Investment Commentary
Month to 31 January 2026

Yarra Australian Bond Fund

Net returns as at 31 January 2026

	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	0.31	-1.19	4.21	3.58	0.04	2.21	4.72
Growth return#	0.31	-2.24	0.55	0.87	-1.74	-0.94	-0.13
Distribution return#	0.00	1.05	3.66	2.71	1.78	3.16	4.85
Bloomberg AusBond Composite 0+YR Index	0.21	-1.29	3.20	2.85	-0.31	1.93	4.60
Excess return#	0.10	0.10	1.02	0.73	0.35	0.29	0.12

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 0.31% to outperform the benchmark by 10 basis points (bps).

The selling momentum in bond markets observed in recent months moderated earlier in the period, but re-intensified following stronger-than-expected employment data and a higher-than-expected CPI print relative to the Reserve Bank of Australia's (RBA) November 2025 forecasts. This led markets to price a 70% likelihood of a 25bp rate hike in the February RBA meeting.

The Fund commenced the month with an overweight duration position of 0.46 years, which was increased to 0.62 years by month-end. We added to duration over the period, reflecting our view that the bond sell-off had been overdone and that yields were approaching medium-term peaks. The overweight duration positioning detracted from performance during the month.

The Fund remains positioned to benefit from a steeper yield curve between 3-year and 10-year maturities, alongside a flattening bias in the 10-year to 15-year segment. The flattening across the 10- to 15-year maturities contributed positively to performance over the period.

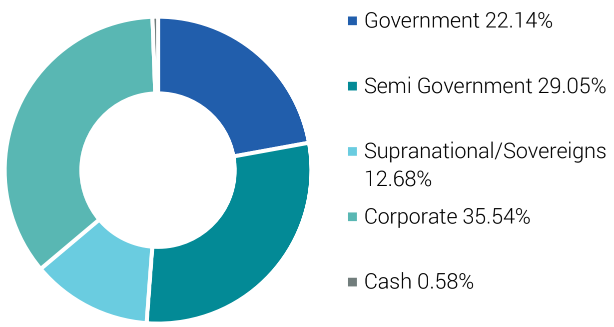
From a sector perspective, the portfolio maintains an overweight allocation to spread sectors, primarily senior financials, residential mortgage-backed securities, and high-grade corporates with maturities of out to five years. The overweight credit exposure was a strong contributor to performance, as credit spreads remained resilient and relatively tight despite the broader bond market sell-off. In addition, the Fund's overweight position in semi-government bonds added value. Overall, outperformance from spread and curve positioning partially offset the drag from duration exposure during the month.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.38	4.76	0.62
Corporate Spread Duration (yrs)	0.85	0.32	0.52
Total Spread Duration (yrs)	3.96	2.40	1.56
Yield to Maturity (%)	5.02	4.67	0.35
Average Coupon (%)	3.74	3.10	0.64
Weighted-average Credit Rating#	A+	AA	-

#Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	4.79%
3 Year Tracking Error (p.a.)	0.49%

AVAILABLE TO AUSTRALIAN RESIDENT INVESTORS ONLY

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
CPPIB Capital Inc	AAA
South Australian Govt Financial Authority	AA+
Metropolitan Life Global Funding I	AA-
New York Life Global Funding	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 0.21% in January. Bond markets extended their sell-off, with persistent inflation concerns and a tight labour market pushing yields upward, the 3-year government bond yield climbed 13 basis points (bps) to 4.27%, while the 10-year government bond yield rose 7 bps to 4.81%. This led to a flattening of the bond yield curve by 6 basis points, narrowing the spread to 54 bps. Short-term bank bill rates were mixed over the month, with the 3-month rate rising 10 bps to 3.84%, while the 6-month rate decreased 3 bps to 4.09%. The Australian dollar strengthened against the US dollar, ending the month at USD 0.70.

The RBA held its cash rate steady at 3.6% at its last meeting in December, 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. By month-end, a stronger-than-expected inflation print and a surprise drop in unemployment had markets betting on an imminent rate hike.

Australia's Consumer Price Index (CPI) rose to 3.8% in December 2025, exceeding market expectations and remaining above the RBA's 2–3% target range. Services inflation accelerated to a two-year high, driven by increased year-end travel and accommodation costs alongside persistently elevated rents. Goods inflation also firmed, reflecting a sharper increase in electricity prices following the expiration of some state government rebates. Meanwhile, the trimmed mean CPI edged up to 3.3% year on year from 3.2%, in line with forecasts.

Domestic data releases indicate that the Australian economy continues to show resilience and by some measures is starting to heat up. Australia's seasonally adjusted unemployment rate fell to 4.1% in December 2025 from 4.3% in November, well below expectations of 4.4%. It marked the lowest jobless rate since May. Cotality's Home Value Index rose 0.8 per cent nationally in January, driven by gains across mid-sized capital cities. While annual price growth is expected to moderate in 2026 as rate hike expectations constrain borrowing capacity and weigh on buyer sentiment, ongoing supply–demand imbalances are likely to continue supporting prices.

Market Outlook

Although inflation has eased significantly from its 2022 peak, supported by higher interest rates that have helped balance aggregate demand and supply, recent underlying inflation readings came in higher than expected, and the labour market remains tight. Recent economic indicators, including modest GDP growth, suggest the Australian economy continues to show resilience. With interest rates still at restrictive levels and inflation appearing under control, the RBA began its easing cycle early in 2025, with a rate cut in February, followed by further reductions in May and August.

Following the last cut, the RBA held rates steady, indicating it would await clear evidence that inflation was on a sustainable path back to its 2.5% target. This confirmation did not materialize; instead, inflation risks have re-emerged, as elevated public spending, combined with stronger-than-expected private demand, has contributed to higher-than-anticipated inflation readings. The RBA's preferred measure—trimmed mean annual inflation—stood at 3.3% year-on-year in December, above the Bank's 2–3% target range. Based on the RBA's February 2026 Statement on Monetary Policy, the outlook for inflation has been revised materially higher, with expectations that it will remain above the target range for an extended period, peaking in mid-2026 and not returning to the 2–3% target range until mid-2027.

Against the backdrop of the RBA's uncomfortably high inflation forecast, a healthy labour market, and stronger-than-expected economic growth, the Board decided in its February meeting to increase the cash rate by 25bps to 3.85%. Following the decision, the RBA did not provide guidance on the future policy path but reaffirmed its commitment to closely monitoring incoming data and evolving risks, including global and financial conditions, domestic demand dynamics, and the outlook for both inflation and employment.

Looking ahead, we expect upcoming RBA policy decisions to remain data dependent. Meetings following the quarterly CPI release are likely to be "live". There is a possibility that some recent inflation pressures are temporary, with base effects and a stronger Australian dollar helping to moderate imported inflation. At the same time, unemployment could rise faster than expected if public spending moderates later in the year. Overall, we do not anticipate a reversal of the RBA's policy stance, but the Bank may adopt a cautious "wait-and-see" approach in the coming months.

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. Moving further into 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. China's sustaining growth will likely 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

APIR Code
TYN0104AU

Portfolio Manager
Darren Langer

Fund Size
A$454 mn as at 31 January 2026

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

Applications and contacts

Investment into the Yarra Australian Bond Fund can be made by Australian resident investors only.

Website www.yarracm.com

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