Investment Commentary
As at 28 February 2022

Yarra Australian Bond Fund

Net returns as at 28 February 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)	-1.30	-2.25	-5.31	-2.00	-4.35	-2.14	-0.96	-0.81	-0.03
Fund distribution return (net)	0.00	0.00	0.06	1.00	2.48	3.85	3.83	4.77	5.38
Total Fund return (net)	-1.30	-2.25	-5.25	-1.00	-1.88	1.71	2.87	3.96	5.35
Benchmark	-1.21	-2.13	-5.10	-1.09	-1.95	1.57	2.73	3.93	5.31
Excess return	-0.09	-0.12	-0.15	0.09	0.07	0.14	0.13	0.04	0.04

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 -1.30% to underperform the benchmark by 9 basis points (bps).

The Fund held an overweight duration position throughout the month as the market has begun pricing in rate hikes earlier than we anticipate and to a higher terminal level. During the month yields moved higher, rising to the highest levels seen since 2019. The move in Australian bonds has so far underperformed the United States, despite the fact that the Federal Reserve is positioned to start moving rates earlier than the RBA. The Fund was biased towards a flattening in longer dated maturities, however this has been reduced as the long end of the bond curve flattened. Overall duration positioning was negative for the month, however curve positioning was positive.

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. Given the improvement in the economy and hawkish tones from central banks offshore, the RBA announced that its Quantitative Easing program would end 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

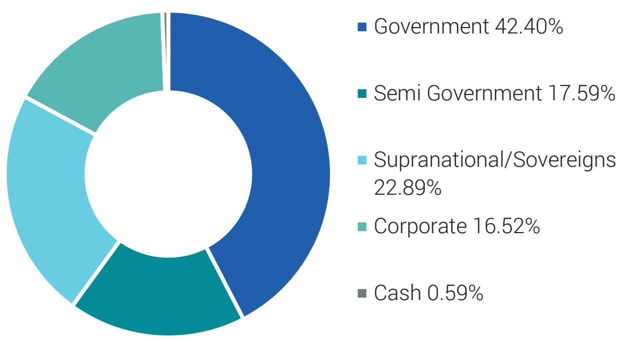
3 Year Volatility (p.a.)	4.66%
3 Year Tracking Error (p.a.)	0.40%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.95	5.63	0.32
Corporate Spread Duration (yrs)	0.50	0.28	0.22
Total Spread Duration (yrs)	3.44	2.13	1.31
Yield to Maturity (%)	2.38	1.88	0.50
Average Coupon (%)	2.08	2.78	-0.70
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 -1.21% over the month. The yield curve shifted upward as 3-year government bond yields rose by 23 basis points (bps) to 1.54%, while 10-year government bond yields rose by 24 bps to 2.14%. Short-term bank bill rates were largely unchanged. The 1-month rate rose 1 bp to 0.02%, the 3-month rate was flat at 0.08%, the 6-month rate was also flat at 0.25%. The Australian dollar was stronger, closing the month at USD 0.72.

Monetary policy settings remained unchanged during the month as the Reserve Bank of Australia (RBA) maintained the cash rate target at 0.10%. As expected, the bond purchase program has ended, with the final purchases having taken place on 10 February.

Domestic economic data releases in January were mixed. The Australian economy expanded by 3.4% in Q4, exceeding market forecasts of 3.0% and recovering from a 1.9% fall in the previous quarter. Employment rose by 12,900 positions in January, which was above market expectations. The unemployment rate remained unchanged at 4.2%. The NAB Survey of Business Conditions fell 5 points, to +3 index points in January, declining below it's long-run average. While business confidence rebounded 15pts in January to +3 index points, confidence rose across all industries outside of mining, and across all states. Retail sales fell 4.4% in December. National CoreLogic dwelling prices saw another consecutive monthly rise in February, ending the month up 0.6%, but marks the lowest monthly growth reading since October 2020.

Top 10 Issuers

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

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

Market Outlook

The global economy is continuing to recover, however the war in Ukraine has emerged as a new source of uncertainty. The Australian economy has remained resilient and the recovery is ongoing despite the Omicron wave that has spread across the country. Most Australian states have reopened and are committed to 'living with COVID', giving upside to growth. The RBA's central economic forecasts show expectations for 4.25% GDP growth in 2022 and 2.00% over 2023. Their forecast unemployment rate continues to trend lower, with expectations it will fall to below 4.00% by the end of 2022 and 3.75% by the end of 2023. Inflation is expected to increase in coming quarters but then ease next year. Underlying inflation is estimated to reach 3.25% in 2022 but ease to 2.75% over 2023.

The RBA remains committed to maintaining highly supportive monetary conditions and maintains that it is not expecting to increase the cash rate until actual inflation is "sustainably within the 2-3% range". The RBA is clearly adopting more of a 'wait and see' approach, much to the frustration of some market participants. Despite increasing global uncertainty, the RBA continues to describe their approach as 'patient', with the expectation that they can drive the unemployment lower than previously thought before the economy sees substantial inflation. We maintain our view that rate hikes are not imminent, and believe that the earliest opportunity for the RBA to raise rates is later this year.

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 vaccination and booster rates continue to rise, and more states reopen their borders, we expect a moderate economic recovery as many lead indicators have remained positive. 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 do trade tensions with 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

APIR Code
TYN0104AU

Portfolio Managers
Darren Langer
Chris Rands

Fund Size
AUD 227.69 million

Minimum Investment
AUD 10,000

Management Cost
0.30% p.a.

Buy/Sell Spread
0.05%/0.05%

Distribution Frequency
Quarterly

Benchmark
Bloomberg AusBond Composite 0+YR Index

Contact Us

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