

# Yarra Australian Bond Fund

## Net returns as at 31 March 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	-1.58	-0.39	2.17	2.67	0.54	2.07	4.66
Growth return <sup>#</sup>	-2.32	-1.15	-1.40	-0.15	-1.22	-1.09	-0.19
Distribution return <sup>#</sup>	0.75	0.76	3.56	2.81	1.76	3.15	4.85
Bloomberg AusBond Composite 0+YR Index	-1.42	-0.34	1.51	2.06	0.15	1.79	4.55
Excess return <sup>#</sup>	-0.16	-0.05	0.66	0.61	0.39	0.28	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).

\*Inception date: July 2000.

### Portfolio review

After fees and expenses, the Fund returned -1.58% to underperform the benchmark by 16 basis points (bps).

The Fund commenced the month with an overweight duration position of 0.62 years, which was modestly reduced to 0.58 years by month-end. While duration exposure was trimmed over the period, the significant sell-off in bond markets detracted from performance.

The portfolio remains positioned to benefit from a steepening of the yield curve between 3-year and 10-year maturities, alongside a flattening bias in the 10-year to 15-year maturities. During the month, the flattening of the short end of the curve detracted from performance. However, this was partially offset by the flattening observed in the 10–15 year segment, which contributed positively to relative returns.

Sector positioning favours an overweight to spread duration, with exposures concentrated in senior financials, residential mortgage-backed securities, and high-grade corporates with maturities of out to 5 years. This overweight to spread detracted from performance over the month, as both credit and semi-government spreads widened materially.

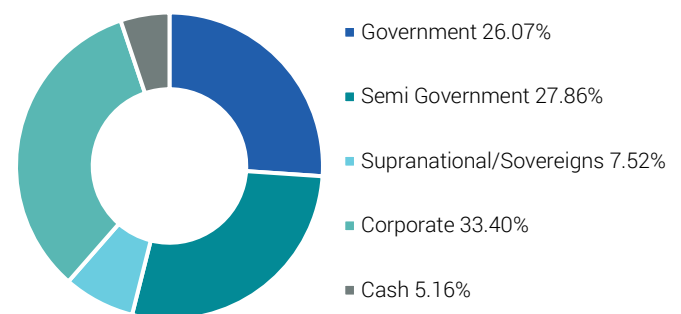
Semi-government spreads, in particular, widened more than anticipated and were a notable drag on performance. However, more than half of this underperformance had reversed by month-end, partially offsetting the earlier weakness.

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.29	4.71	0.58
Corporate Spread Duration (yrs)	0.77	0.33	0.44
Total Spread Duration (yrs)	3.52	2.39	1.14
Yield to Maturity (%)	5.13	5.02	0.11
Average Coupon (%)	3.58	3.14	0.44
Weighted-average Credit Rating <sup>#</sup>	A+	AA	-

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

### Portfolio Asset Allocation



## Risk Characteristics

3 Year Volatility (p.a.)	4.47%
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 -1.42% in March. Bond markets came under pressure over the month, amid heightened volatility, as renewed inflation concerns, which were fuelled by elevated oil prices due to ongoing conflict in the Middle East, combined with shifting expectations that interest rates would remain higher for longer. The 3-year government bond yield rose by 43 basis points (bps) to 4.65%, while the 10-year government bond yield increased by 32 bps to 4.97%. This resulted in a flattening of the bond yield curve by 11 bps, narrowing the spread to 32 bps. Meanwhile, short-term bank bill rates followed a similar trajectory, with the 3-month rate rising by 32 bps to 4.31% and the 6-month rate climbing 45 bps to 4.78%. The Australian dollar weakened against the US dollar, ending the month at USD 0.69.

The Reserve Bank of Australia (RBA) lifted its cash rate by 25 basis points to 4.1% at its March 2026 meeting, following a hike in February and was broadly in line with market expectations. The split decision, indicated differing views among Board members, reflected a wide range of data indicating a resurgence in inflationary pressures in the second half of 2025. Although part of this increase is considered temporary, the Board highlighted some tightening in the labour market and greater capacity constraints than previously anticipated. Ongoing uncertainty surrounding the conflict in the Middle East was also noted as a potential source of additional inflationary pressure, both globally and domestically.

