Yarra Australian Bond Fund

Net returns as at 31 May 2024

	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^	0.36	-0.64	1.30	-1.92	-0.35	2.26	4.70
Growth return#	0.36	-1.01	-0.23	-2.58	-2.72	-1.44	-0.23
Distribution return#	0.00	0.37	1.53	0.66	2.37	3.69	4.93
Bloomberg AusBond Composite 0+YR Index	0.39	-0.50	0.87	-2.09	-0.55	2.20	4.64
Excess return#	-0.03	-0.15	0.43	0.17	0.19	0.06	0.06

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).

^Effective August 2021, the Fund was renamed from the Nikko AM Australian Bond Fund to the Yarra Australian Bond Fund. There was no change to the Fund's investment team, philosophy or process.

*Inception date: July 2000

Portfolio review

After fees and expenses, the Fund returned 0.36% to underperform the benchmark by 3 basis points (bps).

The Fund began and ended the month with a duration position overweight by approximately 0.7 years, which was increased from 0.5 years in the previous month following the significant sell off in bond markets over April. This month bond yields were volatile but ended the month roughly flat, as yields saw downward pressure following a series of data globally that showed evidence of an economic slowdown. Almost all of the yield movements were reversed as weak results from the US Treasury auction saw bond markets sell off. We are still of the view that the next move for interest rates will be down, and remain comfortable with the overweight duration position of the fund.

The Fund's strategic positioning, which anticipated a yield curve steepening (widening gap between the 3-year bond yield and the 10-year bond yield) has slightly detracted from the fund's performance relative to the benchmark, this month, after the yield curve flattened 1bp. It is still our central view that the yield curve will steepen significantly after the RBA begins its rate cut cycle.

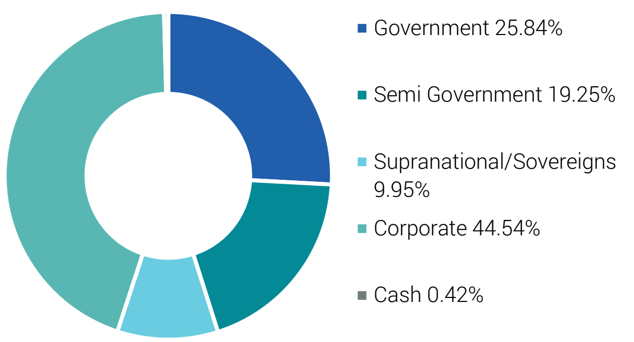
Sector positioning favours an overweight in spread, mostly senior financials and residential mortgage-backed securities as well as high grade issuers such as supranational and Australian government guaranteed borrowers which have remained attractive relative to government bonds. The Fund reduced its weighting to semi-government bonds, given recent weakness in the sector. However, we will continue to monitor opportunities to be overweight the sector, when it becomes attractive to do so.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.60	4.90	0.70
Corporate Spread Duration (yrs)	1.21	0.29	0.92
Total Spread Duration (yrs)	3.45	2.27	1.18
Yield to Maturity (%)	5.05	4.58	0.47
Average Coupon (%)	3.72	2.78	0.94
Weighted-average Credit Rating#	AA-	AA	-

#Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	7.01%
3 Year Tracking Error (p.a.)	0.76%

Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned 0.39% over the month. Australian bond yields were volatile over the month, initially falling from weaker economic data globally, before the momentum shifted from a weak US Treasury auction and yields rose again to finish the month roughly flat. Inflation data releases both domestically and in the US came in slightly higher than market forecasts, prompting investors to anticipate that high interest rates will persist for a longer duration. The yield on 3-year government bonds increased slightly by 1 basis points (bps) to 4.05%, while the yield on 10-year government bonds decreased slightly by 1 bps to 4.41%. Short-term bank bill rates fell, with 3-month rates down 6 bps to 4.35%, while 6-month rates decreased by 10 basis points to 4.60%. The Australian dollar rose against the US Dollar, closing the month at USD 0.67.

The Federal Budget was announced on 14 May by Treasurer Jim Chalmers and commentators have raised whether the stimulatory nature of the budget will result in inflation. On the one hand there is a view that the spend will result in inflation while others argue that inflation will instead drop as some of the larger measures such as the tax cuts were already known and that cost-of-living relief will in fact lower CPI as consumers choose to save rather than spend.

