

# Yarra Australian Bond Fund

## Net returns as at 31 January 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)	3.10	2.97	-0.56	-6.43	-5.53	-4.36	-1.79	-1.36	-0.26
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.48	1.64	3.00	4.03	5.13
Total Fund return (net)	3.10	2.97	-0.56	-6.43	-5.05	-2.71	1.21	2.68	4.87
Benchmark	2.76	2.20	-0.85	-6.26	-4.87	-2.74	1.14	2.63	4.84
<b>Excess return</b>	<b>0.35</b>	<b>0.77</b>	<b>0.29</b>	<b>-0.16</b>	<b>-0.17</b>	<b>0.02</b>	<b>0.07</b>	<b>0.05</b>	<b>0.04</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 3.10% to outperform the benchmark by 35 basis points (bps).

The Fund held an overweight duration position throughout the month which had been extended when the bond market sold off in December. As bonds rallied aggressively in January the duration of the fund was reduced, but still maintained an overweight position.

We continue to hold an overweight duration position as we believe the market is pricing a higher terminal cash rate than is possible and as the market approaches the end of the hiking cycle 3 year bonds should find it harder to sell off. Despite this the RBA continues to keep hiking the cash rate, with inflation printing 7.8% for the 4th Quarter of 2022 giving them the ability to continue moving rates higher if they believe it is necessary. During the month 10 year yields were volatile, rallying aggressively over the month to finish at 3.55%, 52 basis points lower 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 key performer for the month.

The Fund currently favours 5-10 year supranational issuers, with a focus on government guaranteed issuers and is square 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 January, 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 was extended through the back end of 2022. Credit positioning was positive for the month as spread tightening contributed to performance and provided additional running yield.

### Risk Characteristics

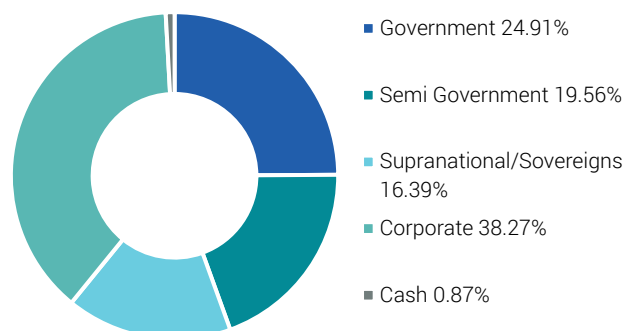
3 Year Volatility (p.a.)	6.16%
3 Year Tracking Error (p.a.)	0.76%

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.62	5.22	0.40
Corporate Spread Duration (yrs)	1.05	0.26	0.79
Total Spread Duration (yrs)	3.86	2.02	1.84
Yield to Maturity (%)	4.23	3.69	0.54
Average Coupon (%)	2.91	2.69	0.22
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 2.76% over the month. Australian bonds rallied, with the yield curve flattening, 3-year government bond yields were down by 32 basis points (bps) to 3.18%, while 10-year government bond yields fell by 50 bps to 3.55%. Short-term bank bill rates were mixed. The 1-month rate rose 16 bps to 3.18%, the 3-month rate was up 11 bps to 3.37%, and while the 6-month rate fell 5 bps to 3.72%. The Australian dollar was stronger, closing the month at USD 0.70.

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

Domestic data releases through January were mixed, with some signs emerging that higher borrowing costs and prices are starting to weigh on consumers. The annual inflation rate in Australia climbed to 7.8% in Q4 of 2022 from 7.3% in Q3 and above market forecasts of 7.5%, boosted by rising costs of food, automotive fuel, and new dwelling construction. The unemployment rate stood steady at 3.5% in December 2022. Retail sales in Australia declined by 3.9 percent month-over-month in December 2022. This was the first drop in retail trade for 2022 following eleven consecutive monthly rises. CoreLogic's national Home Value Index (HVI) fell a further -1.0% in January, the smallest month-on-month decline since June last year.

The NAB Monthly Business Survey results for December saw business conditions softening but remaining above average. All three subcomponents eased, with trading conditions, profitability and employment down. While business confidence improved slightly, it remains well below average, there are signs of cooling demand with forward orders edging down and capacity utilisation easing.

## Top 10 Issuers

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

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 slowing to 1½ per cent this year and in 2024. Inflation was also revised upward, with an expected peak at around 8 percent 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.

## 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 218.85 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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