

# Yarra Australian Bond Fund

## Net returns as at 31 May 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	1.57	0.14	1.62	3.61	0.71	2.08	4.70
Growth return <sup>#</sup>	1.57	-0.62	-1.92	0.77	-1.05	-1.07	-0.12
Distribution return <sup>#</sup>	0.00	0.76	3.54	2.84	1.76	3.15	4.82
Bloomberg AusBond Composite 0+YR Index	1.62	0.23	1.31	2.97	0.32	1.80	4.59
Excess return <sup>#</sup>	-0.05	-0.09	0.31	0.64	0.39	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.

<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 1.57% to underperform the benchmark by 5 basis points (bps).

The Fund began the month with an overweight duration position of 0.50 years and ended the month with an overweight duration position of 0.48 years. Duration would have contributed to performance for the month. The fund remains positioned to benefit from a steeper yield curve between 3-year and 10-year maturities and a flattening yield curve from 10-year to 15-year maturities. The steepening of the 3–10-year bond curve was a contributor to performance, however the steepening of 10-year to 15-year curve would have offset any gains elsewhere.

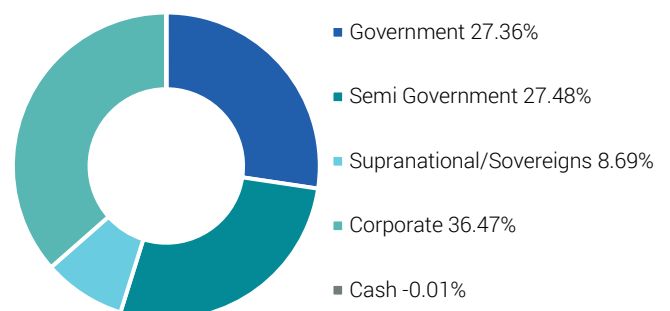
The Fund holds an overweight position in spread products, primarily through investments in semi-government and supranational agency issued securities. In addition, the Fund maintains an overweight allocation to investment grade credit, including senior financials, residential mortgage-backed securities, and high-grade corporates with maturities extending out to 5 years. Over the month spreads overall did not move significantly. However, longer maturity semi-government spreads did underperform, reversing the gains from the previous month. This was the primary driver of the Fund's underperformance relative to the benchmark.

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.30	4.82	0.48
Corporate Spread Duration (yrs)	0.86	0.34	0.52
Total Spread Duration (yrs)	3.61	2.47	1.14
Yield to Maturity (%)	5.13	4.89	0.24
Average Coupon (%)	4.25	3.14	1.11
Weighted-average Credit Rating <sup>#</sup>	A+	AA	-

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

### Portfolio Asset Allocation



## Risk Characteristics

3 Year Volatility (p.a.)	4.45%
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 1.62% in May. Australian government bond markets experienced significant volatility during the month. Yields initially moved higher amid rising global yields, persistent inflation concerns, and expectations of further RBA policy tightening. Sentiment shifted later in the period, however, triggering a strong rally that saw yields fall materially across the curve as softer-than-expected inflation data and evidence of moderating wage growth prompted investors to reassess the near-term monetary policy outlook. The 3-year government bond yield declined by 28 basis points to 4.48%, while the 10-year yield fell by 23 basis points to 4.83%, resulting in a modest steepening of the yield curve over the period. Meanwhile, short-term bank bill rates increased, with the 3-month rate climbing 9 basis points to 4.46% and the 6-month rate rising 5 basis points to 4.82%. The Australian dollar ended the month flat at USD 0.72.

The Reserve Bank of Australia raised the cash rate by 25 basis points to 4.35% at its May 2026 meeting, in line with expectations. The move marks the third consecutive rate increase this year and, following an 8–1 vote, fully reverses last year's easing cycle. The decision reflects persistent inflationary pressures, driven by capacity constraints and higher fuel and commodity prices linked to the Middle East conflict. Updated forecasts indicate inflation will peak higher than previously expected before gradually easing as demand slows and capacity pressures moderate. However, the outlook remains uncertain, with risks tilted to the upside if geopolitical tensions continue to lift energy prices and fuel broader inflation. The Board judged that inflation is likely to remain above target and reiterated that future policy decisions will remain data dependent.

