Investment Commentary
Month to 31 July 2026

Yarra Australian Bond Fund

Net returns as at 31 July 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	-0.46	2.13	1.36	4.27	0.28	1.93	4.69
Growth return#	-0.46	1.27	-2.31	1.26	-1.63	-1.12	-0.13
Distribution return#	0.00	0.86	3.67	3.01	1.91	3.05	4.82
Bloomberg AusBond Composite 0+YR Index	-0.43	2.15	1.12	3.65	-0.07	1.65	4.58
Excess return#	-0.03	-0.02	0.24	0.62	0.35	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.

#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 -0.46% to underperform the benchmark by 3 basis points (bps).

Australian bond yields rose across the curve over the month, with the increase in longer-dated yields relative to shorter-dated yields resulting in a steepening of the yield curve. The broad-based rise in yields was a headwind for fund performance. The portfolio's duration position, which was 0.48 years overweight the benchmark, detracted from relative performance.

The portfolio's positioning along the yield curve made a positive contribution to relative performance, as the steepening of the curve was favourable to the portfolio's curve positioning. However, this positive contribution was insufficient to offset the negative impact from the fund's duration overweight.

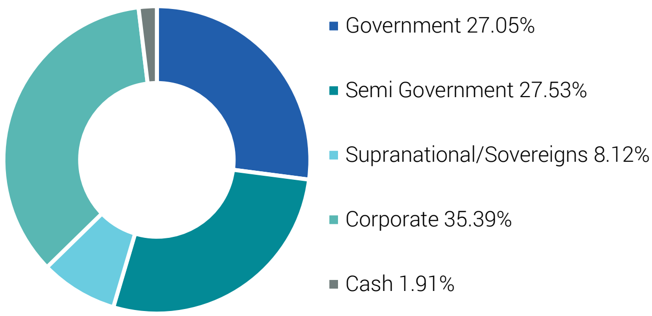
The portfolio remains overweight spread products, primarily through semi-government and supranational agency securities. The portfolio also maintains an overweight to investment-grade credit, including senior financials, residential mortgage-backed securities (RMBS), and high-quality corporate bonds with maturities of up to five years. Credit spreads were marginally weaker, while semi spreads widened amid increased issuance at the start of the financial year, resulting in a slight detraction from performance.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.26	4.77	0.48
Corporate Spread Duration (yrs)	0.83	0.36	0.48
Total Spread Duration (yrs)	3.55	2.48	1.07
Yield to Maturity (%)	5.38	4.94	0.43
Average Coupon (%)	4.50	3.19	1.31
Weighted-average Credit Rating#	AA	AA	-

#Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	4.26%
3 Year Tracking Error (p.a.)	0.46%

Market Commentary

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, returned -0.43% in July. Australian government bond yields were volatile over the month, initially moving higher before retracing some of those gains after a softer-than-expected inflation reading prompted markets to scale back expectations of further RBA rate hikes. Government bond yields ended higher over the month, particularly at the long end of the curve. The 3-year government bond yield rose 13 basis points to 4.49%, while the 10-year yield increased 21 basis points to 4.93%, resulting in a steepening of the yield curve. Short-term money market rates also edged higher, with the 3-month bank bill rate rising 4 basis points to 4.50% and the 6-month bank bill rate increasing 3 basis points to 4.83%. The Australian dollar strengthened against the US dollar ending the month at USD 0.70.

The Reserve Bank of Australia's (RBA) Monetary Policy Board did not hold a meeting in July. At its most recent meeting in June, the Board unanimously decided to leave the cash rate unchanged at 4.35%, in line with market expectations. The Board noted that earlier rate hikes are still flowing through the economy, with tighter financial conditions contributing to moderating activity. However, it maintained that inflation remains elevated, driven by capacity constraints and higher fuel and commodity prices linked to the Middle East conflict. While oil prices have eased, they remain above pre-conflict levels, with higher input costs continuing to flow through to consumer prices.

Australia's annual inflation rate eased to 3.8% in June 2026, down from 4.0% in May and below market expectations of 4.0%. The reading marked the slowest pace of inflation since February. Despite the moderation, inflation remains above the RBA's target range of 2–3%, indicating that underlying price pressures persist. While goods inflation continued to moderate, services inflation remained more persistent, reflecting ongoing labour market tightness. The RBA's preferred measure the trimmed mean CPI stood at 3.6% year on year, still the highest since September 2024 but below expectations of 3.7%, while the weighted median CPI rose 3.7%, after a 3.6% gain in May. Monthly, the CPI unexpectedly edged down 0.1%, marking its second consecutive monthly decline and defying expectations of a 0.2% rise.

