

Yarra Australian Bond Fund

Net returns as at 31 December 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	-0.59	-1.14	4.02	4.53	-0.12	2.30	4.72
Growth return [#]	-1.65	-2.19	0.36	1.80	-1.90	-0.86	-0.14
Distribution return [#]	1.06	1.05	3.66	2.73	1.77	3.16	4.87
Bloomberg AusBond Composite 0+YR Index	-0.63	-1.15	3.17	3.71	-0.43	2.03	4.61
Excess return [#]	0.04	0.01	0.85	0.82	0.31	0.27	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 -0.59% to outperform the benchmark by 4 basis points (bps).

The Fund increased its overweight duration from 0.32 to 0.46 years over the month, reflecting our view that the bond sell-off—triggered by elevated inflation and low unemployment readings—had been overdone. The overweight duration position was a slight detractor to performance; however, the impact was mitigated as duration was added to the Fund near the peak in yields during the month. The Fund remains positioned to benefit from a steeper yield curve between the 3- 10-year maturities and a flatter curve between the 10-15-year maturities. Over the month, this positioning was neutral to performance as both segments of the curve flattened.

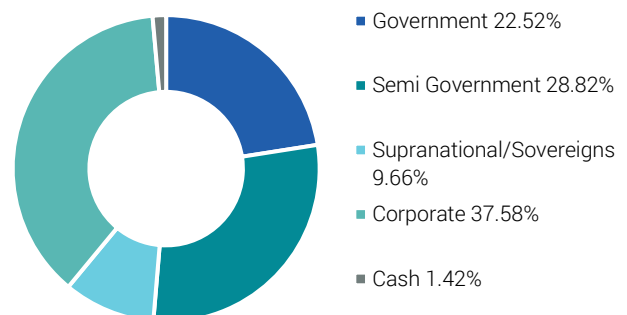
Sector positioning favours an overweight to spread, primarily in senior financials, residential mortgage-backed securities, and high-grade corporates with maturities out to 5 years. Our overweight credit position was a modest contributor to performance this month, as credit spreads remained tight during the bond sell-off, and our overweight allocation to semi-government bonds also contributed positively to returns.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.28	4.82	0.46
Corporate Spread Duration (yrs)	0.87	0.33	0.55
Total Spread Duration (yrs)	3.86	2.43	1.43
Yield to Maturity (%)	4.98	4.61	0.37
Average Coupon (%)	3.71	3.10	0.61
Weighted-average Credit Rating [#]	A+	AA	-

[#]Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	5.05%
3 Year Tracking Error (p.a.)	0.51%

Market Commentary

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned -0.63% in December. Bonds continued to be sold off, with inflation concerns and a tight labour market continuing to push yields north, the 3-year government bond yield climbed 27 basis points (bps) to 4.14%, while the 10-year government bond yield rose 23 bps to 4.74%. This led to a flattening of the bond yield curve by 4 basis points, narrowing the spread to 60 bps. Short-term bank bill rates edged higher over the month, with the 3-month rate rising 8 bps to 3.74% and the 6-month rate increasing 15 bps to 4.12%. The Australian dollar strengthened against the US dollar, ending the month at USD 0.67.

The Reserve Bank of Australia (RBA) held its cash rate steady at 3.6% at its final meeting of 2025, Australia's central bank

said it considered whether interest rates might need to rise in 2026 after a recent pick-up in inflation, but judged it was too early to decide, as some of the rise could be due to temporary factors. The Board said it would wait for fourth-quarter inflation data, along with updated labour market figures, before judging whether inflationary pressures were likely to persist as it seeks to return inflation to the midpoint of its 2–3% target range. Markets have fully priced in a rate increase by June, with a possible move as early as May, the next meeting is scheduled for February.

The Consumer Price Index (CPI) rose 3.8% in the 12 months to October 2025, up from 3.6% in the 12 months to September 2025. The RBA's preferred measure of underlying inflation trimmed mean inflation was 3.3% in the 12 months to October 2025, up from 3.2% in the 12 months to September 2025. Both inflation readings came in slightly above the RBA's forecasts of 3.7% headline and 3.2% trimmed mean. The data confirmed that inflationary momentum remains stronger and more persistent than policymakers had hoped.

Domestic data releases indicate that the Australian economy continues to show resilience. Australia's seasonally adjusted unemployment rate remained at 4.3% in November 2025, coming in slightly below the market forecasts of 4.4%. Cotality's national Home Value Index remained relatively steady, rising a modest 0.1% in December, with price falls in Sydney and Melbourne offsetting gains in the other states. Looking ahead, affordability constraints and upward pressure on interest rates may weigh on housing-market growth as we move into 2026, although supply and demand imbalances will likely continue to support prices.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
New South Wales Treasury Corporation	AA+
Treasury Corporation of Victoria	AA
Queensland Treasury Corporation	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 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 3.3 per cent year on year in October, up from 3 per cent in September. This places it above 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 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 and has signalled a willingness to tighten policy should inflation appear likely to settle materially above its 2.5% target. However, we do not expect rate hikes in the near term, with any tightening likely late in 2026. Our base case is that the recent inflation spike proves temporary rather than broad-based. As inflation moderates and labour market conditions soften more than expected, there remains scope for one additional rate cut toward the end of the year. Should inflation remain sticky and the labour market remain tight we are likely to see rates remain on hold for an extended period with a possibility the RBA could consider lifting rates.

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. As we enter 2026, the Administration appears likely to continue challenging established norms of the international order, contributing to a further escalation in geopolitical tensions. The economic and financial implications of these developments are expected to materialize with a lag, with the full impact on global financial markets likely to unfold gradually over time.

China, Australia's largest trading partner, faces the dual challenge of managing domestic economic headwinds and ongoing trade tensions with the U.S. China's November 2025 data indicate that growth ended the year with moderating momentum and persistent imbalances. Weak domestic demand, reflected in slowing retail sales and continued contraction in real-estate investment, which contrasted to resilient industrial production, supported by advanced manufacturing and external demand. As China enters 2026,

sustaining growth will depend less on output and more on strengthening domestic demand and confidence, in a more challenging external environment.

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 December 2025	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment A\$10,000	

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