

Yarra Australian Bond Fund

Net returns as at 31 October 2021

	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)	-3.59	-5.08	-2.30	-7.14	-3.59	-1.17	-1.28	-0.97	-0.02
Fund distribution return (net)	0.00	0.06	0.11	1.81	2.96	4.06	4.01	5.16	5.46
Total Fund return (net)	-3.59	-5.02	-2.19	-5.33	-0.63	2.90	2.73	4.19	5.44
Benchmark	-3.55	-4.93	-2.33	-5.30	-0.76	2.72	2.58	4.19	5.40
Excess return	-0.03	-0.09	0.14	-0.03	0.13	0.18	0.15	0.01	0.05

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

Portfolio review

After fees and expenses, the Fund returned -3.59% in October, underperforming the benchmark by 3 basis points (bps).

The Fund held varied duration positions throughout the month, starting with a small short position, shifting to a small long as yields sold-off and then holding a square position to end the month. During the month the Australian bond market saw extreme volatility as the Reserve Bank of Australia (RBA) decided to abandon their Yield Curve Control (YCC) target. The manner in which they exited the unconventional policy created anxiety in the market, as the RBA made no comments on the change in policy and left 3 year bond yields to their own devices. This saw 3 year bonds gap considerably higher through the end of the month, closing around 93 basis points higher. Fortunately the Fund held a neutral position in bonds out to 5 years, keeping performance close to the benchmark. The Fund is biased towards a flattening in yields in long dated maturities, with an overweight in 10-20 year maturity bonds. This was neutral for performance as long bonds moved in a similar amount to the 10 year futures, and is adding considerably carry to the Fund.

The Fund currently favours 10-15 year semi-government bonds and 5-10 year supranational issuers, with a focus on Government guaranteed issuers. The semi-government position has been reduced considerably over the past month, with the expectation that the RBA could signal an end to Quantitative Easing over the coming months. This was neutral for performance as while we locked in some of the semi-government performance, supranational issues underperformed during the sell-off. We favour high grade spread in Supranational issuers at the moment, particularly those guaranteed by the Australian government, as historically corporates have underperformed when QE programs begin to unwind, and state government bonds are relatively tight. The Fund remains defensive in spread products.

Risk Characteristics

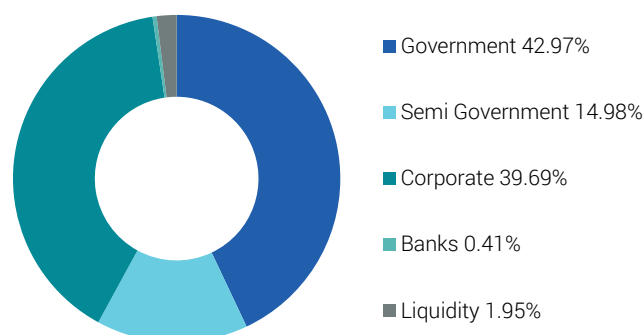
3 Year Volatility (p.a.)	4.48%
3 Year Tracking Error (p.a.)	0.39%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.67	5.73	-0.06
Corporate Spread Duration (yrs)	0.58	0.29	0.29
Yield to Maturity (%)	3.28	2.15	1.13
Weighted-average Credit Rating#	AA	AA	

Standard & Poor's

Portfolio Asset Allocation



Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned -3.55% over the month, as significant volatility hit the local bond market. The yield curve flattened as 3-year government bond yields rose by

91 basis points (bps) to 1.22%, while 10-year government bond yields rose by 60 bps to 2.09%. Short-term bank bill rates were higher. The 1-month rate was steady at 0.01%, the 3-month rate was 5 bps higher at 0.07%, while the 6-month rate jumped 15 bps higher at 0.20%. The Australian dollar was stronger, closing the month at USD 0.75.

Monetary policy settings remained unchanged in October, as the RBA indicated it would maintain both the cash rate and 3 year yield target at 0.10%, but by month-end appeared to have abandoned the 3 year target. The RBA also reaffirmed its government bond purchase program, intending to purchase AUD 4 billion a week until at least mid February 2022.

Domestic economic data releases in October were mixed. Q3 headline inflation rose 0.8% for the quarter, with the annual rate moderating to 3.0% which was slightly below consensus expectations. Employment fell by 128,000 positions in September, largely in line with expectations given the lockdowns in place at the time. The unemployment rate ticked up to 4.6%. The NAB Survey of Business Conditions fell 9 points, to 5 in September. However, business confidence rebounded from -6 to 13 as the path out of lockdown became clearer. Retail sales fell 1.7% in August, which was in line with expectations. National CoreLogic dwelling prices saw another consecutive monthly rise in October, ending the month up 1.5%, however there are signs that momentum is slowing.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
National Housing Finance & Investment Corporation	AAA
South Australian Govt Financial Authority	AA+
International American Development Bank	AAA
Western Australia Treasury Corporation	AA+
Export Finance & Insurance Corp	AAA
Asian Development Bank	AAA
Treasury Corporation of Victoria	AA
New South Wales Treasury Corporation	AA+
Queensland Treasury Corporation	AA+

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

Market Outlook

The Australian economy has remained resilient and the recovery is ongoing. The rapid pace of vaccination achieved over the past three months now has most Australian states beginning to reopen, giving upside to growth. Following this the RBA has upgraded its central economic forecasts, expecting 5.25% GDP growth in 2022 and 2.5% over 2023. Their forecast unemployment rate continues to trend lower, with expectations it will fall to 4.25% by the end of 2022 and 4.00% by the end of 2023. Inflation is expected to remain subdued, with underlying inflation estimated to be 2.25% over

2022 and 2.50% by the end of 2023.

The RBA remains committed to maintaining highly supportive monetary conditions and has stated that it is not expecting to increase the cash rate until actual inflation is "sustainably within the 2-3% range". However due to the improved economic conditions, the RBA has discontinued the 3 year yield target as more progress is being made towards achieving their inflation target.

The Australian economic outlook is highly dependent on how the transition to living with COVID-19 unfolds. Regardless of any COVID related setbacks, the economy has shown it can bounce back strongly post lockdowns. As double-dose vaccination targets are met, and more states reopen their borders, we expect a moderate economic recovery as many lead indicators have remained positive. From an external standpoint, with international borders still largely shut to tourists, the lack of international visitors and students also weighs on the outlook for the local economy, as do trade tensions with China.

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 Manager Darren Langer	Distribution Frequency Quarterly
Fund Size AUD 243.3 million	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment AUD 10,000	

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