

# Yarra Australian Bond Fund

## Net returns as at 30 November 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)	1.95	1.28	0.27	-8.24	-6.77	-4.78	-2.26	-1.66	-0.31
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.90	1.94	3.11	4.24	5.18
Total Fund return (net)	1.95	1.28	0.27	-8.24	-5.86	-2.84	0.86	2.59	4.87
Benchmark	1.12	0.67	-0.10	-8.11	-5.70	-2.87	0.77	2.52	4.83
<b>Excess return</b>	<b>0.83</b>	<b>0.61</b>	<b>0.37</b>	<b>-0.13</b>	<b>-0.16</b>	<b>0.03</b>	<b>0.09</b>	<b>0.07</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 1.95% to outperform the benchmark by 83 basis points (bps).

The Fund held an overweight duration position throughout the month as the market continues to price a terminal cash rate higher than we believe will occur, making bonds across the curve relatively attractive. The Australian bond market has been extremely volatile over the past six months, however rates have backed away from their extremes and looks to have found a peak. The market pricing expects a terminal cash rate of approximately 3.5-4%, which looks slightly too high now that the RBA has begun to slow down the pace of their interests rate increases and economic information has begun to slow. During the month, yields rallied, with 10 year bonds falling approximately 23 basis points to end the month at 3.53%. 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 contributor for the month.

The Fund currently favours 5-10 year supranational issuers, with a focus on government guaranteed issuers and holds a small underweight to Semi-government issuers. The Semi-government position is short in the 3-7 year maturities, which has been progressively moved towards square over the past three months as spreads widened. Credit spreads tightened in November, reversing some of the widening that has occurred over the past 6 months. The Fund held an overweight to credit, which has been focussed in the 0-5 year maturities in order to keep the effects of spread volatility low. Credit positioning was positive for the month as spreads tightened and provided additional running yield.

### Risk Characteristics

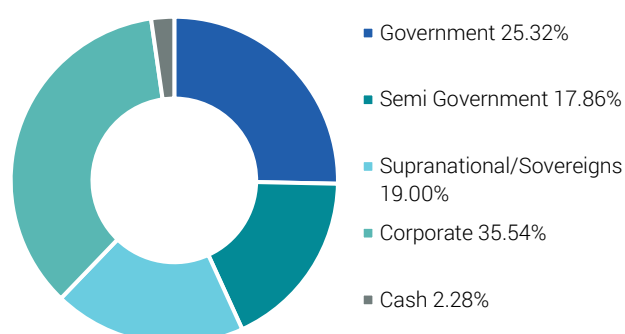
3 Year Volatility (p.a.)	5.98%
3 Year Tracking Error (p.a.)	0.73%

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	6.09	5.28	0.81
Corporate Spread Duration (yrs)	1.02	0.31	0.70
Total Spread Duration (yrs)	3.50	2.04	1.46
Yield to Maturity (%)	4.33	3.69	0.64
Average Coupon (%)	2.77	2.75	0.01
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 1.55% over the month. Australian bonds rallied, the yield curve flattened over the month, as 3-year government bond yields fell by 12 basis points (bps) to 3.17%, while 10-year government bond yields fell by 23 bps to 3.53%. Short-term bank bill rates were higher. The 1-month rate rose 8 bps to 2.95%, the 3-month rate remained steady at 3.09%, and the 6-month rate fell 10 bps to 3.56%. The Australian dollar was stronger, closing the month at USD 0.67.

Monetary policy settings continued to tighten as the Reserve Bank of Australia (RBA) raised the cash rate by 25bps to 2.85% during its November 2022 meeting, in line with market forecasts. It was the seventh straight rate hike, taking borrowing costs to a level not seen since April 2013, with the board mentioning further rate hikes will be needed as inflation in Australia remains too high.

Domestic economic data releases in November were mixed. Australia's unemployment rate unexpectedly dropped to 3.4% in October 2022 from 3.5% in September, markets were expecting a slight rise. Employment increased by 32,200 to a new record high of 13.62 million, beating market forecasts. Retail sales declined 0.2% in October, this was the first drop in retail trade this year, a sign that cost pressures and rising interest rates are starting to weigh on consumer spending. CoreLogic's National Home Value Index recorded a seventh consecutive month of value declines, down 1% in November.

The NAB Monthly Business Survey for October reported that conditions have remained strong across industries and states. While activity indicators remained strong, business confidence eased in the month to 0 index points, dipping below the long run average. The drop in confidence aligned with some softening in forward orders and reflected an increasingly negative global economic outlook and ongoing rate rises domestically.

## 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	AAA
Export Finance & Insurance Corp	AA+
Westpac Banking Corporation	A+
Athene Global Funding	AA
Triton Bond Trust	AAA
National Australia Bank Limited	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, 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 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 of around 3 per cent expected this year and 1½ per cent in 2023 and 2024. Inflation was also revised upward and is now expected to peak at around 8 percent later this 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 213.2 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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