In the Reserve Bank's Monetary policy meeting minutes from the 7th of May members noted that inflation in advanced economies remained above central bank's targets. Additionally, a stronger economic outlook for China and supply constraints has led to prices of some commodities increasing. Progress in lowering inflation appeared to have stalled, in some cases at least temporarily. Core services price inflation remained high and the latest US inflation data was higher than expected. Labour market conditions continued to be fairly tight and households continued to face challenges. Members reiterated their commitment to seeing inflation returning to target 2–3% range noting a limited tolerance for this to occur later than 2026. Members also noted that inflation was still declining although this was slower than expected. In light of these factors and given a number of data points received since the previous meeting have been stronger than expected, it was decided to leave the cash rate at 4.35%.

Domestic data releases throughout May seem to indicate the economy might be slowing. Australia's monthly CPI indicator rose to 3.6% in the 12 months to April with Housing and Food being two of the main components. Seasonally adjusted unemployment in April rose to 4.1% and Australian retail sales were weaker than expected rising only 0.1% month on month.

CoreLogic's national Home Value Index (HVI) continued its upward trajectory in April 2024 rising 0.6%. This was similar to the gains recorded in February and March with housing values up 11.1% since the trough in January last year.

The NAB Monthly Business Survey noted that business conditions eased in April with the employment index weakening and forward orders falling driven largely by mining, manufacturing and construction.

The Westpac Melbourne-Institute Consumer Sentiment Index dipped 0.3% to 82.2 in May, from 82.4 in April. Despite cost-of-living support being a mainstay of the budget, cost pressures and inflation continue to weigh on households and consumer sentiment remains pessimistic.

Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
Queensland Treasury Corporation	AA+
South Australian Govt Financial Authority	AA+
Suncorp	A+
Paccar Financial	A+
New South Wales Treasury Corporation	AA+
Westpac Bank	AA-
National Australia Bank	AA-
Athene Global Funding	A+
Treasury Corporation of Victoria	AA

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

Market Outlook

The global economy confronts multiple hurdles, including continued instability in the Middle East and worries about China's lacklustre growth predictions, as well as persisting strains within their property market. Additionally, consumer purchasing power has been diminishing due to elevated inflation stemming from low unemployment and increased commodity prices, thereby exerting inflationary pressures. On the domestic front, the Australian economy has demonstrated resilience. Nevertheless, leading indicators are now revealing signs of strain on consumer spending as a result of tighter monetary policy settings.

The International Monetary Fund (IMF) forecasts indicate a further slowdown in global growth over the coming years. Partly attributed to the conclusion of the initial recovery phase following the pandemic and as tightening policies beginning to take effect. The Reserve Bank of Australia (RBA) anticipates a moderation in domestic economic growth, primarily due to a weaker outlook for consumer spending. This outlook stems from pressure on household budgets resulting from declines in real incomes over the past couple of years, which is expected to weigh on consumption. The Bank's central forecast for GDP growth has growth around 1.75% over 2024 and a little above 2% over the following year. Given the expected below-trend growth in the economy, the unemployment rate is forecast to increase gradually to be around 4.5% late next year. Headline inflation had reached 7.8% over the year to December 2022 but has since comeback to 3.6% in the March 2024 quarter. Looking further out the Bank forecast is for CPI inflation to continue to decline, returning to the target range of 2–3% in 2025, and to the midpoint in 2026.

Inflation continues to moderate but remains high, the RBA has increased interest rates a cumulative 4.25 percent over the two last year to rein in inflation. While we hold the belief that the current cash rate is already relatively restrictive, the Reserve Bank of Australia (RBA) has not categorically dismissed the possibility of implementing further tightening measures. This stance is maintained in case the RBA deems the current rate insufficient to effectively address inflation within a reasonable timeframe, even amid a dimming growth outlook.

Inflation appears to be moderating in many advanced economies, approaching central banks' targets. However, looking more closely at the components, energy and goods inflation is showing signs of easing, while housing and core services inflation remains elevated compared to pre-pandemic levels. In the United States, resilience is notable, with recent data showing a modest uptick in inflation readings alongside tight labour markets. Consequently, market forecasts suggest that high interest rates may persist longer than initially expected.

While Australia's economic situation remains robust, concerns abroad are likely to influence our market in the coming quarters.

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$348 mn as at 31 May 2024	**Benchmark** Bloomberg AusBond Composite 0+YR Index
Minimum Investment A$10,000	

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