

Yarra Australian Bond Fund

Net returns as at 31 October 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	0.36	0.98	7.51	5.01	0.14	2.39	4.82
Growth return [#]	0.36	-0.03	3.71	2.63	-1.60	-0.80	-0.04
Distribution return [#]	0.00	1.02	3.80	2.38	1.75	3.18	4.86
Bloomberg AusBond Composite 0+YR Index	0.36	0.80	6.47	4.05	-0.21	2.13	4.70
Excess return [#]	0.00	0.19	1.04	0.96	0.35	0.26	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.

[#]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).

*Inception date: July 2000.

Portfolio review

After fees and expenses, the Fund returned 0.36% in line with the benchmark. In October, the market digested a Q3 CPI print that exceeded both consensus expectations and the RBA's forecast. This triggered a sharp sell-off in bond yields and effectively confirmed that the RBA would keep interest rates on hold at its next meeting.

The Fund began the month with an overweight duration position of 0.44 years and ended the month at 0.49 years overweight. We maintained this positioning as bond yields sold off in order to capture additional income for the portfolio. However, the position detracted from performance as bond yields rose over the month, led by the front end of the curve.

The Fund remains positioned to benefit from a steeper yield curve between 3-year and 10-year maturities, and a flattening between 10-year and 15-year maturities. The 3–10-year segment flattened slightly over the month, while the 10–15-year portion flattened more significantly, resulting in an overall neutral impact on performance.

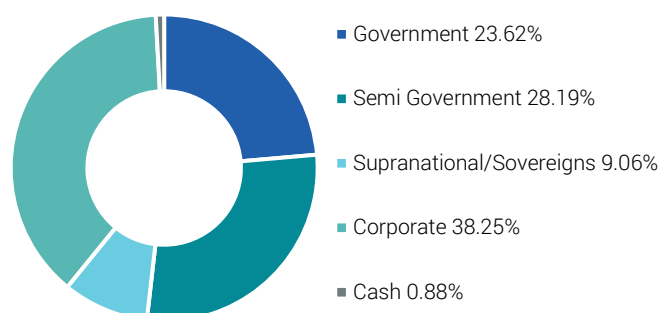
Sector positioning continues to favour an overweight to spread assets, primarily in senior financials, residential mortgage-backed securities, and high-grade corporates with maturities up to five years. Our overweight credit position contributed modestly to performance as credit spreads remained tight, while our overweight allocation to semi-government bonds was neutral for the month.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.31	4.82	0.49
Corporate Spread Duration (yrs)	0.93	0.31	0.62
Total Spread Duration (yrs)	3.77	2.42	1.36
Yield to Maturity (%)	4.63	4.12	0.51
Average Coupon (%)	3.82	3.01	0.81
Weighted-average Credit Rating [#]	A+	AA	-

[#]Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	5.24%
3 Year Tracking Error (p.a.)	0.57%

Top 10 Issuers

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

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 0.36% in October. The 3-year bond yield climbed 5 basis points to 3.60%, while the 10-year bond yield finished the month flat at 4.30%. This led to a flattening of the bond yield curve by 5 basis points, narrowing the spread to 70 basis points. Short-term bank bill rates edged higher over the month, with the 3-month rate rising 6 basis point to 3.64%, while the 6-month rate increased 13 basis points to 3.88%. The Australian dollar weakened against the US dollar, ending the month at USD 0.65.

The Reserve Bank of Australia (RBA) did not have a meeting scheduled in October. At its previous meeting in September, the Bank kept the cash rate steady at 3.6%. While the Board observed that both headline and trimmed mean inflation remained within the 2–3% target range in Q2 2025, its tone turned slightly more cautious, a move that appears justified, as Q3 inflation has since come in higher than expected.

Australia's annual inflation rate rose sharply to 3.2% in Q3 2025 from 2.1% in Q2, reaching its highest level since Q2 2024 and exceeding market expectations of 3.0%. Goods inflation jumped to a five-quarter high of 3.0% (up from 1.1% in Q2), largely driven by a 23.6% surge in automotive fuel prices and a faster increase in electricity costs (9% vs 8.1%). Services inflation also accelerated to 3.5% from a three-year low of 3.3% in the previous quarter. The RBA's preferred measure of underlying inflation trimmed mean inflation rose 3.0% year-on-year, above the 2.7% consensus forecast, marking its highest reading since Q4 2024.

Domestic data releases indicate that the Australian economy

may be at an inflection point, as both unemployment and inflation have edged higher. Australia's seasonally adjusted unemployment rate rose to 4.5% in September, up from 4.3% in August. It marked the highest jobless rate since November 2021. Australian building permits jumped 12% in September, beating expectations after two months of declines. Cotality's Home Value Index rose 1.1% in October. It was the fastest pace of home value growth in more than two years, "confirming a new cycle of growth", Cotality said, with gains recorded in all capital cities over the month.

Market Outlook

Although 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, the latest reading of underlying inflation has come in higher than anticipated. The Reserve Bank of Australia's (RBA) preferred measure—trimmed mean annual inflation—increased to 3 per cent in the September quarter, up from 2.7 per cent in June. This places it uncomfortably at the top end of the RBA's 2–3 per cent target range.

Recent economic indicators—including modest GDP growth—point to the continued resilience of the Australian economy. In response, the Reserve Bank of Australia (RBA) initiated its easing cycle with a rate cut in February, followed by additional reductions in May and August. Despite this policy shift, interest rates remain at restrictive levels. Since the last cut, the Board has signalled its intention to await further evidence that inflation is on a sustainable path back to the 2.5% target. However, this confirmation has yet to materialise, and inflation risks have re-emerged. The RBA emphasised that monetary policy remains well-positioned to respond swiftly should global developments materially affect domestic activity or inflation. The Bank also reaffirmed its commitment to closely monitoring incoming data and evolving risks, including global and financial conditions, domestic demand dynamics, and the outlook for inflation and employment.

Looking ahead, with Q3 inflation numbers coming in above the RBA's forecasts and considering the recent comments from the RBA Governor—as well as the messaging in the Statement on Monetary Policy—it's clear the RBA is prepared to remain patient. Their main priority continues to be bringing inflation under control. Based on current projections, inflation is still expected to return to the midpoint of the target band, with one rate cut potentially factored in for late 2026. Therefore, we believe the next policy move is still likely to be a cut, though not in the near term. The main risk to this outlook would be a significant deterioration in the labour market, which we view as unlikely, particularly since the RBA has noted that conditions remain somewhat tight.

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. This has

escalated tensions, 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. Encouragingly the Chinese economy grew by 5.2% in the 12 months to June, however, analysts question the achievability of the 2025 calendar year 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	
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\$449 mn as at 31 October 2025	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment A\$10,000	

Contact Us

Yarra Capital Management

Level 11 Macquarie House
167 Macquarie Street Sydney NSW 2000, Australia

Phone 1800 251 589

Fax +61 2 8072 6304

Email sales.au@yarracm.com

Website www.yarracm.com

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