Yarra Australian Bond Fund

Net returns as at 31 October 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)	-2.07	-3.06	-5.98	-1.36	-4.81	-5.59	-2.64	-1.70	-0.44
Fund distribution return (net)	0.00	0.38	0.73	1.14	0.55	0.98	2.61	3.84	5.01
Total Fund return (net)	-2.07	-2.68	-5.25	-0.22	-4.26	-4.62	-0.03	2.15	4.58
Benchmark	-1.85	-2.63	-5.20	-1.18	-4.26	-4.61	-0.13	2.11	4.53
Excess return	-0.22	-0.05	-0.05	0.96	0.00	-0.01	0.10	0.04	0.04

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 -2.07% to underperform the benchmark by 22 basis points (bps).

Throughout the month, the fund held an overweight duration position, which proved to be the primary factor detracting from the fund's overall performance. We look to maintain the overweight duration position in coming months, anticipating lower yields as the 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) has contributed positively to the fund's performance relative to the benchmark over the past two months. We have reduced this position in October, after assessing that the yield curve has little room to steepen without a change in sentiment and markets begin to speak of the timing of rate cuts.

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 widening of spreads this month have also contributed to the fund's performance.

Risk Characteristics

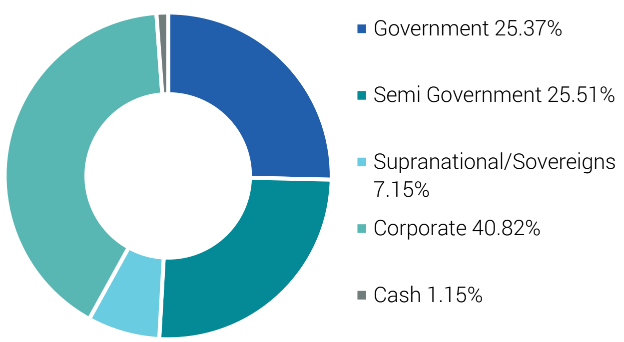
3 Year Volatility (p.a.)	6.70%
3 Year Tracking Error (p.a.)	0.77%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.62	4.86	0.77
Corporate Spread Duration (yrs)	0.93	0.26	0.66
Total Spread Duration (yrs)	3.29	2.10	1.20
Yield to Maturity (%)	5.40	4.94	0.46
Average Coupon (%)	3.35	2.68	0.68
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 -1.85% over the month. Australian bonds were sold off and by the end of the month, the yield curve was steeper, 3-year government bond yields were up 32 basis points (bps) to 4.40%, while 10-year government bond yields surged 44 bps to 4.93%. Short-term bank bill rates followed a similar trajectory, 3-month rates up 21 bps to 4.35% while the 6-month rates were up 34 bps to 4.74%. The Australian dollar depreciated against the US Dollar, closing the month at USD 0.63.

The Reserve Bank of Australia (RBA) contemplated raising cash rates in its October 2023 meeting but decided to maintain them for the fourth consecutive month. During Governor Michele Bullock's first monetary policy meeting, members noted slow progress in reducing service price inflation and expressed concerns about potential upward risks due to prolonged high inflation. They also recognised a policy transmission delay, observed declining inflation since its peak in December 2022, and weak consumption growth. The central bank warned of a limited tolerance for a slower return to the inflation target and suggested potential further tightening, dependent on incoming data and risk assessments.

Domestic data releases through September were mixed. Australia's seasonally adjusted unemployment rate for September 2023 unexpectedly dropped to a three-month low of 3.6%, showing a slight decrease from the August figure and falling below market consensus of 3.7%. Australia's year-on-year inflation rate dropped to 5.4% in Q3 2023, down from the previous period's 6.0% and slightly surpassing market forecasts of 5.3%. This marks the third consecutive quarter of declining annual inflation, primarily due to a slowdown in goods and services inflation. While the slowdown in inflation is a positive development, it still significantly exceeds the RBA's target range of 2-3%.

In September 2023, Australia's retail sales surged by 0.9% on a month-on-month basis, surpassing market expectations of a 0.3% increase. This marked the third consecutive month of growth in retail turnover and the most rapid pace since January. Notably, sales in department stores showed the most significant increase, driven by a warmer-than-usual start to spring. Additionally, there was an uptick in household goods sales, supported by the launch of a new iPhone model and an energy-saving appliance rebate program in Queensland.

In October, CoreLogic's national Home Value Index increased by an additional 0.9%, showing faster growth compared to the 0.7% rise in September. Since hitting a low point in January, the national HVI has surged by 7.6%, bringing it within half a percent of the historic high recorded in April of the previous year.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
Queensland Treasury Corporation	AA+
South Australian Govt Financial Authority	AA+
New South Wales Treasury Corporation	AA+
Suncorp	A+
Athene Global Funding	A+
Treasury Corporation of Victoria	AA
Westpac Bank	AA-
Western Australia Treasury Corporation	AAA
Triton Trust	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 instability in the Middle East and worries about China's lacklustre growth predictions, as well as persisting strains within their property market. 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 1.25% this year, around 1.75% over 2024 and a little above 2% over the following year. Given the expected below-trend growth in the economy, the unemployment rate is forecast to increase gradually to be around 4.5% late next year. Headline inflation had reached 7.8% over the year to the December quarter but has since comeback to 5.4% in the September quarter. Looking further out the Bank forecast is for CPI inflation to continue to decline, to be around 3.25% by the end of 2024 and to be back within the 2–3% 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 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 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 239.44 million	**Benchmark** Bloomberg AusBond Composite 0+YR Index
Minimum Investment AUD 10,000	

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