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Yarra Australian Bond Fund

Net returns as at 31 October 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)	1.22	-3.43	-2.44	-8.13	-7.64	-5.13	-2.46	-1.84	-0.40
Fund distribution return (net)	0.00	0.00	0.00	0.00	0.90	1.93	3.11	4.24	5.19
Total Fund return (net)	1.22	-3.43	-2.44	-8.13	-6.74	-3.20	0.65	2.40	4.80
Benchmark	0.93	-2.98	-2.08	-7.24	-6.28	-2.97	0.72	2.41	4.80
Excess return	0.29	-0.44	-0.36	-0.89	-0.47	-0.23	-0.07	-0.01	0.00

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 1.22% to outperform the benchmark by 29 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 continues to come to grips with how far and how fast the RBA will move the cash rate. The market pricing expects a terminal cash rate of approximately 4%, which looks slightly too low now that the RBA has begun to slow down the pace of their interest rate increases. During the month, yields rallied, with 10 year bonds falling approximately 25 basis points to end the month at 3.765%. 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 an underweight to Semi-government issuers. The Semi-government position is short in the 3-7 year maturities, as this is where the RBA concentrated their Quantitative Easing (QE) buying and offers little yield pick up when compared to swap rates. Credit spreads widened in October, continuing their trend of the past six months. The Fund held an overweight to credit, which has been focussed in the 0-3 year maturities in order to keep the effects of spread volatility low. Credit positioning was negative for the month as spread widening wiped out the additional running yield.

Risk Characteristics

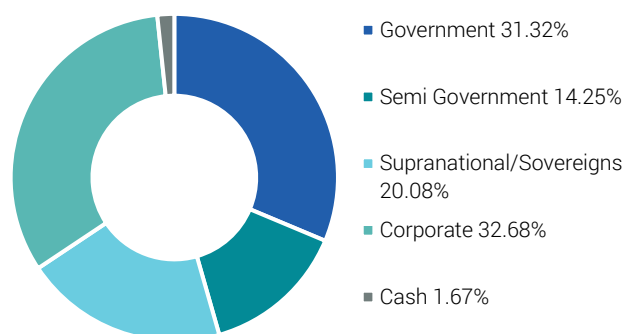
3 Year Volatility (p.a.)	5.87%
3 Year Tracking Error (p.a.)	0.67%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	6.08	5.18	0.90
Corporate Spread Duration (yrs)	0.88	0.26	0.62
Total Spread Duration (yrs)	3.43	2.00	1.43
Yield to Maturity (%)	4.59	3.87	0.72
Average Coupon (%)	2.57	2.65	-0.09
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 0.93% over the month. Australian bonds rallied, the yield curve was marginally steeper over the month, as 3-year government bond yields fell by 23 basis points (bps) to 3.29%, while 10-year government bond yields fell by 13 bps to 3.76%. Short-term bank bill rates were higher. The 1-month rate rose 16 bps to 2.87%, the 3-month rate was up 3 bps to 3.09%, and the 6-month rate was up 9 bps to 3.66%. The Australian dollar was steady, closing the month at USD 0.64.

Monetary policy settings continued to tighten as the Reserve Bank of Australia (RBA) raised the cash rate target by another 25 bps, to 2.60% in October. The RBA signalled further tightening as it balances efforts to bring down inflation with the desire to keep the economic momentum going.

Domestic economic data releases in October were mixed. The annual inflation rate in Australia climbed to 7.3% in Q3 of 2022 from 6.1% in Q2, above market forecasts of 7.0%. This was the highest rate since Q2 1990, boosted by higher prices for new dwelling construction, automotive fuel, and food. Australia's unemployment rate stood at 3.5% in September 2022, unchanged from the previous month, and matching market estimates. Employment increased by 900 to a new record high of 13.60 million, compared with forecasts of a 25 thousand rise. The NAB Survey of Business Conditions strengthened further in September, rising 3pts to +25 index points, on the back of very high trading conditions and are now above their pre-COVID peak. Business Confidence eased 5pts to +5 index points but remains around the long-run average. Retail sales were up 0.6% in September, this was the ninth straight month of increase in retail trade. CoreLogic's National Home Value Index recorded a sixth consecutive month of value declines, down 1.2% in October.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
National Housing Finance & Investment Corporation	AAA
Queensland Treasury Corporation	AA+
South Australian Govt Financial Authority	AA+
Export Finance & Insurance Corp	AAA
New South Wales Treasury Corporation	AA+
Athene Global Funding	A+
Treasury Corporation of Victoria	AA
Asian Development Bank	AAA
Apollo Trust	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 revealed revised economic forecasts in October. 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	
Responsible Entity Yarra Investment Management Limited	Management Cost 0.30% p.a.
APIR Code TYN0104AU	Buy/Sell Spread 0.05%/0.05%
Portfolio Managers Darren Langer Chris Rands	Distribution Frequency Quarterly
Fund Size AUD 209.40 million	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment AUD 10,000	

Contact Us

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