

# Yarra Australian Bond Fund

## Net returns as at 30 June 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 <sup>A</sup>	0.79	3.09	8.17	4.75	0.28	2.51	4.84
Growth return <sup>#</sup>	0.08	2.37	4.50	2.72	-1.33	-0.66	-0.04
Distribution return <sup>#</sup>	0.71	0.72	3.67	2.03	1.60	3.17	4.88
Bloomberg AusBond Composite 0+YR Index	0.75	2.63	6.81	3.88	-0.10	2.30	4.74
Excess return <sup>#</sup>	0.04	0.46	1.36	0.87	0.38	0.20	0.11

**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.

<sup>#</sup>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).

<sup>A</sup>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 0.79% to outperform the benchmark by 4 basis points (bps).

The Fund began the month with an overweight duration position of 0.30 years and ended the month at 0.34 years overweight. While we anticipate cuts to the cash rate over the next few months, bond markets have largely priced that outcome, and markets remain vulnerable to a repricing of rate expectations, particularly if US tariff policy leads to higher inflation. Duration was a contributor to performance this month.

The fund remains positioned to benefit from a steeper yield curve between 3-year and 10-year maturities and a flattening yield curve from 10-year to 15-year maturities. Lower cash rates should see 3-year maturity bonds outperform 10-year bonds with lower cash rates. We then expect longer maturity bonds to perform as investors take advantage of relatively higher yields out in the long end of the yield curve.

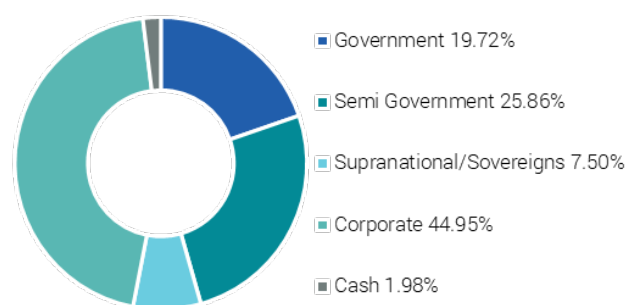
Sector positioning favours an overweight to spread, primarily in senior financials, residential mortgage-backed securities, and high-grade corporates with maturities out to 5 years. Our overweight allocation to credit securities and the semi-government sector was a contributor to performance mostly from excess running yield.

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.23	4.88	0.34
Corporate Spread Duration (yrs)	1.16	0.30	0.86
Total Spread Duration (yrs)	3.58	2.42	1.16
Yield to Maturity (%)	4.48	3.94	0.55
Average Coupon (%)	3.87	2.98	0.89
Weighted-average Credit Rating <sup>#</sup>	A+	AA	-

<sup>#</sup>Standard & Poor's

### Portfolio Asset Allocation



### Risk Characteristics

3 Year Volatility (p.a.)	6.06%
3 Year Tracking Error (p.a.)	0.73%

## Market Commentary

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned 0.75% in June. Following the heightened volatility in May, June appeared relatively stable by comparison, with the bond market pricing in an almost certain rate cut in July and the potential for another in August or September. Australian government bond yields ended the month lower. The 3-year bond yield fell 7 basis points to 3.26%, while the 10-year bond yield dropped 10 basis points to 4.16%. This led to a slight flattening of the bond yield curve by 3 basis points, narrowing the spread to 90 basis points, but it remains steep relative to recent history. Short-term bank bill rates were mixed, with 3-month rates falling by 13 basis points to 3.60%, while the 6-month rate edged higher 1 basis point to 3.78%. The Australian dollar was strengthened against the US dollar, ending the month at USD 0.66.

The Reserve Bank of Australia (RBA) did not hold a policy meeting in June. At its most recent meeting in May, the RBA cut the cash rate by 25 basis points to 3.85%, with RBA Assistant Governor Sarah Hunter noting that ongoing global trade uncertainty is expected to weigh on the domestic economy and labour markets. The move brought borrowing costs to their lowest level in two years, as both headline and underlying inflation returned to the RBA's target range of 2–3%. Furthermore, the latest ABS Monthly CPI Indicator had inflation at 2.1% in the 12 months to May.

The Australian economy grew by 0.2% in the March quarter, a sharp slowdown from the 0.6% rise in the previous quarter and below market expectations of 0.4%. While this marked the 14th consecutive quarter of economic expansion, it was the weakest growth in three quarters. On an annual basis, GDP increased by 1.3%, unchanged from the previous quarter but falling short of the 1.5% forecast. The public sector posted its largest detraction from growth since the September quarter of 2017. In addition, extreme weather events further weighed on domestic demand and constrained exports, with the impacts particularly evident in the mining, tourism, and shipping industries. Meanwhile, the household savings ratio rose to 5.2% in the March quarter, up from 3.9% in the previous quarter, as growth in gross disposable income outpaced the rise in nominal household consumption.

Other domestic data released during the month included the seasonally adjusted unemployment rate, which remained steady at 4.1% in May 2025—unchanged for the third consecutive month and in line with market expectations. Retail sales rose by 0.2% month-on-month in May, rebounding slightly from a flat result in April but falling short of the anticipated 0.4% increase.

Recent interest rate cuts by the Reserve Bank of Australia, along with the prospect of further easing in the coming months, have helped boost homebuyer confidence. This was reflected in a 0.4% rise in CoreLogic's Home Value Index for June, bringing the annual increase in property prices to 4.6%.

## Top 10 Issuers

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

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

## Market Outlook

Inflation has fallen notably from its peak in 2022, driven by higher interest rates that have helped to bring aggregate demand and supply into better balance. Underlying inflation continues to ease, with the Reserve Bank of Australia's (RBA) preferred measure—trimmed mean annual inflation—declining to 2.9 per cent in the March quarter, down from 3.2 per cent in December. This places it just within the RBA's 2–3 per cent target range. Additionally, the ABS Monthly CPI Indicator has been trending downward in recent months, reinforcing the disinflationary momentum ahead of the next CPI release.

Recent economic indicators—including modest GDP growth—point to a slowing Australian economy. In response, the Reserve Bank of Australia (RBA) delivered its first rate cut of the cycle in February, followed by another in May, both in line with market expectations. Despite this shift in policy, interest rates remain at restrictive levels. We anticipate the next rate cut will occur at the August meeting, following the release of Q2 CPI data in July, as the RBA's monetary policy decisions are heavily influenced by their quarterly economic forecasts published in the Statement on Monetary Policy.

Looking ahead, we expect the RBA to implement several additional rate cuts over the next 12 months, most likely at meetings that align with the release of quarterly CPI data and updated economic forecasts (February, May, August, and November). Based on current expectations and economic indicators, we believe a material deterioration in the outlook—such as a sharp rise in the forecast unemployment rate or a faster than expected decline in inflation—would be necessary for the RBA to lower the terminal cash rate to 2.6%. If economic conditions remain broadly stable, we anticipate the terminal rate will settle closer to 3%.

With recent data releases showing signs of stabilisation and most indicators pointing to a gradual economic slowdown, there is growing evidence that the RBA is making steady progress toward achieving a soft landing. While the data

reflects a resilient consumer sector and inflation trending in the right direction, we remain cautious about upside risks. Chief among these 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.

China, Australia's largest trading partner, faces the dual challenge of managing domestic economic headwinds and ongoing 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.

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\$403 mn as at 30 June 2025	<b>Benchmark</b> Bloomberg AusBond Composite 0+YR Index
<b>Minimum Investment</b> A\$10,000	

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