Investment Commentary
As at 30 June 2023

Yarra Australian Bond Fund

Net returns as at 30 June 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)	-2.48	-3.46	1.11	1.25	-5.32	-4.41	-2.08	-1.36	-0.34
Fund distribution return (net)	0.38	0.38	0.77	0.78	0.39	0.95	2.65	3.82	5.07
Total Fund return (net)	-2.10	-3.09	1.89	2.02	-4.93	-3.46	0.57	2.46	4.73
Benchmark	-1.95	-2.95	1.51	1.24	-4.81	-3.51	0.51	2.43	4.70
Excess return	-0.14	-0.14	0.38	0.78	-0.12	0.05	0.06	0.03	0.04

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

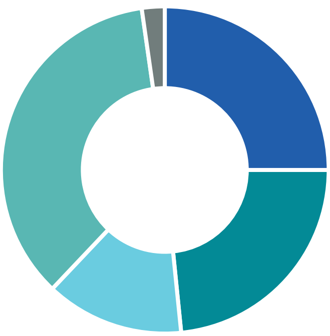
After fees and expenses, the Fund returned -2.10% to underperform the benchmark by 14 basis points (bps).

The fund held an overweight position throughout the month, which was the main contributor to underperformance. The fund increased its position from 0.44 years overweight duration to 0.66 years, on the expectation that we are now towards the end of the rate hiking cycle. If yield do rise again we would look to increase duration further at the top of the recent range in bond yields (around 4-4.1%).

During the month 10-year yields were higher at 4.02%, which was 42 basis points higher over the month. 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 remain attractive relative to government bonds.

Portfolio Asset Allocation



Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.82	5.16	0.66
Corporate Spread Duration (yrs)	0.80	0.26	0.54
Total Spread Duration (yrs)	3.59	2.13	1.46
Yield to Maturity (%)	4.70	4.38	0.33
Average Coupon (%)	3.03	2.68	0.35
Weighted-average Credit Rating#	A+	AA	-

#Standard & Poor's

Top 10 Issuers

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

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

Risk Characteristics

3 Year Volatility (p.a.)	6.61%
3 Year Tracking Error (p.a.)	0.75%

Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned -1.95% over the month. Australian bonds were sold off, with the yield curve flattening, 3-year government bond yields were up by 68 basis points (bps) to 4.05%, while 10-year government bond yields were up by 41 bps to 4.02%. Short-term bank bill rates also moved higher, 3-month rates rose 37 bps to 4.35% while the 6-month rate was up 53 bps to 4.70%. The Australian dollar appreciated, closing the month at USD 0.67.

In a surprise move, the Reserve Bank of Australia (RBA) increased the cash rate by 25 bps to 4.1% in its June meeting. This decision followed a similar rate hike in May, and the RBA expressed its willingness to continue tightening monetary policy due to persistent high inflation and an increase in wage growth. With a cumulative increase of 400 basis points since May 2022, borrowing costs reached their highest level since April 2012. This move defied market consensus and demonstrated the bank's commitment to return inflation to its target range of 2-3%.

Domestic data releases through June were mixed. The Australian economy experienced a growth rate of 0.2% in Q1. This expansion fell short of market forecasts, which had predicted a 0.3% increase. While this marked the sixth consecutive period of economic growth, it was the slowest pace recorded during this sequence. Persistent cost pressures and higher interest rates can be identified as the underlying causes of this lackluster performance. Additionally, the household savings ratio declined to 3.7 percent, the lowest level since Q2 of 2008, down from the previous figure of 4.5 percent.

Australia's unemployment rate came in below expectations declining from 3.7% in April to 3.6% in May 2023. Retail sales in Australia rose by 0.7 percent in May, picking up from a flat reading a month earlier and easily topping market consensus of a 0.1 percent growth. This was the fastest increase in retail trade since January, reflecting some resilience in spending with consumers taking advantage of larger-than-usual promotional activity and sales events. The Australian monthly CPI indicator a measure of inflation, slowed to 5.6% in May from 6.8% in April, marking the lowest gain in 13 months suggesting that inflation has passed its peak.

CoreLogic's national Home Value Index (HVI) rose by 1.1% in June, the fourth consecutive monthly rise, housing values look to be supported by a lack of supply, leading to increased competition amongst buyers.

The NAB Monthly Business Survey results for May saw business conditions experience a further easing, with significant declines observed in the trading, profitability, and employment sub-components. This decline in conditions indicates an accelerating trend and, although slightly above the long-run average, it is considerably lower than the levels witnessed earlier in the year. Business confidence took a hit as it experienced a decline across various industries. Of particular concern was a significant drop in forward orders, which has historically been a reliable indicator of future economic activity. This decline in forward orders raises concerns about the outlook for economic growth.

The Westpac-Melbourne Institute Consumer Sentiment index in Australia unexpectedly rose by 0.2% in June 2023, beating market consensus of a flat reading, but remains close to levels observed during recessions. Of most concern is confidence around jobs, previously a bright spot in consumer surveys, is now fading rapidly.

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 RBA 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 RBA'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 slightly 7% in the March quarter. Looking further out The Bank slightly reduced its forecasted headline inflation to be around 4½ per cent in 2023 and 3 per cent in mid-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 information, including the monthly CPI indicator, 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

Responsible Entity
Yarra Funds Management Limited

APIR Code
TYN0104AU

Portfolio Manager
Darren Langer

Fund Size
AUD 209.68 million

Minimum Investment
AUD 10,000

Management Cost
0.30% p.a.

Buy/Sell Spread
+0.05% / - 0.05%

Distribution Frequency
Quarterly

Benchmark
Bloomberg AusBond Composite 0+YR Index

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