

Yarra Australian Bond Fund

Net returns as at 30 September 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)	-1.94	-0.26	-3.71	1.94	-5.55	-4.82	-2.13	-1.50	-0.35
Fund distribution return (net)	0.38	0.39	0.75	1.18	0.55	0.98	2.63	3.85	5.04
Total Fund return (net)	-1.56	0.13	-2.96	3.13	-5.00	-3.83	0.50	2.35	4.69
Benchmark	-1.53	-0.28	-3.22	1.61	-5.10	-3.92	0.34	2.29	4.63
Excess return	-0.04	0.41	0.26	1.52	0.09	0.09	0.16	0.06	0.05

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 -1.56% to underperform the benchmark by 4 basis points (bps).

The fund maintained an overweight duration position throughout the month, at around 0.62-0.64 years. The overweight duration position was the main detractor to the fund's performance. We look to maintain the overweight duration position in coming months, anticipating lower yields as the Reserve Bank of Australia (RBA) continues to hold interest rates at restrictive territory, dampening growth and bringing down inflation. We may consider reducing the overweight position after yields fall, however we don't anticipate that to occur in the near term.

The fund's strategic positioning, which anticipated a yield curve steepening (widening gap between the 3-year bond yield and the 10-year bond yield) contributed positively to the fund's performance relative to the benchmark. The Fund is overweight the shorter maturities out to 3 years and underweight the 5–10-year bonds. We will also look to reduce this position in coming months if we assess that the yield curve has reached a level of steepness that we consider appropriate given the prevailing market conditions.

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 remained attractive relative to government bonds. The slight contraction of spreads this month have also contributed to the fund's performance.

Risk Characteristics

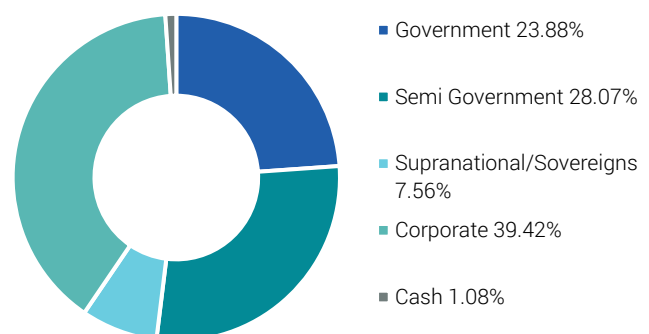
3 Year Volatility (p.a.)	6.64%
3 Year Tracking Error (p.a.)	0.76%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.62	4.98	0.64
Corporate Spread Duration (yrs)	0.90	0.26	0.64
Total Spread Duration (yrs)	3.48	2.13	1.35
Yield to Maturity (%)	5.04	4.53	0.52
Average Coupon (%)	3.29	2.68	0.62
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 -1.53% over the month. Australian bonds were sold off throughout the month, and by the end of the period, the yield curve was steeper, 3-year government bond yields were up 34 basis points (bps) to 4.08%, while 10-year government bond yields surged 46 bps to 4.49%. Short-term bank bill rates remained relatively flat, 3-month rates up 1 bps to 4.14% while the 6-month rates were up 3 bps to 4.40%. The Australian dollar depreciated against the US Dollar due to concerns about a widening interest rate gap, closing the month at USD 0.64.

The RBA maintained its cash rate at 4.1% at its September meeting, extending the rate pause for the third consecutive month. The board believes that inflation had passed its peak but emphasised that inflation readings remained elevated and were expected to remain so for a considerable period. The central bank restated its stance that it might need to implement additional monetary tightening measures to bring inflation back within the target range of 2 to 3% within a reasonable timeframe. The decision on any rate adjustments would be contingent on how the economy and price levels evolve.

Domestic data releases through September were mixed. The Australian economy maintained a growth rate of 0.4% quarter-on-quarter in the second quarter of 2023, matching the growth rate seen in the first quarter. This performance exceeded market expectations, which had forecasted a growth rate of 0.3%. Notably, this marks the seventh consecutive period of economic expansion, leading to a year-on-year GDP growth rate of 2.10% as of June 2023. Australia's seasonally adjusted unemployment stood at 3.7% in August 2023, unchanged from July and matching the market forecast.

The preliminary data for August 2023 reveals that retail sales in Australia saw a modest month-on-month increase of 0.2%, which was slightly below the market's anticipated growth rate of 0.3%. This subdued growth suggests that consumers are proceeding with caution in their spending patterns, possibly in response to the ongoing presence of elevated interest rates. Additionally, it's worth noting that the household savings ratio dropped to 3.2%, its lowest level since the second quarter of 2008. This indicates that households may be dipping into their savings to maintain spending levels. CoreLogic's national Home Value Index (HVI) recorded a 0.8% rise in September as the recovery trend moved through an eighth consecutive month of growth. Since finding a trough at the start of the year, the national index has recovered by 6.6%, however home values remain 1.3% below record highs recorded in April last year.

