

Yarra Australian Bond Fund

Net returns as at 28 February 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	0.89	0.60	4.09	4.37	1.03	2.21	4.74
Growth return [#]	0.89	-0.47	0.43	1.64	-0.77	-0.95	-0.09
Distribution return [#]	0.00	1.07	3.66	2.73	1.80	3.16	4.84
Bloomberg AusBond Composite 0+YR Index	0.88	0.46	3.15	3.61	0.60	1.91	4.62
Excess return [#]	0.01	0.15	0.94	0.76	0.43	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 0.89% to outperform the benchmark by 1 basis point (bp).

The Fund began and ended the month with an overweight duration position around 0.61 years, reflecting our view that bond yields had become oversold and were near their peak. This positioning contributed positively to performance over the month.

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 steepening of the 3-year to 10-year segment detracted from performance; however, this was partially offset by the positive impact of the flattening in the 10-year to 15-year segment.

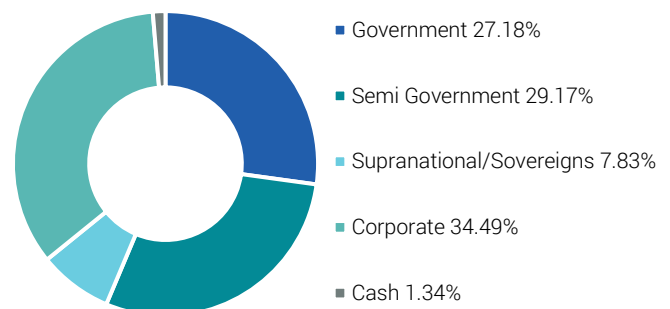
Sector positioning continues to favour an overweight allocation to spread sectors, primarily senior financials, residential mortgage-backed securities, and high-grade corporates with maturities of up to five years. The overweight credit position was a modest detractor to performance during the month as credit spreads remained tight amid the bond market sell-off. In addition, the Fund's overweight exposure to semi-government bonds detracted from performance later in the month.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.41	4.80	0.61
Corporate Spread Duration (yrs)	0.82	0.33	0.49
Total Spread Duration (yrs)	3.75	2.41	1.35
Yield to Maturity (%)	4.69	4.61	0.08
Average Coupon (%)	3.73	3.12	0.61
Weighted-average Credit Rating [#]	A+	AA	-

[#]Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	4.70%
3 Year Tracking Error (p.a.)	0.48%

Market Commentary

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned 0.88% in February. Bond markets rallied over the month, particularly at the longer end of the curve, suggesting a stabilisation in rate expectations, potentially reflecting expectations of a less aggressive rate-hiking cycle and renewed demand for duration. The 3-year government bond yield declined by 5 basis points (bps) to 4.22%, while the 10-year government bond yield fell by 16 bps to 4.65%. This led to a flattening of the bond yield curve by 11 bps, narrowing the spread to 43 bps. Meanwhile, short-term bank bill rates rose notably, with the 3-month rate increasing by 15 bps to 3.99%, while the 6-month rate climbed 24 bps to 4.33%. The Australian dollar strengthened against the US dollar, ending the month at USD 0.71.

The Reserve Bank of Australia unanimously lifted the cash rate by 25 basis points to 3.85% at its first policy meeting of 2026, in line with market expectations. This marked the first rate increase in more than 2 years and reflected renewed cost pressures that intensified in the second half of 2025, driven by elevated services prices and a tight labour market.

The central bank indicated that inflation is likely to remain above its 2–3% target range for some time, supported by stronger economic momentum and a resilient labour market. The Board noted that future policy decisions will be guided by incoming economic data and its evolving assessment of the outlook and associated risks, including the balance between containing inflation and sustaining economic growth. While acknowledging progress in moderating inflation over the past year, policymakers emphasised that maintaining price stability remains their primary objective, signalling a cautious and data-dependent approach to any further policy tightening.

Australia's annual inflation rate remained at 3.8% in January 2026, unchanged from the previous month but slightly above market expectations of 3.7%. The increase was primarily driven by a sharp rise in electricity prices following the expiration of state and Commonwealth energy rebates. Additional upward pressure came from the Food & non-alcoholic beverages and Recreation & culture categories. The trimmed mean CPI edged higher to 3.4% year-on-year, exceeding both the prior reading and market consensus of 3.3%.

