

# Yarra Australian Bond Fund

## Net returns as at 28 February 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)	-1.38	-0.40	0.88	-6.50	-4.28	-5.07	-2.12	-1.56	-0.32
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.49	1.63	2.99	4.03	5.11
Total Fund return (net)	-1.38	-0.40	0.88	-6.50	-3.79	-3.44	0.86	2.47	4.79
Benchmark	-1.32	-0.69	0.39	-6.37	-3.76	-3.44	0.82	2.43	4.76
<b>Excess return</b>	<b>-0.05</b>	<b>0.30</b>	<b>0.49</b>	<b>-0.13</b>	<b>-0.03</b>	<b>0.00</b>	<b>0.05</b>	<b>0.03</b>	<b>0.03</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 -1.38% to underperform the benchmark by 5 basis points (bps).

The Fund held an overweight duration position throughout the month which had been reduced in the rally that occurred during January. The fund has been more active with its duration positioning, maintaining an overweight position, but reducing its exposure as 3 year yields hit 3% and aiming to extend again at over 3.70%.

We continue to hold an overweight duration position as we believe the RBA is approaching the end of its rate hiking cycle, as the cash rate is now in restrictive territory, which should make any sell-off from these levels harder to achieve. Despite this the RBA continues to keep hiking the cash rate and stating that additional hikes will likely be necessary. During the month 10 year yields sold off to to finish at 3.85%, 30 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 curve is flat. 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 is overweight semi-government issuers. The semi-government position is overweight in the 7-15 year maturities, as the currently wide swap spreads make them attractive versus government bonds. Credit spreads tightened in February, after widening through the second half of 2022. The Fund held an overweight to credit, which has been focussed in the 0-5 year maturities and is overweight Banks as there has been little corporate issuance this year. Credit positioning was positive for the month as spread tightening contributed to performance and provided additional running yield.

### Risk Characteristics

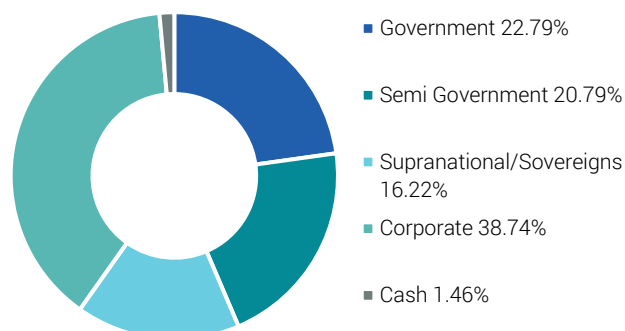
3 Year Volatility (p.a.)	6.16%
3 Year Tracking Error (p.a.)	0.76%

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.61	5.12	0.49
Corporate Spread Duration (yrs)	1.05	0.26	0.79
Total Spread Duration (yrs)	4.29	2.02	2.27
Yield to Maturity (%)	4.59	4.05	0.55
Average Coupon (%)	2.93	2.70	0.23
Weighted-average Credit Rating <sup>#</sup>	A+	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 -1.32% over the month. Australian bonds were sold off, with the yield curve shifting upwards, 3-year government bond yields were up by 42 basis points (bps) to 3.60%, while 10-year government bond yields were up by 30 bps to 3.85%. Short-term bank bill rates were also higher. The 1-month rate rose 20 bps to 3.38%, the 3-month rate was up 19 bps to 3.56% while the 6-month rate moved 21 bps to 3.93%. The Australian dollar was weaker, closing the month at USD 0.67.

Monetary policy settings continued to tighten as the Reserve Bank of Australia (RBA) raised the cash rate target by 25 bps, to 3.35% at its February meeting, matching market forecasts and taking borrowing costs to a level not seen since September 2012. The board seeks to return inflation to the 2-3% range and indicated further hikes would be needed as inflation in Australia remained too high. Policymakers also mentioned they would keep the economy on an even keel since the way to achieve a soft landing is a narrow one.

Domestic data releases through January were mixed, with some signs emerging that higher borrowing costs and prices are starting to weigh on consumers. Retail sales in Australia grew by 1.9 percent month-over-month in January 2022, reversing from a 4% slump in the previous month. Non-food industries rebounded from sizeable falls in December. The unemployment rate unexpectedly increased to 3.7% in January 2023 from December's near five-decade low of 3.5% and above market estimates of 3.5%. CoreLogic's national Home Value Index (HVI) declined -0.14% over the month, the smallest monthly fall since May 2022 (-0.13%), when rate hikes commenced.

The NAB Monthly Business Survey results for January saw business conditions pick up after three months of easing in late 2022. Trading conditions were very strong, while profitability and employment improved. Business confidence rose back to around average, continuing to rebound from negative reads two months ago. Capacity utilisation picked up and forward orders strengthened, in line with a more optimistic outlook. The survey results suggest that the economy has remained resilient to inflation and higher interest rates.

## Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
National Housing Finance & Investment Corporation	AAA
Queensland Treasury Corporation	AA+
Treasury Corporation of Victoria	AA
New South Wales Treasury Corporation	AA+
Export Finance & Insurance Corp	AAA
South Australian Govt Financial Authority	AA+
Westpac Bank	AA-
Athene Global Funding	A+
Suncorp	A+

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

## Market Outlook

The global economy faces a number of challenges, including the continuing war in Ukraine, uncertainty around China's reopening after three years of rolling lockdowns and movement restrictions, 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.

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 1½ per cent this year and in 2024. Headline inflation had reached 7.8 percent over the year to the December quarter, looking further out The Bank slightly reduced its forecasted headline inflation to be around 4¾ per cent by the end of 2023 and return to around 3 percent by mid-2025. Reflecting the expected effect of the Australian Government's Energy Price Relief Plan in mitigating some of the increases in energy costs.

With Inflation well outside of its target range, the RBA expects to increase interest rates further over the period ahead to help reign in inflation. 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.

## 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 Managers</b> Darren Langer Chris Rands	<b>Distribution Frequency</b> Quarterly
<b>Fund Size</b> AUD 217.34 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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