

Yarra Australian Bond Fund

Net returns as at 31 December 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)	2.56	3.71	3.44	4.59	-3.09	-3.42	-1.75	-0.96	-0.19
Fund distribution return (net)	0.39	0.39	0.79	1.61	0.74	0.82	2.61	3.67	5.00
Total Fund return (net)	2.95	4.10	4.23	6.20	-2.35	-2.60	0.86	2.71	4.81
Benchmark	2.69	3.79	3.49	5.06	-2.60	-2.69	0.64	2.64	4.75
Excess return	0.26	0.31	0.74	1.14	0.25	0.10	0.22	0.08	0.07

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

Portfolio review

After fees and expenses, the Fund returned 2.95% to outperform the benchmark by 26 basis points (bps).

At the commencement of the month, the fund had a 0.62-year overweight duration position, contributing positively to its performance. We have actively sought opportunities to reduce the portfolio's overweight duration for some time now, and considering bond yields experienced a decline of 60-100 basis points across the term structure compared to three months ago, we have reduced the portfolio's overweight duration position to 0.41 years relative to the benchmark. As global and domestic market sentiment shifted in recent weeks to price in rate cuts as soon as 2024, we aim to continue to monitor for opportunities in adjusting the portfolio's duration position to take advantage of shifting interest rate expectations and market moves.

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 continued to contribute positively to the fund's performance relative to the benchmark, albeit less than previously after we took profit on some of the position. We are now monitoring for opportunities to add to the steepening position once again, as we expect the yield curve to steepen significantly should the RBA begin its rate cutting cycle.

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, supranational and Australian government guaranteed borrowers which have remained attractive relative to government bonds. The narrowing of spreads this month, especially in the supranational and senior financials, have also contributed positively to the fund's performance.

Risk Characteristics

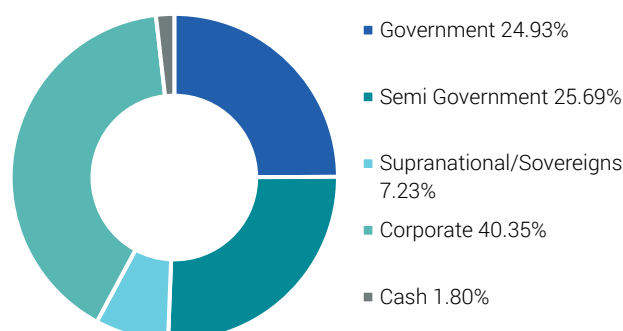
3 Year Volatility (p.a.)	7.25%
3 Year Tracking Error (p.a.)	0.79%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.48	5.06	0.41
Corporate Spread Duration (yrs)	0.93	0.27	0.66
Total Spread Duration (yrs)	3.60	2.21	1.39
Yield to Maturity (%)	4.45	4.11	0.35
Average Coupon (%)	3.46	2.72	0.74
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 2.69% over the month. Australian bonds surged, leading to slightly flatter yield curve by month-end, 3-year government bond yields were down 40 basis points (bps) to 3.61%, while 10-year government bond yields fell 45 bps to 3.96%. Short-term bank bill rates followed the same trajectory, with 3-month rates down 1 bps to 4.36%, while the 6-month rates were down 13 bps to 4.45%. The Australian dollar rallied against the US Dollar, closing the month at USD 0.68.

During its final meeting of the year, the Reserve Bank of Australia (RBA) maintained its cash rate at 4.35%, consistent with market forecasts. The board acknowledged that the November meeting hike was to steer inflation back to its 2-3% target range. While limited data since then indicates a satisfactory deceleration in inflation, the board intends to keep a close watch on these developments. The board emphasised that the necessity for further tightening hinges on forthcoming data and risk assessments. Additionally, they committed to closely monitoring the global economy, domestic demand trends, inflation prospects, and the labour market outlook.

Domestic data releases through December were mixed. Australia's seasonally adjusted unemployment rate edged up to 3.9% in November, exceeding the market forecasts of 3.8% and pointing to the highest level since May 2022. However, retail sales in Australia experienced a notable uptick, rising by 2.0% month-over-month in November, surpassing market estimates of 1.2%. This positive shift followed a revised 0.4% decline in the previous month and represented the strongest retail trade growth since November 2021. The surge in sales was boosted by Black Friday events.

In Q3 of 2023, the Australian economy saw a modest 0.2% quarter-on-quarter growth, falling short of market expectations and slowing from the 0.4% growth recorded in the prior quarter. This growth rate marked the most subdued expansion since Q3 of 2022, attributed to a softening in fixed investment, stalled household consumption, and a negative contribution from net trade. However, the year-over-year GDP growth stood at 2.1%, ahead of market expectations of 1.8% growth.

Notably, the household savings ratio declined to 1.1%, hitting its lowest point since Q4 of 2007. Factors contributing to this decline include the removal of the Low and Middle Income Tax Offset in 2022-23, increased interest on dwellings as fixed-rate mortgages transitioned into higher variable rates, and the impact of inflationary pressures eroding household savings.

CoreLogic's national Home Value Index (HVI) rose 0.4% in December, the smallest monthly gain since the growth cycle commenced in February. In 2023, CoreLogic's national Home Value Index (HVI) advanced by 8.1%, a turnaround from the 4.9% decline observed in 2022, but well short of the 24.5% surge recorded in 2021.

In November, Australia's NAB business confidence index took a sharp dive to -9 from a revised -3 in the previous month. This marked the second consecutive month of decline, hitting its

lowest point since 2012, excluding the COVID period, as sentiment deteriorated across most industries. Meanwhile, business conditions also weakened, reaching their lowest point since early 2022. Both sales and profits experienced a decline, although employment levels remained stable.

The Westpac-Melbourne Institute Consumer Sentiment index in Australia climbed by 2.7%, reaching 82.1 in December, compared to November's 79.9. Despite this uptick, sentiment remained pessimistic, marking the second-worst year on record. The persistently high cost of living and significantly increased interest rates heavily influenced this sentiment. The index has remained below the neutral mark of 100 since March 2022, the longest stretch since the early 1990s recession. However, the RBA's decision to leave interest rates on hold in December contributed to a lift in sentiment amid these challenging conditions.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
South Australian Govt Financial Authority	AA+
Treasury Corporation of Victoria	AA
Queensland Treasury Corporation	AA+
New South Wales Treasury Corporation	AA+
Suncorp	A+
Athene Global Funding	A+
Westpac Bank	AA-
Bank of Queensland	BBB+
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 escalating 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.

The International Monetary Fund (IMF) forecasts indicate a further slowdown in global growth over the coming years. Partly attributed to the conclusion of the initial recovery phase following the pandemic and as tightening policies beginning to take effect. The Reserve Bank of Australia (RBA) is anticipating economic growth domestically to moderate, as high energy prices and cost-of-living pressures weigh on demand. 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 come back to 5.4% in the September quarter. Looking further out the Bank forecast is for CPI inflation to continue to decline, to be around 3.5% by the end of 2024 and to be at the top of the 2–3% target range by the end of 2025.

With inflation well outside of its target range, the RBA has increased interest rates a cumulative 4.25 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 uncomfortably 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 263 million	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment AUD 10,000	

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