Yarra Australian Bond Fund

Net returns as at 31 May 2025

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.
Yarra Australian Bond Fund^	0.30	2.57	8.05	3.81	0.23	2.35	4.83
Growth return#	0.30	1.76	4.57	2.04	-1.47	-0.91	-0.04
Distribution return#	0.00	0.81	3.48	1.77	1.70	3.26	4.87
Bloomberg AusBond Composite 0+YR Index	0.16	2.04	6.84	3.11	-0.19	2.13	4.72
Excess return#	0.14	0.52	1.22	0.70	0.41	0.22	0.10

Past performance is not a reliable indicator of future performance. Taxes payable by investors have not been taken into account. The figures shown have been provided for illustrative purposes – they are unaudited and subject to change. The total returns shown are prepared on an exit to exit basis – they include all ongoing fees and expenses and assume reinvestment of all distributions.

#Growth returns are measured by the movement in the Fund's unit price, ex-distribution. Distribution return is the proportion of the total return which is paid to unitholders by way of distribution. It does not include distribution amounts deemed as capital distributions. Excess return is the difference between the Fund's net return and its benchmark (Bloomberg AusBond Composite 0+YR Index).

^Effective August 2021, the Fund was renamed from the Nikko AM Australian Bond Fund to the Yarra Australian Bond Fund. There was no change to the Fund's investment team, philosophy or process.

*Inception date: July 2000.

Portfolio review

After fees and expenses, the Fund returned 0.30% to outperform the benchmark by 14 basis points (bps).

The Fund began May with a -0.20 year underweight duration, having taken profits after the rally sparked by Liberation Day tariff announcements in April. As bonds corrected through May, we gradually increased the duration, ending the month 0.29 years overweight. This positioning contributed modestly to performance.

The Fund remains positioned to benefit from a steepening yield curve (i.e., a widening gap between the 3-year and 10-year bond yields), which was again a significant contributor to performance this month as the curve continued to steepen. We reduced some of our curve steepening exposure during the month, taking profits following the market moves. With the curve now at levels we had anticipated would be reached after a few more RBA cuts, we believe there is limited performance potential remaining in this position.

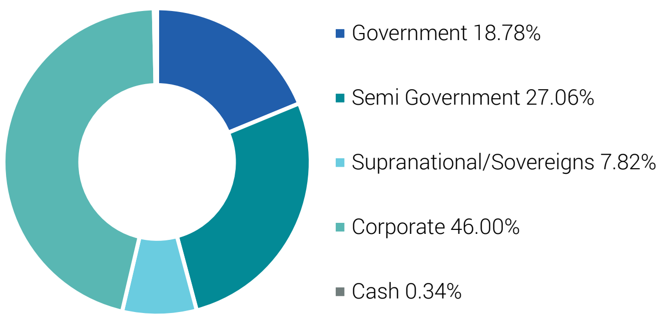
The Fund's overweight sector positioning favours spread, primarily allocated to senior financials, residential mortgage-backed securities, and high-grade corporates with maturities up to five years. Our overweight exposure to credit and the semi-government sector contributed positively to performance, as spreads contracted over the month. Additionally, our overweight in the long end of semi-government securities further supported returns, with the 10–15 year semi-government spread curve flattening during the period.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.20	4.91	0.29
Corporate Spread Duration (yrs)	1.18	0.30	0.88
Total Spread Duration (yrs)	3.66	2.43	1.22
Yield to Maturity (%)	4.58	4.01	0.57
Average Coupon (%)	3.88	2.97	0.90
Weighted-average Credit Rating#	A+	AA	-

#Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	6.19%	6.81%
3 Year Tracking Error (p.a.)	0.78%	0.81%

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
New South Wales Treasury Corporation	AA+
South Australian Govt Financial Authority	AA+
Queensland Treasury Corporation	AA+
Treasury Corporation of Victoria	AA
Metropolitan Life Global Funding I	AA-
CPPIB Capital Inc	AAA
New York Life Global Funding	AA+
Suncorp	AA-
Paccar Financial	A+

All of the above portfolio securities are Australian dollar denominated issues and include fixed interest and FRNs.

Market Commentary

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned 0.16% in May. Much of the turmoil around "Liberation Day" tariffs have subsided, however markets remain alert to any risks to the economy as trade talks continue to be negotiated. The concern was more on the US government's debt issue, which saw yield curves steepen significantly, both in the US and in Australia. The 3-year bond yield was up by 1 basis points to 3.33%, while the 10-year bond yield rose 10 basis points to 4.26%. This led to a steepening of the bond yield curve by 9 basis points, broadening the spread to 93 basis points. Short-term bank bill rates eased, with 3-month rates falling by 14 basis points to 3.73%, and 6-month rates down 12 basis points to 3.77%. The Australian dollar held steady against the US dollar, ending the month at USD 0.64.

