inflation to be around 4¾ per cent over 2023 and a little above 3 per cent over 2024.

With Inflation the highest it has been in more than three decades, the RBA expects to increase interest rates further over the period ahead to help return inflation to target. Despite the increasing cash rate, we maintain our view that the markets expectation of the terminal cash rate is still too high.

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.

## Top 10 Issuers

| Security  | Rating |
|---|--------|
| Government Of Australia                         | AAA    |
| National Housing Finance & Investment Corp.     | AAA    |
| New South Wales Treasury Corp.                  | AA+    |
| Queensland Treasury Corp.                       | AA+    |
| South Australian Government Financing Authority | AA+    |
| Export Finance Australia                        | AAA    |
| Westpac Banking Corporation                     | AA-    |
| Suncorp-Metway Ltd.                             | A+     |
| Athene Global Funding                           | A+     |
| National Australia Bank Limited                 | AA-    |

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

## 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><br>Yarra Investment<br>Management Limited | <b>Management Cost</b><br>0.30% p.a.                          |
| <b>APIR Code</b><br>TYN0104AU                                       | <b>Buy/Sell Spread</b><br>0.05%/0.05%                         |
| <b>Portfolio Managers</b><br>Darren Langer<br>Chris Rands           | <b>Distribution Frequency</b><br>Quarterly                    |
| <b>Fund Size</b><br>AUD 212 million                                 | <b>Benchmark</b><br>Bloomberg AusBond<br>Composite 0+YR Index |
| <b>Minimum Investment</b><br>AUD 10,000                             |   |

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## Contact Us

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