

# Yarra Australian Bond Fund

## Net returns as at 31 August 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)	-2.78	-1.00	-7.32	-12.24	-6.73	-5.43	-2.26	-1.67	-0.37
Fund distribution return (net)	0.00	0.00	0.00	0.06	1.03	2.18	3.22	4.24	5.23
Total Fund return (net)	-2.78	-1.00	-7.32	-12.18	-5.70	-3.26	0.96	2.57	4.86
Benchmark	-2.54	-0.76	-6.74	-11.50	-5.43	-3.14	0.97	2.55	4.85
<b>Excess return</b>	<b>-0.24</b>	<b>-0.24</b>	<b>-0.58</b>	<b>-0.69</b>	<b>-0.27</b>	<b>-0.12</b>	<b>0.00</b>	<b>0.02</b>	<b>0.01</b>

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 -2.78% to underperform the benchmark by 24 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 are likely. The past few months have seen interest rates move in extremely volatile ways, with August continuing that trend. Throughout the month the market continued to grapple with where the terminal cash rate will end up, with bond yields selling-off throughout the month. During the month the Reserve Bank of Australia (RBA) delivered a third consecutive 50 basis point hike, taking the cash rate to 1.85% and while they signalled that there was more to come, early signs that they are getting ready to slow down appeared. 10 year bonds ended the month at 3.60%, some 54 basis points above where they started, while 3 year bonds ended the month at 3.21%, rising 55 basis points over the month. The Fund holds a steepening curve position, 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. Duration was a key detractor for the month, as the volatile movement in rates continues.

The Fund currently favours 5-10 year supranational issuers, with a focus on government guaranteed issuers. It also holds an overweight to 0-5 year corporate bonds and has an underweight to semi-government issuers. The semi-government short position has been progressively reduced over the past two months as spreads widened in this sector, and any further widening will see the Fund move back towards a neutral position. Credit spreads rallied in August after a weak six month period, however spreads still remain at relatively wide levels. The Fund held an overweight to credit, with positions added over the past three months to take advantage of widening spreads. Credit positioning was positive for the month.

### Risk Characteristics

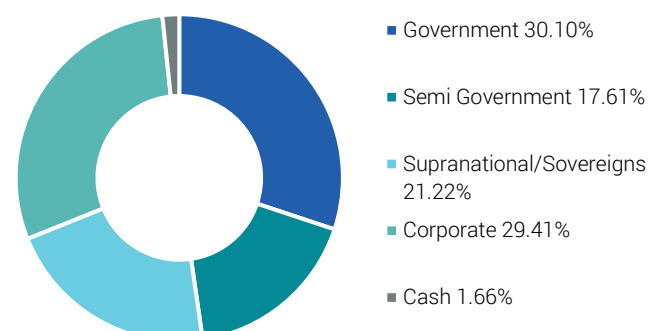
3 Year Volatility (p.a.)	5.73%
3 Year Tracking Error (p.a.)	0.59%

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	6.08	5.27	0.81
Corporate Spread Duration (yrs)	0.82	0.27	0.55
Total Spread Duration (yrs)	3.56	2.02	1.54
Yield to Maturity (%)	4.26	3.64	0.62
Average Coupon (%)	2.37	2.66	-0.29
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 -2.54% over the month. Australian bonds sold-off as 3-year government bond yields rose by 55 basis points (bps) to 3.21%, while 10-year government bond yields rose by 54 bps to 3.60%. Short-term bank bill rates were also higher. The 1-month rate rose 39 bps to 2.04%, the 3-month rate was up 34 bps to 2.46%, and the 6-month rate was up 23 bps to 3.01%. The Australian dollar was weaker, closing the month at USD 0.68.

Monetary policy settings continued to tighten as the Reserve Bank of Australia (RBA) raised the cash rate target by another 50 bps, to 1.85% in August. The RBA expects further tightening in the process of normalising monetary conditions as they are committed to ensuring that inflation returns to the target range of 2-3%.

Domestic economic data releases in August were mixed. Employment unexpectedly fell by 40,900 positions in July, the first fall in nine months. The unemployment rate fell to a new record low of 3.4%, which was also below market expectations. The NAB Survey of Business Conditions strengthened by 6 points to 20 index points in July. Business confidence rebounded 5 points in July, to 7 index points. Retail sales were up 0.2% in June. CoreLogic's National Home Value Index recorded a fourth consecutive month of value declines, down 1.6% in August.

## Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
National Housing Finance & Investment Corporation	AAA
Treasury Corporation of Victoria	AA
Queensland Treasury Corporation	AA+
New South Wales Treasury Corporation	AA+
South Australian Govt Financial Authority	AA+
Export Finance & Insurance Corp	AAA
Athene Global Funding	A+
International American Development Bank	AAA
Asian Development Bank	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 August. The RBA's central economic forecasts for GDP have fallen,

showing expectations for 3.25% GDP growth in 2022 and 1.75% over 2023 and 2024. Expectations around the unemployment rate are that it will fall below the current reading of 3.50% in coming months, but then rise to 4.00% at the end of 2024 as growth slows. Inflation is expected to rise further in coming quarters but then moderate. CPI inflation is now expected to reach 7.75% over 2022, moderating to above 4.00% over 2023 and around 3.00% over 2024.

The RBA has begun to withdraw the extraordinary monetary support that was initiated during the pandemic. The RBA has acknowledged that further interest rates rises are needed but will closely monitor the balance of risks as it determines the timing and extent of future rate increases. 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 209.40 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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