

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)	-1.07	1.09	-4.04	-4.62	-3.31	-1.41	-0.66	-0.69	0.03
Fund distribution return (net)	0.00	0.00	0.06	0.97	2.50	3.88	3.84	4.77	5.40
Total Fund return (net)	-1.07	1.09	-3.98	-3.65	-0.81	2.46	3.18	4.09	5.43
Benchmark	-1.02	1.13	-3.85	-3.46	-0.93	2.30	3.02	4.03	5.39
Excess return	-0.05	-0.04	-0.13	-0.19	0.12	0.17	0.16	0.06	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 -1.07% to underperform the benchmark by 5 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 higher, approaching the highs that they reached in October. Since the Reserve Bank of Australia (RBA) has removed its Yield Curve Control policy, short dated bonds are approximately 100 basis points higher. While the RBA claims to be following a patient approach to moving rates, the market is pricing in the fastest rate hiking cycle in years. The Fund is biased towards a flattening in longer dated maturities, with an overweight in 10-15 year maturity bonds. Overall duration positioning was negative 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 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

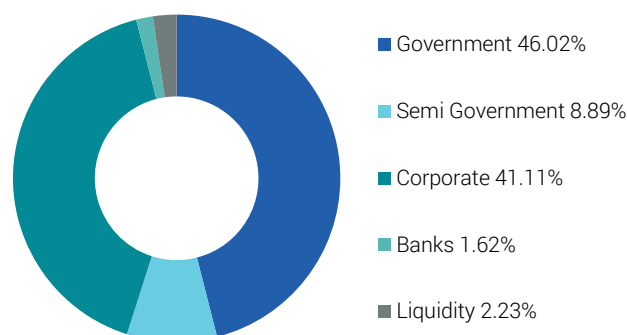
3 Year Volatility (p.a.)	4.61%
3 Year Tracking Error (p.a.)	0.39%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.98	5.70	0.29
Corporate Spread Duration (yrs)	0.52	0.28	0.24
Total Spread Duration (yrs)	3.23	2.13	1.10
Yield to Maturity (%)	2.11	1.65	0.46
Average Coupon (%)	2.02	2.80	-0.78
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 -1.02% over the month. The yield curve flattened as 3-year government bond yields rose by 40 basis points (bps) to 1.31%, while 10-year government bond yields rose by 23 bps to 1.90%. Short-term bank bill rates were generally higher. The 1-month rate fell 1 bp to 0.01%, the 3-month rate was 1 bp higher at 0.08%, while the 6-month rate was 4 bps higher at 0.25%. The Australian dollar was weaker, closing the month at USD 0.71.

Monetary policy settings remained unchanged during the month as the Reserve Bank of Australia (RBA) does not meet in January.

Domestic economic data releases in January were mixed. The Q4 inflation rate was up 1.3%, while the annual rate rose to 3.5% due to rising fuel prices, supply chain issues, material shortages and increased demand. Employment rose by 64,800 positions in December, which was above market expectations. The unemployment rate fell to 4.2%, the lowest reading since August 2008, after COVID-19 lockdowns were lifted. The NAB Survey of Business Conditions fell 3 points, to 8 in December, while business confidence sank to -12 (from 12 in November) as Omicron and the "shadow lockdown" hit businesses hard. Retail sales rose 7.3% in November. National CoreLogic dwelling prices saw another consecutive monthly rise in December, ending the month up 1.1%, as the trend of milder price growth continues.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
National Housing Finance & Investment Corporation	AAA
International Finance Corporation	AAA
Export Finance & Insurance Corp	AAA
Asian Development Bank	AAA
South Australian Govt Financial Authority	AA+
Treasury Corporation of Victoria	AA
International American Development Bank	AAA
L-Bank	AA+
Flexi Trust	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 that has spread across the country. The rapid pace of vaccination achieved has seen most Australian states reopening and committing to 'living with COVID', giving upside to growth. The RBA has adjusted its central economic forecasts, revising GDP lower

with 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 has cautioned that the cessation of the bond purchase program does not imply a near term increase in interest rates, as it adopts more of a 'wait and see' approach. This has seen the RBA describe that their approach remains 'patient', with the expectation that they can drive the unemployment lower than previously thought before the economy sees substantial inflation.

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

Contact Us

Yarra Capital Management Limited

Level 26, One International Towers Sydney
100 Barangaroo Avenue, Barangaroo NSW 2000, Australia

Phone 1800 251 589

Fax +61 2 8072 6304

Email sales.au@yarracm.com

Website www.yarracm.com

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