

Yarra Australian Bond Fund

Net returns as at 31 May 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)	-1.30	1.97	1.56	1.84	-3.73	-3.81	-1.81	-1.50	-0.23
Fund distribution return (net)	0.00	0.38	0.38	0.38	0.24	1.21	2.90	4.07	5.08
Total Fund return (net)	-1.30	2.35	1.94	2.22	-3.49	-2.60	1.10	2.57	4.85
Benchmark	-1.21	2.11	1.40	1.73	-3.54	-2.77	1.00	2.52	4.80
Excess return	-0.10	0.24	0.54	0.49	0.05	0.17	0.10	0.05	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. 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 -1.30% to underperform the benchmark return of -1.21% by 10 basis points (bps) in May.

The Fund maintained an overweight duration position throughout the month, which had a negative impact on its performance. The fund has been holding a core position of approximately 0.40 years overweight duration on the expectation that we are now towards the end of the rate hiking cycle. In the event that yields rise again, we would consider further increasing our overweight duration position at the top of the recent range in bond yields (around 4%). The Fund is overweight the shorter maturities out to 3 years and overweight 10–15-year government bonds.

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

Risk Characteristics

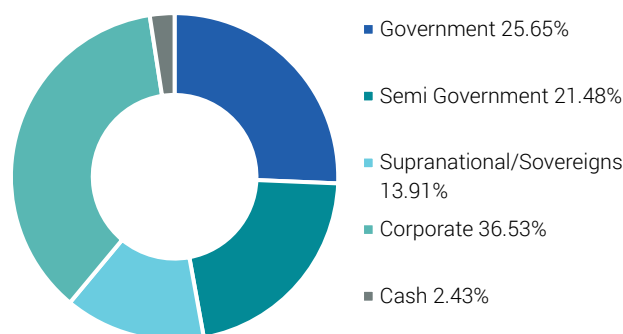
3 Year Volatility (p.a.)	6.53%
3 Year Tracking Error (p.a.)	0.74%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.71	5.27	0.43
Corporate Spread Duration (yrs)	0.82	0.26	0.56
Total Spread Duration (yrs)	3.98	2.14	1.84
Yield to Maturity (%)	4.30	3.87	0.43
Average Coupon (%)	2.98	2.67	0.31
Weighted-average Credit Rating [#]	A+	AA	-

[#]Standard & Poor's

Portfolio Asset Allocation



Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned -1.21% over the month. Australian bonds were sold off, with the yield curve flattening, 3-year government bond yields were up by 37 basis points (bps) to 3.37%, while 10-year government bond yields were up by 27 bps to 3.61%. Short-term bank bill rates also moved higher, 3-month rates rose 30 bps to 3.98% while the 6-month rate was up 31 bps to 4.17%. The Australian dollar experienced a slight decline, closing the month at USD 0.65.

In its May meeting the Reserve Bank of Australia (RBA) unexpectedly raised the cash rate target 25bps to 3.85%. The decision follows a pause in April and marks the 11th rate increase in the past year and has pushed borrowing costs to their highest level since April 2012. The decision to increase rates was motivated by concern around the current inflation rate in Australia. In their meeting minutes recent data "had confirmed that the labour market remained tight and that inflationary pressures were significant". The RBA also stated that further tightening may be necessary to ensure inflation returns to the target range in a reasonable time frame.

Domestic data releases through May were mixed. Australia's unemployment rate unexpectedly rose to 3.7% in April 2023, a

slight increase from the previous months and deviated from the markets expectation of 3.5%. Retail sales were flat in April 2023, while there was a surge in spending on winter clothing because of the cooler weather conditions, this was offset by reduced spending on discretionary goods in response to cost-of-living pressures and rising interest rates. CoreLogic's national Home Value Index (HVI) rose by 1.2% in May, the third consecutive monthly rise, housing values look to be supported by persistently low levels of supply and rising demand, leading to increased competition amongst buyers.

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
Export Finance & Insurance Corp	AAA
Suncorp	A+
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.

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 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	Management Cost 0.30% p.a.
APIR Code TYN0104AU	Buy/Sell Spread 0.05%/0.05%
Portfolio Manager Darren Langer	Distribution Frequency Quarterly
Fund Size AUD 211.49 million	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment AUD 10,000	

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