Australia's annual inflation rate eased to 4.2% in April 2026 from 4.6% in March, below market expectations of 4.4%, though it remained above the RBA's 2–3% target range. The moderation was driven by lower goods inflation, which slowed to 4.7% from 5.5%, largely reflecting softer transport cost growth as fuel prices rose more gradually following the reduction in the fuel excise on 1 April. Services inflation also edged down to 3.5% from 3.6%. However, underlying price pressures remained elevated, with trimmed mean inflation rising to 3.4% year-on-year, the highest level since September 2024 and in line with expectations. On a monthly basis, CPI increased 0.4%, slowing sharply from 1.1% in March and undershooting forecasts of a 0.6% rise.

Other domestic data released during the month continued to point to a moderation in economic activity. Australia's seasonally adjusted unemployment rate rose to 4.5% in April, exceeding both the previous month's reading and market

expectations of 4.3%, and reaching its highest level since November 2021. Meanwhile, Cotality's national Home Value Index was unchanged in May, indicating a continued loss of momentum in the housing market. Conditions across the property sector remain challenging, with elevated interest rates, affordability pressures, and recent tax policy changes contributing to softer demand.

Australia's NAB Business Confidence Index edged higher in April, following the second-largest monthly decline on record last month. However, the survey highlighted growing pressure from rising energy costs linked to the Middle East conflict, which are weighing on business margins and investment intentions. Business conditions deteriorated further, falling to their second-lowest level since 2020 and marking a fourth consecutive monthly decline. Meanwhile, the Westpac–Melbourne Institute Consumer Sentiment Index improved modestly in May, although sentiment remained deeply pessimistic as households continued to contend with higher interest rates and persistent cost-of-living pressures.

## Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
New South Wales Treasury Corporation	AA+
Queensland Treasury Corporation	AA+
International Finance Corporation	AAA
Treasury Corporation of Victoria	AA
South Australian Govt Financial Authority	AA+
Export Finance & Insurance Corp	AAA
Western Australia Treasury Corporation	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

Developments in the Middle East are adding to inflationary pressures through higher fuel prices, with signs these costs are beginning to flow through to a broader range of goods and services, as such inflation remains the key economic challenge. Headline inflation is above the RBA's 2–3% target range, driven by energy costs, insurance, rents and persistent cost pressures. While inflation is expected to ease gradually, the RBA does not anticipate a return to target until 2027, meaning cost-of-living pressures are likely to persist. The RBA has maintained a restrictive policy stance, with the cash rate at around 4.35%. While some market participants believe there is limited scope for further rate increases, there remains a risk that the RBA could raise interest rates again if inflation proves more persistent than expected. Consequently, interest rates are likely to remain elevated for an extended period.

The labour market remains relatively healthy, but conditions

are easing. Unemployment has risen to around 4.5% and is expected to drift slightly higher as economic growth slows and hiring demand softens. However, unemployment remains low by historical standards and widespread job losses are not currently expected.

Consumer confidence remains subdued amid high interest rates, elevated living costs and ongoing geopolitical uncertainty. While spending on essentials has remained resilient, discretionary spending remains constrained. Business conditions are mixed. Firms exposed to infrastructure, technology and energy investment continue to perform relatively well, while many small and medium-sized businesses face pressure from higher borrowing costs, softer demand and rising operating expenses. Although investment intentions remain positive, businesses are increasingly focused on cost discipline and capital allocation.

Australia's economic outlook for 2026 remains one of modest but positive growth, with GDP expected to expand by approximately 2.0–2.5%. Growth is being supported by population growth, public infrastructure investment, technology spending and a resilient labour market, while weak productivity, elevated living costs, high household debt and global uncertainty continue to weigh on activity. Inflation is expected to ease gradually, unemployment to rise modestly, and interest rates to remain stable but elevated. While the economy is not showing signs of a significant downturn, consumer and business confidence remains subdued. Key risks include a sharper slowdown in China, ongoing trade tensions, energy price volatility and persistently weak productivity growth.

