Yarra Australian Bond Fund

Net returns as at 31 March 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)	0.71	0.63	4.36	0.48	0.43	-1.72	-1.99	-1.05	-0.16
Fund distribution return (net)	0.38	0.38	0.78	1.54	0.96	0.66	2.39	3.71	4.97
Total Fund return (net)	1.09	1.00	5.14	2.02	1.39	-1.06	0.40	2.65	4.81
Benchmark	1.12	1.03	4.85	1.47	0.91	-1.29	0.17	2.59	4.74
Excess return	-0.03	-0.02	0.29	0.55	0.48	0.23	0.23	0.06	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 1.09% to underperform the benchmark by 3 basis points (bps).

The Fund started the month with a duration position that was 0.35 years overweight, and by the end of the month, it had been increased to 0.55 years due to a bond market rally. The rally occurred in response to lacklustre domestic data and a shift by the Reserve Bank of Australia (RBA) from a tightening bias to a more neutral tone in its policy statement. Moving forward, we will be monitoring for opportunities to adjust the Fund's duration position, aiming to take advantage of shifting interest rate expectations and market movements.

Due to the yield curve flattening over the month, the Fund's strategic positioning, which had anticipated a yield curve steepening (a widening gap between the 3-year bond yield and the 10-year bond yield), has had a negative impact on the Fund's performance compared to the benchmark. However, our outlook maintains that the yield curve will steepen notably once the RBA initiates its rate cut cycle. Consequently, we will persist in monitoring for potential opportunities to add to our existing position favouring a yield curve steepening.

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 semi-government sector, detracted from the Fund's performance.

Risk Characteristics

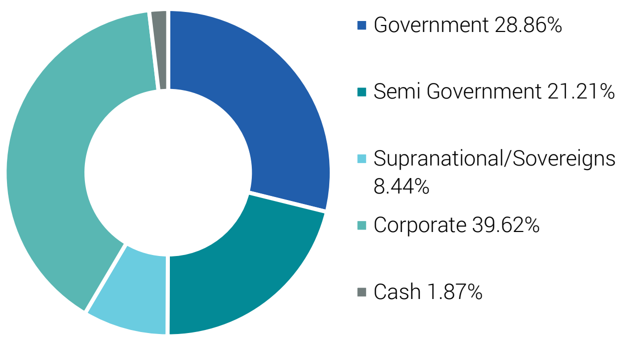
3 Year Volatility (p.a.)	6.92%
3 Year Tracking Error (p.a.)	0.76%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.51	4.95	0.56
Corporate Spread Duration (yrs)	1.06	0.27	0.79
Total Spread Duration (yrs)	3.46	2.24	1.22
Yield to Maturity (%)	4.63	4.12	0.51
Average Coupon (%)	3.54	2.76	0.78
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 1.12% over the month. Australian bond yields experienced volatility throughout the month, ultimately ending lower, which led to a flattening of the yield curve. The yield on 3-year government bonds decreased by 8 basis points (bps) to 3.62%, while the yield on 10-year government bonds dropped by 18 bps to 3.96%. Short-term bank bill rates remained largely unchanged, with 3-month rates holding steady at 4.34%, while 6-month rates increased slightly by 2 basis points to 4.50%. The Australian dollar was flat against the US Dollar, closing the month at USD 0.65.

During its March meeting, the Reserve Bank of Australia decided to keep its cash rate steady at 4.35%, aligning with widespread expectations. This decision comes amidst signs of a slowdown in economic growth following a cumulative 425 basis points rate hike over the past two years. Inflationary pressures have continued to ease, particularly due to a moderation in goods prices, although the cost of services has remained relatively high, albeit with a more gradual decline. The board stressed its top priority of returning inflation to target within a reasonable timeframe, emphasizing the necessity of ensuring that prices move towards the 2–3% range by 2025 and reach the midpoint by 2026. The board reiterated its commitment to closely monitoring global economic conditions, domestic demand trends, as well as the prospects for inflation and the labour market.

During March, domestic data releases indicated that the Australian economy is exhibiting further signs of cooling. In Q4 2023, the Australian economy expanded by 0.2% quarter-on-quarter, marking the ninth consecutive quarter of growth but at the slowest pace in five quarters. Households showed restraint, with spending centred on essentials like electricity, rent, food, and health. Government expenditure also slowed, mainly due to decreased defence spending and ongoing household benefits. Fixed investment declined after three consecutive quarters of growth. However, net trade made a positive contribution as exports dropped by 0.3% and imports plunged by 3.4%. The household savings ratio increased to 3.2%, marking the first rise in nine quarters. Year-on-year, GDP growth stood at 1.5%, slightly exceeding forecasts of 1.4%.

Australia's seasonally adjusted unemployment rate dropped to 3.7% in February 2024, reaching its lowest level since September of the previous year, down from 4.1% in January. These figures came in below market expectations of 4.0%. Retail sales experienced a modest 0.3% month-over-month increase in February 2024, marking a significant slowdown from the 1.1% growth seen in the previous month and falling short of market expectations of 0.4%.

In March, CoreLogic's national Home Value Index (HVI) increased 0.6%, marking the 14th consecutive month of rising housing values. The persistent undersupply of housing compared to demand continued to exert upward pressure on home values, despite challenges from rate hikes, cost of living pressures, and deteriorating housing affordability.

Top 10 Issuers

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

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 continued 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 begin to take effect. The Reserve Bank of Australia (RBA) anticipates a moderation in domestic economic growth, primarily due to a weaker outlook for consumer spending. This outlook stems from pressure on household budgets resulting from declines in real incomes over the past couple of years, which is expected to weigh on consumption. The Bank's central forecast for GDP growth has growth 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% in 2025, and to the midpoint in 2026.

Inflation continues to moderate but remains high, with the RBA having increased interest rates a cumulative 4.25 percent since May last year to rein in inflation. It has taken 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.

Inflation appears to be moderating in many advanced economies, approaching central banks' targets. However, looking more closely at the components, energy and goods inflation is showing signs of easing, while housing and core services inflation remains elevated compared to pre-pandemic levels. In the United States, resilience is notable, with recent data showing a modest uptick in inflation readings alongside tight labour markets. Consequently, market forecasts suggest that high interest rates may persist longer than initially expected.

While Australia's economic situation remains robust, concerns abroad are likely to influence our market in the coming 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

APIR Code
TYN0104AU

Portfolio Manager
Darren Langer

Fund Size
A$311 mn as at 31 March 2024

Minimum Investment
A$10,000

Management Cost
0.30% p.a.

Buy/Sell Spread
+0.05% / -0.05%

Distribution Frequency
Quarterly

Benchmark
Bloomberg AusBond Composite 0+YR Index

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