

# Yarra Australian Bond Fund

## Net returns as at 31 July 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)	0.76	-3.02	-1.19	-1.74	-5.81	-4.32	-1.97	-1.37	-0.31
Fund distribution return (net)	0.00	0.38	0.76	0.75	0.39	0.95	2.66	3.82	5.06
Total Fund return (net)	0.76	-2.64	-0.43	-0.99	-5.42	-3.37	0.69	2.44	4.75
Benchmark	0.52	-2.63	-0.70	-1.54	-5.40	-3.46	0.58	2.39	4.70
<b>Excess return</b>	<b>0.24</b>	<b>-0.01</b>	<b>0.27</b>	<b>0.55</b>	<b>-0.02</b>	<b>0.09</b>	<b>0.11</b>	<b>0.05</b>	<b>0.05</b>

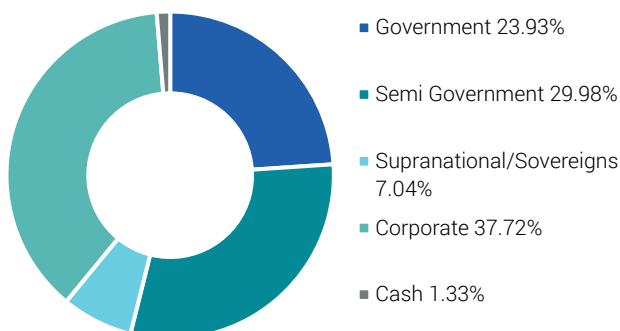
Source: Citi. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund Return minus Fund growth return. Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Excess return is the difference between the Fund's net return and its benchmark. 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 0.76% to outperform the benchmark by 24 basis points (bps).

The fund held an overweight duration position throughout the month, which was one of the main contributors to outperformance. The fund also saw gains from maintaining a position that anticipated a steeper yield curve (an increase in the difference between the 3-year bond yield and the 10-year bond yield). We would look to decrease duration if yields continue to fall significantly, however we don't see that occurring in the near term. The Fund is overweight the shorter maturities out to 3 years and overweight 10–15-year government bonds.

Sector positioning favours an overweight in spread, mostly senior financials and Residential Mortgage-Backed securities as well as high grade issuers such as state governments, supranationals and Australian government guaranteed borrowers which have remained attractive relative to government bonds.

### Portfolio Asset Allocation



### Risk Characteristics

3 Year Volatility (p.a.)	6.62%
3 Year Tracking Error (p.a.)	0.75%

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.76	5.13	0.63
Corporate Spread Duration (yrs)	0.82	0.26	0.56
Total Spread Duration (yrs)	3.65	2.14	1.51
Yield to Maturity (%)	4.83	4.30	0.53
Average Coupon (%)	3.22	2.68	0.54
Weighted-average Credit Rating <sup>#</sup>	A+	AA	-

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

### Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned 0.52% over the month. Australian bonds continued to be sold off early in the month before staging a rally, with the yield curve finishing the month slightly steeper. 3-year government bond yields were down 18 basis points (bps) to 3.87%, while 10-year government bond yields were up 4 bps to 4.06%. Short-term bank bill rates were lower, 3-month rates down 9 bps to 4.26% while the 6-month rate was down 6 bps to 4.64%. The Australian dollar was steady, closing the month at USD 0.67.

During its July meeting, the Reserve Bank of Australia (RBA) decided to keep its cash rate at 4.1%. This decision came after a 25bps increase in June, bringing the total rate hikes to 400bps since May 2022. The board stated that it required additional time to evaluate the effects of previous rate

increases. The RBA stated that it believes inflation has passed its peak but suggested that additional monetary tightening might be necessary to bring inflation back within the target range of 2 to 3% within a reasonable timeframe. However, any decision to tighten monetary policy will be contingent on the evolution of the economy and prices going forward.

Domestic data releases through July were mixed. Australia's inflation rate dropped to 6.0% year-on-year in the second quarter of 2023, down from 7.0% in the previous period and below market forecasts of 6.2%. This marked the lowest figure since the third quarter of 2022, primarily driven by a slowdown in goods inflation (5.8% vs 7.6% in Q1). In contrast, services inflation accelerated to 6.3%, the highest rate since the introduction of the GST in 2001.

Australia's unemployment rate stood steady at 3.5% in June 2023, remaining close to last October's 50-year lows, and below market expectations of 3.6%. Retail sales in Australia unexpectedly declined by 0.8% month on month in June 2023. This was the second drop in retail trade this year, as cost-of-living pressures continued to weigh on consumer spending. CoreLogic's national Home Value Index (HVI) rose 0.7% in July, its fifth consecutive month on month increase. After reaching its lowest point in February, the national HVI in Australia has seen a positive trend, rising by 4.1%. This comes after experiencing a significant decline of -9.1% from its peak in April 2022.

## Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
Queensland Treasury Corporation	AA+
New South Wales Treasury Corporation	AA+
South Australian Govt Financial Authority	AA+
Treasury Corporation of Victoria	AA
Suncorp	A+
Athene Global Funding	A+
Western Australia Treasury Corporation	AAA
Triton Trust	AAA
Airservices Australia	AAA

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 1¼ per cent this year and around 2 per cent over the year to mid-2025. Given the expected below-trend growth in the economy, the unemployment rate is forecast to increase gradually to be around 4½ per cent in mid-2025. Headline inflation had reached 7.8 percent over the year to the December quarter but has since comeback to 6% in the June quarter. Looking further out The Bank slightly reduced its forecasted headline inflation to be around 3¼ per cent by the end of 2024 and back to 2-3 per cent late in 2025.

With inflation well outside of its target range, the RBA has increased interest rates a cumulative 4 percent since May last year to rein in inflation. It appears to be taking effect with a range of indicators, suggesting that inflation has peaked in Australia but remains stubbornly high. While we feel the cash rate is already quite restrictive there are risks that the RBA may continue tightening in the coming months despite the weakening growth outlook.

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 Funds 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 Manager</b> Darren Langer	<b>Distribution Frequency</b> Quarterly
<b>Fund Size</b> AUD 214.56 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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