The IMF and OECD forecasts China's economy to grow at a more moderate pace of around 4.5% in 2026, down from the 5% growth recorded in 2025, supported by government stimulus, infrastructure investment and advanced manufacturing, but constrained by a prolonged property downturn, weak consumer spending, industrial overcapacity and deflationary pressures. For Australia, this presents a key downside risk given China's importance as Australia's largest trading partner and a major buyer of resources. While weaker property and construction activity may weigh on demand for commodities such as iron ore and coal, ongoing infrastructure investment and manufacturing growth should continue to support trade, albeit at lower levels than during the commodity boom years.

The U.S. economic outlook remains relatively resilient, with the OECD forecasting GDP growth of about 2.0% in 2026, supported by AI-related investment and energy-sector activity. However, economic growth is expected to slow amid persistent inflationary pressures, elevated interest rates, a significant federal budget deficit, continued policy uncertainty, and signs of softening consumer sentiment. The Trump administration's trade policies, including higher tariffs and ongoing disputes with key trading partners, have increased uncertainty for businesses and global supply chains, while tighter immigration policies and fiscal pressures add further risks. Although the U.S. economy continues to outperform many advanced economies, elevated geopolitical tensions and

unpredictable policy settings could weigh on investment and confidence. Overall, the immediate risk to Australia is not a U.S. recession but the spillover effects of policy uncertainty and trade disruption on global growth and commodity markets.

## 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\$476 mn as at 31 May 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](http://www.yarracm.com)

**Investor Services Team** 1800 034 494 (Australia) +61 3 9002 1980 (Overseas) [IST@yarracm.com](mailto:IST@yarracm.com)

---

---

### Disclaimer

Yarra Funds Management Limited ABN 63 005 885 567, AFSL 230 251 (YFM) is the issuer and responsible entity of units in the Yarra Australian Bond Fund ARSN 098 736 255 (Fund). YFM is not licensed to provide personal financial product advice to retail clients. The information provided contains general financial product advice only. The advice has been prepared without taking into account your personal objectives, financial situation or particular needs. Therefore, before acting on any advice, you should consider the appropriateness of the advice in light of your own or your client's objectives, financial situation or needs. Prior to investing in any of the Funds, you should obtain and consider the Product Disclosure Statement (PDS) and the Target Market Determination ('TMD') for the relevant Fund by contacting our Investor Services team on 1800 251 589 or from our website at [www.yarracm.com/pdsupdates](http://www.yarracm.com/pdsupdates).

The information set out has been prepared in good faith and while YFM and its related bodies corporate (together, the "Yarra Capital Management Group") reasonably believe the information and opinions to be current, accurate, or reasonably held at the time of publication, to the maximum extent permitted by law, the Yarra Capital Management Group: (a) makes no warranty as to the content's accuracy or reliability; and (b) accepts no liability for any direct or indirect loss or damage arising from any errors, omissions, or information that is not up to date. No part of this material may, without the Yarra Capital Management Group's prior written consent be copied, photocopied, duplicated, adapted, linked to or used to create derivative works in any form by any means.

YFM manages each of the Funds and will receive fees as set out in each PDS. To the extent that any content set out in this document discusses market activity, macroeconomic views, industry or sector trends, such statements should be construed as general advice only. Any references to specific securities are not intended to be a recommendation to buy, sell, or hold such securities. Past performance is not an indication of, and does not guarantee, future performance. Information about the Funds, including the relevant PDSs, should not be construed as an offer to any jurisdiction other than in Australia. With the exception of some Funds that may be offered in New Zealand from time to time (as disclosed in the relevant PDS), we will not accept applications from any person who is not resident in Australia or New Zealand. The Funds are not intended to be sold to any US Persons as defined in Regulation S of the US federal securities laws and have not been registered under the U.S. Securities Act of 1933, as amended.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only and do not imply that the portfolio will achieve similar results. Holdings may change by the time you receive this report. Future portfolio holdings may not be profitable. The information should not be deemed representative of future characteristics for the strategy. There can be no assurance that any targets stated in this document can be achieved. Please be advised that any targets shown are subject to change at any time and are current as of the date of this document only. Targets are objectives and should not be construed as providing any assurance or guarantee as to the results that may be realized in the future from investments in any asset or asset class described herein. If any of the assumptions used do not prove to be true, results may vary substantially. These targets are being shown for informational purposes only.

© Yarra Capital Management, 2026.