

# Yarra Australian Bond Fund

## Net returns as at 30 June 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)	-1.91	-4.29	-10.33	-11.47	-7.11	-5.23	-2.39	-1.65	-0.41
Fund distribution return (net)	0.00	0.00	0.00	0.06	1.03	2.50	3.22	4.24	5.27
Total Fund return (net)	-1.91	-4.29	-10.33	-11.41	-6.09	-2.73	0.83	2.59	4.86
Benchmark	-1.48	-3.81	-9.46	-10.51	-5.80	-2.58	0.87	2.58	4.86
<b>Excess return</b>	<b>-0.43</b>	<b>-0.49</b>	<b>-0.87</b>	<b>-0.91</b>	<b>-0.29</b>	<b>-0.15</b>	<b>-0.04</b>	<b>0.01</b>	<b>0.00</b>

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 -1.91% to underperform the benchmark by 43 basis points (bps).

The Fund held an overweight duration position throughout the month as the market continues to price higher terminal rates than we believe probable. The Australian bond market has become extremely volatile over the past six months as it comes to grips with how fast and how far the RBA will move the cash rate. The market pricing expects a cash rate of over 3.0% in 18 months' time, which would be one of the fastest cash rate moves in the past 20 years. During the month, yields continued their moves higher, with 10 year bonds ending the month at 3.72%. 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 detractor for the month as additional positions were added as yields sold off.

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. Credit spreads continued their sell-off in June, with spread widening occurring globally. The Fund held an overweight to credit, with positions added as new issuers offer relatively large new issue premiums. Credit positioning was negative for the month as spread widening wiped out the additional running yield.

### Risk Characteristics

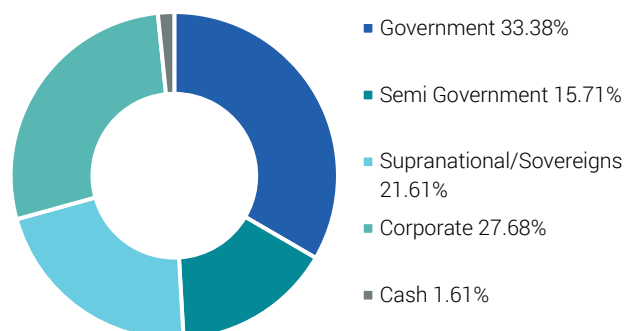
3 Year Volatility (p.a.)	5.17%
3 Year Tracking Error (p.a.)	0.51%

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	6.15	5.23	0.93
Corporate Spread Duration (yrs)	0.83	0.27	0.56
Total Spread Duration (yrs)	3.41	1.99	1.42
Yield to Maturity (%)	4.19	3.55	0.63
Average Coupon (%)	2.25	2.74	-0.49
Weighted-average Credit Rating <sup>#</sup>	AA-	AA	

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

### Portfolio Asset Allocation



## Top 10 Issuers

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

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

## Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned -1.48% over the month. The yield curve continued to steepen as 3-year government bond yields rose by 28 basis points (bps) to 3.12%, while 10-year government bond yields rose by 31 bps to 3.66%. Short-term bank bill rates were sharply higher again in June. The 1-month rate rose 59 bps to 1.14%, the 3-month rate was up 63 bps to 1.81%, and the 6-month rate was up 74 points to 2.67%. The Australian dollar was weaker, closing the month at USD 0.69.

Monetary policy settings tightened during the month as the Reserve Bank of Australia (RBA) surprised the market in its June meeting raising the cash rate target by 50 bps, to 0.85%. Also warning that further tightening is in the pipeline as they are committed to ensuring that inflation returns to their target range of 2-3%.

Domestic economic data releases in June were mostly weaker, employment being the exception. Employment rose by 13,511 positions in May, taking the number of employed persons in Australia to a new record high. The unemployment rate was unchanged at 3.9%, remaining at its lowest on record for the third straight month. The NAB Survey of Business Conditions fell 2 points to 16 index points in May, remaining well above average. Business confidence fell 4 points in May to 6 index points, remaining just above its long term average. Retail sales were up 0.9% in May. CoreLogic's national Home Value Index recorded a second consecutive month of value declines, down 0.6% in June.

## Market Outlook

The global economy faces a number of challenges, including the continuing war in Ukraine, ongoing disruptions from COVID-19, particularly in China, 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 increasing COVID-19 cases. The RBA revised some of its economic forecasts. The RBA's central economic forecasts for GDP are largely unchanged, showing expectations for 4.25% GDP growth in 2022 and 2.00% over 2023. However, their forecast unemployment rate continues to trend lower, with expectations it will fall to around 3.50% by early 2023 and remain around this level. This would be the lowest unemployment rate in almost 50 years. Inflation is expected to rise further in coming quarters but then moderate. Headline inflation is now expected to reach 6.00%, while underlying inflation is estimated to reach 4.75% over 2022 but ease by mid-2024 to around 3.00%.

The RBA has begun to withdraw the extraordinary monetary support that was initiated during the pandemic. The RBA expects its balance sheet to decline significantly over the next couple of years as the Term Funding Facility comes to an end and the Board has stated is not currently planning to sell the government bonds that the RBA purchased during the pandemic. The RBA has acknowledged that further interest rates are needed but will closely monitor the balance of risks as it determines the timing and extent of future rate increases. 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 204.09 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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