Australia's NAB business confidence edged higher in August, pointing to the highest level since January but remaining historically low. Sentiment was mixed across industries and fell sharply in mining. Meanwhile, business conditions strengthened, amid a broad uptick in sales, profitability, and employment.

The Westpac-Melbourne Institute Consumer Sentiment index in Australia fell to 79.7 in September 2023, close to its worst level since the 2020 COVID pandemic. The September reading followed a decline in August, driven by factors such as decreasing household savings, a more dovish stance by the RBA, and concerns surrounding budget and taxation. It's noteworthy that the index has remained below the neutral 100 mark since March 2022, marking the longest period of sub-100 readings since the early 1990s recession.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
South Australian Govt Financial Authority	AA+
Queensland Treasury Corporation	AA+
New South Wales Treasury Corporation	AA+
Suncorp	A+
Treasury Corporation of Victoria	AA
Athene Global Funding	A+
Western Australia Treasury Corporation	AAA
Triton Trust	AAA
Airservices Australia	AAA

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

Market Outlook

The global economy confronts multiple hurdles, including worries about China's reduced growth predictions and persisting strains within their real estate industry. Additionally, consumer purchasing power is diminishing due to elevated inflation stemming from low unemployment and increased commodity prices, thereby exerting inflationary pressures. On the domestic front, the Australian economy has demonstrated resilience. Nevertheless, leading indicators are now revealing signs of strain on consumer spending as a result of tighter monetary policy settings.

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 Bank's central forecast for GDP growth has growth slowing to 1¼ per cent this year, around 1¾ per cent over 2024 and a little above 2 per cent over the following year. Given the expected below-trend growth in the economy, the unemployment rate is forecast to increase gradually to be around 4½ per cent late next year. Headline inflation had reached 7.8 percent over the year to the December quarter but has since comeback to 6% in the June quarter. Looking further out the Bank forecast is for CPI inflation to continue to decline, to be around 3¼ per cent by the end of 2024 and to be back within the 2–3 per cent target range in late 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 indicators, suggesting that inflation has peaked in Australia but remains stubbornly high. Although we believe that the current cash rate is already quite restrictive, there is a possibility that the RBA may opt for further tightening measures if they view the current levels insufficient to sufficiently curb inflation within a reasonable timeframe, despite the weakening growth outlook.

More recently economic indicators have shown signs of deceleration 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 223.34 million	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment AUD 10,000	

Contact Us

Yarra Capital Management

Level 11 Macquarie House
167 Macquarie Street Sydney NSW 2000, Australia

Phone 1800 251 589

Fax +61 2 8072 6304

Email sales.au@yarracm.com

Website www.yarracm.com

Disclaimer

Yarra Funds Management Limited ABN 63 005 885 567, AFSL 230 251 (YFM) is the issuer and responsible entity of units in the Yarra Australian Bond Fund ARSN 098 736 255 (Fund). YFM is not licensed to provide personal financial product advice to retail clients. The information provided contains general financial product advice only. The advice has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before acting on any advice, you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. Prior to investing in any of the Funds, you should obtain and consider the Product Disclosure Statement (PDS) and the Target Market Determination ("TMD") for the relevant Fund by contacting our Investor Services team on 1800 251 589 or from our website at www.yarracm.com/pdsupdates.

The information set out has been prepared in good faith and while YFM and its related bodies corporate (together, the "Yarra Capital Management Group") reasonably believe the information and opinions to be current, accurate, or reasonably held at the time of publication, to the maximum extent permitted by law, the Yarra Capital Management Group: (a) makes no warranty as to the content's accuracy or reliability; and (b) accepts no liability for any direct or indirect loss or damage arising from any errors, omissions, or information that is not up to date. No part of this material may, without the Yarra Capital Management Group's prior written consent be copied, photocopied, duplicated, adapted, linked to or used to create derivative works in any form by any means.

YFM manages each of the Funds and will receive fees as set out in each PDS. To the extent that any content set out in this document discusses market activity, macroeconomic views, industry or sector trends, such statements should be construed as general advice only. Any references to specific securities are not intended to be a recommendation to buy, sell, or hold such securities. Past performance is not an indication of, and does not guarantee, future performance. Information about the Funds, including the relevant PDSs, should not be construed as an offer to any jurisdiction other than in Australia. With the exception of some Funds that may be offered in New Zealand from time to time (as disclosed in the relevant PDS), we will not accept applications from any person who is not resident in Australia or New Zealand. The Funds are not intended to be sold to any US Persons as defined in Regulation S of the US federal securities laws and have not been registered under the U.S. Securities Act of 1933, as amended.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. Holdings may change by the time you receive this report. Future portfolio holdings may not be profitable. The information should not be deemed representative of future characteristics for the strategy. There can be no assurance that any targets stated in this document can be achieved. Please be advised that any targets shown are subject to change at any time and are current as of the date of this document only. Targets are objectives and should not be construed as providing any assurance or guarantee as to the results that may be realized in the future from investments in any asset or asset class described herein. If any of the assumptions used do not prove to be true, results may vary substantially. These targets are being shown for informational purposes only.

© Yarra Capital Management, 2023.