

# Yarra Australian Bond Fund

## Net returns as at 31 January 2024

	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)	0.25	6.16	2.92	1.70	-2.45	-3.18	-1.83	-1.04	-0.18
Fund distribution return (net)	0.00	0.40	0.79	1.57	0.75	0.82	2.61	3.67	4.99
Total Fund return (net)	0.25	6.56	3.71	3.26	-1.70	-2.35	0.78	2.63	4.81
Benchmark	0.21	5.96	3.17	2.45	-2.00	-2.49	0.56	2.55	4.74
<b>Excess return</b>	<b>0.04</b>	<b>0.60</b>	<b>0.54</b>	<b>0.81</b>	<b>0.30</b>	<b>0.14</b>	<b>0.22</b>	<b>0.08</b>	<b>0.07</b>

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 0.25% to outperform the benchmark by 4 basis points (bps).

The fund began the month with a 0.41 year overweight duration position, and ended the month 0.45 year overweight. This contributed positively to the fund's overall performance. In December, we proactively reduced the portfolio's overweight duration position as bond yields declined by 60-100 basis points. This decision was driven by a shift in global and domestic market sentiment, which began pricing in anticipated rate cuts as early as March 2024. Over the month of January bond yields rose as various data releases suggested the economy may be more resilient than previously thought. However, rate cut expectations were revised once again late in the month following weaker-than-expected Q4 Australian Consumer Prices Index (CPI) data. We intend to continue monitoring for opportunities to adjust the portfolio's duration position to take advantage of shifting interest rate expectations and market moves.

The fund's strategic yield curve positioning, which anticipated a steepening yield curve (widening gap between the 3-year bond yield and the 10-year bond yield), continued to positively impact its performance relative to the benchmark, albeit less than previously after profit-taking 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 widening of spreads this month, especially in the supranational and senior financials, detracted from the fund's performance.

### Risk Characteristics

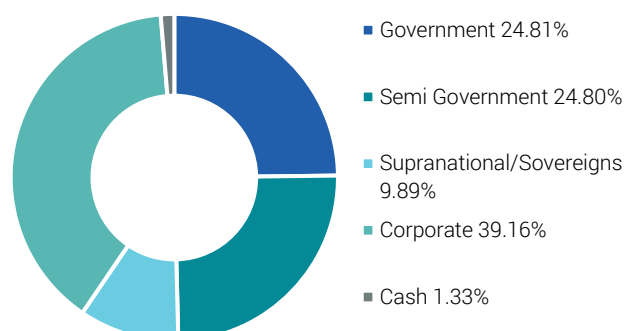
3 Year Volatility (p.a.)	7.25%
3 Year Tracking Error (p.a.)	0.79%

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.44	4.99	0.45
Corporate Spread Duration (yrs)	0.95	0.26	0.69
Total Spread Duration (yrs)	3.73	2.18	1.55
Yield to Maturity (%)	4.68	4.12	0.56
Average Coupon (%)	3.49	2.72	0.77
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 0.21% over the month. In January, Australian bond yields experienced a gradual ascent for the majority of the month. However, the release of cooler-than-expected Q4 Consumer Price Index (CPI) data towards the end of the month prompted yields to quickly reverse the earlier increases observed throughout the month. The yield curve concluded the month slightly steeper, 3-year government bond yields declined 4 basis points (bps) to 3.57%, while 10-year government bond yields increased 5 bps to 4.01%. Short-term bank bill rates remained relatively stable, with 3-month rates down 1 bps to 4.35%, while the 6-month rates were down 2 bps to 4.43%. The Australian dollar was weaker against the US Dollar, closing the month at USD 0.66.

Monetary policy settings remained unchanged during the month as the Reserve Bank of Australia (RBA) does not meet in January.

In January, domestic data releases suggested that the Australian economy is beginning to show signs of cooling. Australia's seasonally adjusted unemployment rate stood at 3.9% in December, unchanged from November's 18-month high, and in line with forecasts. In the fourth quarter of 2023, Australia's year-on-year inflation rate stood at 4.1%, marking a decline from the 5.4% recorded in the third quarter and falling below market expectations of 4.3%. This represented the lowest figure since the fourth quarter of 2021, with goods inflation showing a fifth consecutive quarter of easing and services inflation slowing for the second consecutive quarter. Retail sales in December saw a 2.7% month-over-month decline, after a 1.6% growth in the previous month. This marked the most significant drop in retail trade since August 2020, and was well below market expectations of a 0.1% rise. Consumers are adjusting their purchasing patterns ahead of Christmas, leveraging Black Friday sales events and spending less in December to alleviate cost-of-living pressures.

The upward trend in Australia's housing market persisted into the first month of 2024, as indicated by CoreLogic's national Home Value Index (HVI) recording a 0.4% rise in January. This represents an increase from the 0.3% observed in both November and December, marking the 12th consecutive month of value appreciation.

In December 2023, Australia's NAB business confidence index rose to -1, compared to a downwardly revised -8 in the previous month. Despite marking the third consecutive month of negative readings, this represented the mildest figure in the sequence. The improvement was attributed to a resurgence in the mining and retail sectors. Meanwhile, business conditions slowed but stayed above the long-run average, with sales and employment easing, while profits were sustained.

In January 2024, the Westpac-Melbourne Institute Consumer Sentiment index in Australia experienced a 1.3% decline, dropping to 81 from 82.1 in December. Consumer sentiment has remained in pessimistic territory for nearly two years, influenced by the ongoing surge in the cost of living and

elevated interest rates. The index has consistently stayed below the neutral 100 mark since February 2022, marking the longest such streak since the early 1990s recession.

## 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+
Westpac Bank	AA-
Suncorp	A+
Athene Global Funding	A+
CPPIB Capital Inc	AAA
Bank of Queensland	BBB+

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 has been 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 December 2022 but has since comeback to 4.1% in the December 2023 quarter. Looking further out the Bank forecast is for CPI inflation to continue to decline, returning to the target range of 2–3 per cent in 2025, and to the midpoint in 2026.

Inflation continues to moderate but remains high, 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. While we hold the belief that the current cash rate is already relatively restrictive, the Reserve Bank of Australia (RBA) has not categorically dismissed the possibility of implementing further tightening measures. This stance is maintained in case the RBA deems the current rate insufficient to effectively address inflation within a reasonable timeframe, even amid a dimming 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	
<b>Responsible Entity</b> Yarra Funds 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 Manager</b> Darren Langer	<b>Distribution Frequency</b> Quarterly
<b>Fund Size</b> A\$265 mn as at 31 January 2024	<b>Benchmark</b> Bloomberg AusBond Composite 0+YR Index
<b>Minimum Investment</b> A\$10,000	

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## Contact Us

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