Recent domestic data releases suggest that the Australian economy remains resilient and, by some measures, is beginning to show signs of renewed momentum. Australia's seasonally adjusted unemployment rate was 4.1% in January 2026, unchanged from the previous month and slightly below forecasts of 4.2%, underscoring continued labour market resilience. Cotality's Home Value Index rose 0.7% in February 2026, easing slightly from a 0.8% gain in the previous month. Mid-sized capitals (Perth, Brisbane and Adelaide) led the way, while Sydney and Melbourne were flat. Annual price growth is expected to moderate in 2026 as rate hike expectations constrain borrowing capacity and weigh on buyer sentiment, with ongoing supply–demand imbalances likely to continue supporting 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
South Australian Govt Financial Authority	AA+
CPPIB Capital Inc	AAA
Metropolitan Life Global Funding I	AA-
New York Life Global Funding	AA+
Athene Global Funding	A+

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

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. In addition, momentum in GDP growth readings suggest the Australian economy continues to show resilience.

Following its third rate cut in August, the RBA held the cash rate steady, signalling it would wait for clear evidence that inflation was sustainably returning to its 2.5% target. Instead, inflationary pressures re-emerged, driven by elevated public spending and stronger-than-expected private demand, resulting in higher-than-anticipated inflation outcomes. The RBA's preferred measure, trimmed mean inflation, rose to 3.3% year-on-year in December, remaining above the Bank's 2–3% target range. In its February 2026 Statement on Monetary Policy, the RBA materially revised its inflation outlook higher, projecting inflation to peak in mid-2026 and return to the target range only by mid-2027.

Against this backdrop of persistent inflation, a resilient labour market, and stronger-than-expected economic growth, the Board increased the cash rate by 25 basis points to 3.85% at its February meeting. The Board 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.

The primary domestic risk stems from the impact of the ongoing conflict in the Middle East on oil prices, which could exacerbate inflationary pressures locally. We are currently facing a challenging environment in which risk assets are weak due to geopolitical uncertainty, yet bonds are not functioning as a traditional safe haven because of rising inflation concerns.

The Reserve Bank of Australia (RBA) faces a delicate balancing act over the coming months. Monetary policy remains its only

available tool, and while the RBA is likely to remain highly focused on controlling inflation, interest rate hikes will have no direct effect on oil prices. As such, the path for policy remains uncertain, and market participants may face heightened volatility in the near term.

A Trump-led Republican administration was initially viewed as supportive of the U.S. economy, given expectations that pro-business policies would bolster growth. However, concerns soon emerged regarding the potential inflationary effects of these policies and their implications for economic growth. Uncertainty surrounded the administration's "Liberation Day" tariffs introduced in April 2025, which were subsequently ruled unlawful by the U.S. Supreme Court in a 6–3 decision. In response, President Trump signalled he would pursue alternative tariff measures, including proposing a new 10% global tariff under different legal authority to replace the struck-down duties, keeping trade tensions and policy uncertainty elevated.

The U.S.–Israel attack on Iran has heightened geopolitical tensions and disrupted energy markets, pushing global oil prices above \$90 per barrel amid concerns about supply disruptions in the Middle East and the Strait of Hormuz, a key route for around 20% of global oil trade. Higher oil prices are expected to increase global inflation and energy costs, potentially slowing economic growth as households and businesses face higher fuel and production expenses, with the full impact on global financial markets likely to unfold gradually over time. The Administration appears likely to continue challenging established norms of the international order, contributing to heightened geopolitical tensions and ongoing market volatility.

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 recent economic policy meetings signalled a more cautious outlook, with authorities targeting GDP growth of around 4.5–5%, the lowest in decades, while acknowledging ongoing challenges from weak domestic demand, the property downturn, and subdued consumer confidence. Policymakers emphasised boosting consumption, providing targeted fiscal support, and advancing technological self-sufficiency and high-value manufacturing to support more sustainable, "high-quality" growth over the medium term.

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\$454 mn as at 28 February 2026	Benchmark Bloomberg AusBond Composite 0+YR Index
Minimum Investment A\$10,000	

Applications and contacts

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

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