At its May meeting, the Reserve Bank of Australia (RBA) lowered the cash rate by 25 basis points to 3.85%—the first cut since February and in line with market expectations. This move has brought borrowing costs down to their lowest level in two years, as both headline and underlying inflation have eased back into the RBA's target range of 2–3%.

The Board noted that inflation risks are now more balanced, though the outlook remains uncertain, particularly given ongoing volatility in global trade policy. The international economic environment has worsened, partly due to increased tariffs in the United States, prompting the RBA to weigh up a more severe downside scenario. It stressed its readiness to act decisively if global developments significantly affect domestic economic activity or inflation.

Although the RBA expects Australia's GDP growth to still improve, it may do so at a more modest pace amid softer external demand and slower household spending. The labour market remains tight, with the seasonally adjusted unemployment rate steady at 4.1% in April 2025. The RBA will continue to closely monitor economic data and emerging risks to guide its future policy decisions.

Australian retail sales edged 0.1% lower in April 2025, defying market expectations of a 0.3% increase. This marked the first fall in retail turnover since December. Recent rate cuts by the RBA and the possibility of further easing in the months ahead, have lifted homebuyer confidence, as reflected in a 0.5% rise in CoreLogic's Home Value Index for May. The gains were widespread, with every capital city posting an increase of at least 0.4% for the month. This brings the national index 1.7% higher over the first five months of the year.

Market Outlook

Inflation has fallen notably from its peak in 2022, driven by higher interest rates that have helped bring aggregate demand and supply into better balance. Underlying inflation continues to ease, with the RBA's preferred measure—trimmed mean annual inflation—dropping to 2.9 per cent in the March quarter from 3.3 per cent in December, placing it just within the RBA's 2–3 per cent target range.

Recent economic indicators—including modest GDP growth and signs that households are running down their pandemic-era savings—point to a slowing Australian economy. In response, the RBA delivered its first rate cut of the cycle in February, followed by another in May, both in line with market expectations. Despite this policy shift, interest rates remain at restrictive levels. Given the current economic outlook, we anticipate further rate cuts from the RBA later this year—most likely in August and November. Should conditions deteriorate more than expected, an extra cut may occur in early 2026, bringing the terminal cash rate to around 3.10%. However, the RBA may move more quickly and aggressively if it assesses that geopolitical uncertainty, particularly from U.S. tariff policy changes and retaliatory measures, could significantly disrupt the Australian economy.

Earlier mixed signals in the data appear to have stabilised, with most indicators now pointing to a gradual economic slowdown. This supports the view that the RBA is making steady progress toward achieving a soft landing. While the data indicates a resilient consumer sector and inflation trending in the right direction, we remain cautious about upside risks. Foremost among these risks is the uncertainty surrounding escalating global trade tensions and their potential spillover effects on domestic growth and inflation.

A Trump-led Republican government was initially viewed as positive for the US economy, thanks to pro-business policies that could drive growth. However, concerns have quickly arisen over the potential inflationary effects and their impact on economic growth, particularly due to Trump's "Liberation Day" tariffs, which have targeted key trading partners such as China, Mexico, and Canada. This has escalated tensions and raised the risk of a trade war between the world's two largest economies, with global markets, including Australia, likely to feel the consequences. Such a scenario could disrupt supply chains, increase costs, and destabilise the global economy. Additionally, ongoing instability in the Middle East and the Ukraine-Russia conflict could further affect cash and bond yields.

Since taking office on January 20, President Trump has signed a record number of executive orders and declared a national emergency, imposing widespread tariffs under the International Emergency Economic Powers Act of 1977. This law allowed him to bypass Congress, marking the first time a president has used this authority. Through these unprecedented actions, he is reshaping US priorities both domestically and internationally. These moves are aimed at dismantling existing policies and institutions, clearing the way for his "Make America Great Again" agenda, while appealing to his populist base.

China, Australia's largest trading partner, faces the dual challenge of managing domestic economic headwinds and escalating trade tensions with the U.S. The government has maintained a 2025 growth target of around 5%, similar to 2024, and unveiled a broader fiscal stimulus, raising the budget deficit target to 4% of GDP, the highest since 2010. Authorities have also acknowledged persistent deflationary pressures, lowering inflation expectations to 2%, a two-decade low, amid subdued domestic demand. Key policy efforts include boosting consumption, easing local government debt, and stabilising the property sector. However, analysts question the achievability of the 5% target given weak consumer sentiment and structural challenges. Meanwhile, U.S.–China trade tensions have flared up again. After agreeing on 12 May to a 90-day pause on the escalating "reciprocal" tariffs imposed during their ongoing trade war, both countries are now accusing each other of breaching the agreement.

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 A$393 mn as at 31 May 2025	**Benchmark** Bloomberg AusBond Composite 0+YR Index
Minimum Investment A$10,000	

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