The RBA expects inflation to remain above its target for an extended period, with risks tilted to the upside, justifying the latest rate hike. Policymakers reiterated that future decisions would remain data-dependent, with close attention to global developments, financial conditions, domestic demand, and labour market trends. They also emphasised that policy settings remain flexible and can be adjusted as needed, maintaining a clear focus on its mandate of achieving price stability alongside full employment.

Australia's annual inflation edged down to 3.7% in February 2026, compared with market forecasts of 3.8%. However, the latest result remained outside the central bank's 2–3% target. Goods inflation eased, supported in part by lower transport costs, with automotive fuel prices falling more sharply ahead of the escalation in the Middle East; however, this trend is likely to reverse, as oil prices surged significantly in March. Services inflation remained unchanged from January, while the trimmed mean CPI edged down to 3.3% year-on-year, falling below both the previous reading and market expectations of 3.4%.

Recent domestic data suggest that the Australian economy

remains resilient, though it remains vulnerable to the effects of escalating conflict in the Middle East. Australia's seasonally adjusted unemployment rate rose to 4.3% in February 2026, exceeding both the 4.1% forecast and levels seen in the previous two months. The Australian economy grew 2.6% year-on-year in Q4 2025, surpassing expectations of 2.2% and accelerating from a 2.1% gain in Q3. This represents the fastest pace of economic growth since Q1 2023. Cotality's Home Value Index rose 0.6% in March 2026, slowing from the previous month as expectations of further rate hikes tempered price growth and reduced market activity. The slowdown was most evident in Sydney and Melbourne, where prices fell and transaction volumes dropped sharply, while mid-sized capitals continued to see strong growth.

## 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+
Western Australia Treasury Corporation	AAA
CPPIB Capital Inc	AAA
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 Outlook

The month began with a marked escalation in the Middle East conflict, prompting financial markets to adjust rapidly as participants sought to incorporate the potential implications for global financial conditions. Markets focused on assessing both the duration and severity of the disruption, particularly its impact on energy supply in the short and longer term. Global prices for oil and other energy sources rose sharply, short-term inflation expectations increased, and financial market volatility intensified. The conflict is expected to constitute a material adverse supply shock to the global economy; however, the magnitude and persistence of this shock remain uncertain. Accordingly, market prices continued to exhibit significant volatility, reflecting ongoing revisions by participants as new information emerged and assessments of the potential economic implications evolved.

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, sits at 3.3% year-on-year in February, remaining above the Bank's 2–3% target range. Market expectations for future central bank policy rates increased materially across most economies following the onset of the current conflict, reflecting anticipated near-term inflationary pressures. In its February 2026 Statement on Monetary Policy, the Reserve Bank of Australia materially revised its inflation outlook higher, projecting that inflation would peak in mid-2026 and return to the target range only by mid-2027. At its March meeting, the Board noted that the rise in oil prices had further increased the risk that inflation would remain above target for a prolonged period.

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, a unanimous decision. This was followed by a further 25 basis point increase at the March meeting, which was notably decided by a narrow 5–4 majority. 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. But did acknowledge that future policy decisions would require the Board to balance its two objectives of delivering price stability and full employment carefully.

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 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. Notably, the March meeting minutes highlighted the possibility that the labour market may be less tight than implied by the data, and that consumption could be weaker, particularly amid a continued decline in consumer confidence. If the RBA opts to further tighten monetary policy in this environment, it could weigh on economic growth.

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 his intention to pursue alternative tariff measures, including proposing a new 10% global tariff under a different legal authority to replace the

struck-down duties. In early April, he further increased the proposed tariff to 15%, keeping trade tensions and policy uncertainty elevated.

The U.S.–Israel attack on Iran has heightened geopolitical tensions and disrupted energy markets, driving global oil prices north of \$100 per barrel amid concerns over supply disruptions, particularly in the Strait of Hormuz—a critical route for around 20% of global oil trade. Elevated oil prices are expected to add to inflationary pressures and weigh on global growth as energy and production costs rise, with the full market impact likely to emerge over time. Growing mistrust and declining credibility between the adversaries are likely to keep markets on edge in the months ahead. Meanwhile, the Administration's willingness to challenge established international norms is contributing to sustained 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

<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\$459 mn as at 31 March 2026	<b>Benchmark</b> Bloomberg AusBond Composite 0+YR Index
<b>Minimum Investment</b> A\$10,000	

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## Applications and contacts

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

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