

Yarra Australian Bond Fund

Net returns as at 30 September 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)	-1.57	0.21	1.95	-3.34	-2.01	0.22	-0.82	-0.63	0.16
Fund distribution return (net)	0.06	0.06	0.12	1.89	3.01	4.12	4.02	5.18	5.49
Total Fund return (net)	-1.51	0.28	2.07	-1.45	1.00	4.34	3.20	4.56	5.65
Benchmark	-1.51	0.31	1.84	-1.54	0.81	4.14	3.06	4.51	5.60
Excess return	0.01	-0.03	0.23	0.09	0.19	0.20	0.14	0.05	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 -1.51% in September, outperforming the benchmark by 1 basis point (bp).

The Fund held mixed duration positions throughout the month, ending with a small short position as yields sold-off. During the month the economic data became mixed, as employment dropped and business conditions fell. However this reflects the worsening COVID-19 situation across New South Wales and Victoria, with expectations now being for a quick rebound once the economy reopens. Based on current vaccination rates the economy should be able to reopen from October, with the market looking towards the positive outcomes that are now expected in 2022. Bond yields sold-off aggressively over the month, which was neutral for performance as the Fund had a negligible active position. 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.

The Fund favours 10-15 year semi-government bonds and 5-10 year supranational issuers, with a focus on Government Guaranteed issuers. This was positive for performance over the month as semi-government spreads tightened. We favour high grade spread (State government and Supranational issuers) at the moment as historically corporates have underperformed when QE programs begin to unwind, although the sell-off in credit spreads has seen the Fund continue to add some longer dated exposures. The recent announcement from the Reserve and Reserve Bank of Australia (RBA) that QE will be extended until at least February of 2022 gives some stability to spread markets.

Risk Characteristics

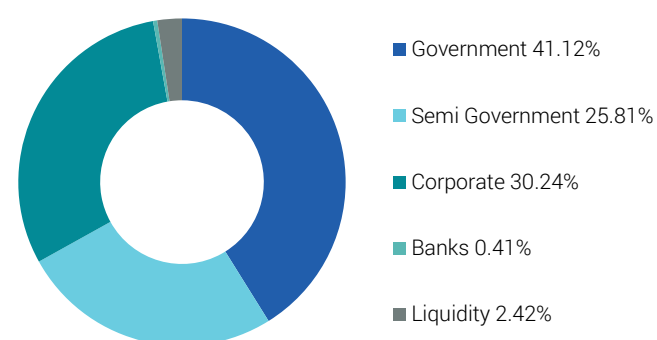
3 Year Volatility (p.a.)	3.89%
3 Year Tracking Error (p.a.)	0.39%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.78	5.83	-0.05
Corporate Spread Duration (yrs)	0.52	0.29	0.23
Yield to Maturity (%)	1.49	1.04	0.45
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 -1.51% over the month. The yield curve steepened as 3-year government bond yields rose by 7 basis points (bps) to 0.24%, while 10-year government bond yields rose by 33 bps to 1.49%. Short-term bank bill rates were marginally higher. The 1-month rate was steady at 0.01%, the 3-month rate was 1 bp higher at 0.02%, while the 6-month rate was 2 bps higher at 0.05%. The Australian dollar was weaker, closing the month at USD 0.72.

Monetary policy settings remained unchanged in September, as the RBA maintained both the cash rate and 3 year yield target at 0.10%. The RBA also indicated it will extend its government bond purchase program, purchasing AUD 4 billion a week until at least mid February 2022.

Domestic economic data releases in September were generally positive. Q2 GDP rose by 0.7%, while the annual GDP rate rebounded a record 9.6%. Employment slumped by 146,200 positions in August amid the strict lockdowns in Sydney and Melbourne. The unemployment rate unexpectedly edged lower again to 4.5%, the tenth straight monthly fall, as the number of people looking for work fell. The NAB Survey of Business Conditions rose 3 points, to 14 in August. Business confidence also improved slightly to -5 as the latest COVID-19 outbreaks and lockdowns have dented confidence. Retail sales fell 2.7% in July, which was in line with expectations. National CoreLogic dwelling prices saw another consecutive monthly rise in September, ending the month up 1.5%.

Top 10 Issuers

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

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. However the recent outbreaks of the highly contagious Delta strain and associated lockdowns in the most populous states are likely to put the brakes on growth in the short term. The RBA has maintained its central economic forecasts, expecting just over 4.00% 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. Inflation is expected to remain subdued, with underlying inflation estimated to be 1.75% over 2022.

The RBA remains committed to its current policy settings and has repeatedly stated that it is not expecting to increase the cash rate until 2024. Lower interest rates continue to assist the recovery through: lower financing costs for borrowers; a lower exchange rate than otherwise; and support for asset prices and balance sheets.

The Australian economic outlook is highly dependent on how

the transition to living with COVID-19 unfolds. The risk to the recovery of a stop/start economy has come to fruition thanks to the Delta variant outbreak with the extended lockdowns across New South Wales and Victoria. However the economy has shown it can bounce back strongly post lockdowns.

Assuming we reach the double-dose vaccination targets set by the Federal Government for re-opening, and 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, 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 248.6 million	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment AUD 10,000	

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Disclaimers

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