Domestic data released during the month continued to indicate moderating economic activity. Australia's seasonally adjusted unemployment rate remained at 4.4% in June, in line with market expectations. Meanwhile, Cotality's national Home Value Index declined 0.7% in July, the largest monthly fall since December 2022. Property market conditions remain subdued, reflecting elevated interest rates, affordability constraints, tighter lending standards following the introduction of APRA's debt-to-income lending limits earlier this year, and the impact of negative gearing and capital gains tax reforms on investor demand. Together, these factors are expected to weigh on housing demand and place further downward pressure on dwelling prices.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
New South Wales Treasury Corporation	AA+
South Australian Govt Financial Authority	AA+
Queensland Treasury Corporation	AA+
Treasury Corporation of Victoria	AA
Western Australia Treasury Corporation	AAA
International Finance Corporation	AAA
Export Finance & Insurance Corp	AAA
Athene Global Funding	A+
Metropolitan Life Global Funding I	AA-

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

Market Outlook

Australia appears to be entering a prolonged period of modest growth, gradually easing inflation, slightly higher unemployment and elevated interest rates. The economy continues to be supported by population growth, public infrastructure spending, technology and AI-related investment, and a labour market that remains relatively resilient. However, growth is being constrained by weak productivity, ongoing cost-of-living pressures, elevated household debt and heightened global uncertainty, particularly relating to energy markets and trade tensions. Recent forecasts suggest Australia is likely to avoid a technical recession, although economic growth remains subdued and per-capita growth is weak.

The RBA has maintained a restrictive monetary policy stance as inflation has proved more persistent than anticipated. Following earlier rate increases in 2026, the cash rate remains at 4.35%. We expect the policy rate to remain unchanged for some time, with any easing contingent on clearer evidence that inflation is returning sustainably to the RBA's 2–3% target range. However, we expect inflation to moderate more quickly and unemployment to rise faster than the RBA currently projects. Recent labour market data are already tracking closer to the RBA's forecast of 4.5% unemployment by mid-2027, while the latest inflation data indicate easing price pressures, supporting the case for an earlier rate-cutting cycle.

Inflation remains the key economic challenge. While headline inflation has eased from its peak and has moderated somewhat during 2026, underlying inflation remains above the RBA's 2–3% target range. The labour market remains relatively healthy but has softened. Unemployment is currently around 4.4–4.5% and may drift slightly higher as economic growth remains below trend and business hiring becomes more cautious. Nevertheless, unemployment remains low by historical standards, and widespread job losses are not currently expected.

Consumer confidence remains fragile, as cost-of-living pressures, persistent inflation, and geopolitical uncertainty continue to weigh on household sentiment. While lower global energy prices have provided some relief, the unwinding of the temporary fuel excise reduction is expected to place upward pressure on domestic fuel prices, adding to household cost-of-living pressures and slowing the pace of disinflation. As a result, households remain cautious, prioritising essential spending over discretionary purchases. Consumer pessimism also remains unusually elevated relative to the low unemployment rate, while softening housing prices are likely to further constrain consumption by reducing the household wealth effect.

Business conditions remain mixed. Firms supported by infrastructure, AI, data centres, the energy transition and technology investment remain confident. In contrast, many small and medium-sized businesses continue to face pressure from higher borrowing costs, weaker consumer demand and rising operating costs. While investment intentions remain positive overall, businesses are increasingly focused on productivity gains and cost management.

The economy is not currently showing signs of a severe downturn, but both consumer and business sentiment remain cautious. Key risks include a sharper slowdown in China, renewed energy price shocks, escalating global trade tensions, weaker productivity growth and increased volatility stemming from geopolitical conflicts. Improvements in productivity and business investment remain critical to strengthening the medium-term outlook.

China, Australia's largest export market and the dominant buyer of iron ore, coal and other commodities, is expected to record moderate but slowing growth, with the OECD and IMF forecasting GDP growth of around 4.5% in 2026 and the low-4% range in 2027, down from approximately 5% in 2025. While government stimulus, infrastructure investment, high-tech manufacturing and exports continue to support activity, the economy faces persistent structural challenges, including a prolonged property downturn, weak household consumption, industrial overcapacity and deflationary pressures. For Australia, weaker Chinese property activity could reduce demand for commodity exports and weigh on mining investment, although infrastructure spending and manufacturing should provide some ongoing support.

The U.S. economy is expected to remain relatively resilient, with the OECD forecasting GDP growth of around 2.0% in 2026. Growth continues to be supported by consumer spending, AI-related investment and productivity gains, although persistent inflation, fiscal pressures and trade policy uncertainty are expected to moderate activity. For Australia, continued U.S. growth should support global demand and financial market stability. However, uncertainty surrounding tariffs, trade policy and government finances could increase market volatility, tighten global financial conditions and weigh on global trade, while ongoing U.S. investment in technology, AI, defence and energy presents opportunities for Australian exporters and investors.

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$551 mn as at 31 July 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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