YARRA CAPITAL MANAGEMENT

Yarra Australian Bond Fund

Net returns as at 31 October 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^	-1.96	-0.28	7.97	-0.35	-0.46	2.23	4.71
Growth return#	-1.96	-1.13	5.69	-1.43	-2.30	-1.12	-0.19
Distribution return#	0.00	0.85	2.28	1.08	1.84	3.35	4.90
Bloomberg AusBond Composite 0+YR Index	-1.88	-0.39	7.08	-0.62	-0.68	2.10	4.63
Excess return#	-0.08	0.11	0.89	0.27	0.22	0.12	0.08

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 -1.96% to underperform the benchmark by 8 basis points (bps).

The Fund began the month with an overweight duration position of 0.52 year and ended at 0.77 years. During the month bond yields experienced a significant sell-off across the curve, driven by strong labour market data and the build up to the US election. We viewed the price action as overdone, especially as the Federal Reserve and other central banks globally continued to lower policy rates. Consequently, we increased the portfolio's duration position to take advantage of that. However, this move negatively impacted performance as markets continued to sell-off, with the momentum of risk-on trades increasing further.

Domestically, there was no RBA meeting, but the rhetoric from RBA board members reiterated their stance, indicating that they are "not ruling anything in or out". It appears the RBA is unlikely to consider rate cuts this year. Nonetheless, we believe that there are potential risks of deterioration in the labour market, which could prompt the RBA move to cut policy rates quickly.

The Fund continues to be positioned to benefit from a yield curve to steepening (widening gap between the 3-year bond yield and the 10-year bond yield), and this was contributor to performance this month as the curve steepened 6 basis points, offsetting some of the underperformance in the duration position. It remains our central view that once the RBA begins its rate cut cycle the curve will continue steepen.

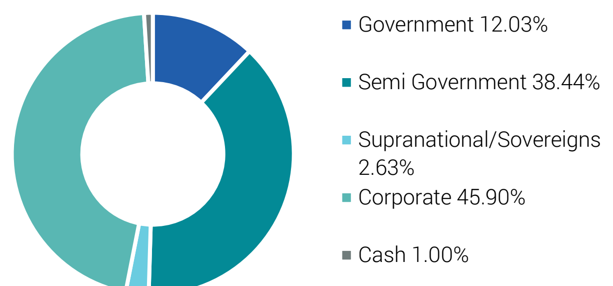
Sector positioning favours an overweight to spread, primarily in senior financials, residential mortgage-backed securities, and high-grade corporates with maturities out to 5 years. Our view is that semi-government spread widening has peaked, which has prompted a reallocation into the sector. We maintain an overweight position in longer-dated semi-government bonds with maturities between 12 and 15 years. These positions positively contributed to our performance, as the 10-15 year bond curve flattened and credit spreads compressed throughout the month.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.60	4.82	0.77
Corporate Spread Duration (yrs)	1.23	0.30	0.93
Total Spread Duration (yrs)	4.64	2.32	2.32
Yield to Maturity (%)	5.15	4.53	0.62
Average Coupon (%)	3.97	2.85	1.12
Weighted-average Credit Rating#	A+	AA	-

#Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	6.81%
3 Year Tracking Error (p.a.)	0.81%

Market Commentary

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, recorded a return of -1.88% in October. Australian Government bonds were sold-off across all maturities during the month, leading to a steepening of the bond yield curve of 5 basis points (bps) and widening the spread to 48 bps. This shift reflected a market reassessment of the timing and magnitude of future interest rate cuts, driven by persistent inflation and a tight labour market.

The yield on 3-year government bonds rose by 48 bps to 4.02%, while the 10-year bond yield increased by 53 bps to 4.50%. Short-term bank bill rates had mixed movements, with 3-month rates dipping 1 basis point to 4.42%, while 6-month rates rose by 2 basis points to 4.64%. Additionally, the Australian dollar depreciated against the US dollar, closing the month at USD 0.66, partly due to rising US yields.

The Reserve Bank of Australia (RBA) did not hold a meeting in October. In its last meeting in September, the RBA emphasised that underlying inflation remains elevated. While headline inflation may decline further, they have not projected it to return to the 2-3% target range sustainably until 2026. The board reaffirmed the need to remain alert to potential upside inflation risks, adopting a data-dependent approach. The RBA also acknowledged that while household consumption is anticipated to improve in the second half of 2024, although the recovery may be slower than expected. This could result in continued weak output growth and a sharper downturn in the labour market.

Domestic data released throughout October suggests a resilient Australian economy. The annual inflation rate dropped to 2.8% in Q3 2024, down from 3.8% in Q2 and below market expectations of 2.9%. This marked the lowest inflation rate since Q1 2021. The slowdown was mainly driven by a sharp decline in goods inflation, which fell to 1.4% from 3.2% in Q2, largely due to lower electricity prices, supported by the Energy Bill Relief Fund rebates, along with a decline in fuel prices. In contrast, services inflation remained elevated at 4.6%, slightly up from 4.5%. The Reserve Bank of Australia's preferred inflation measure, the trimmed mean CPI, rose by 3.5% year-on-year, the smallest increase in nearly three years, in line with consensus but still above the central bank's 2-3% target.

Retail sales in Australia edged up just 0.1% month-on-month in September 2024, missing market forecasts of a 0.3% increase and sharply slowing from the 0.7% growth in August, as the boost from warmer weather in the previous month faded. Meanwhile, Australia's seasonally adjusted unemployment rate held steady at 4.1% in September, unchanged for the second consecutive month and slightly better than the market estimate of 4.2%.

Australia's CoreLogic National Home Value Index (HVI) increased by 0.3% in October, marking the 21st consecutive month of growth since February last year. With more properties listed for sale and a slowdown in buyer activity, selling conditions have become more relaxed. While mid-sized capitals like Perth (+1.4%) and Adelaide (+1.1%) saw strong price gains, Sydney, the nation's largest city, experienced a slight 0.1% decline—its first monthly drop since January 2023.

Top 10 Issuers

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

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

Market Outlook

The RBA remains committed to restoring price stability by bringing inflation back within its 2-3% target range. It has cautioned in its latest monetary policy statement that rates will need to remain "sufficiently restrictive" until the Board is confident inflation is sustainably moving toward this target. Their forecast projects underlying inflation returning to the target range by late 2025 and approaching the midpoint by 2026. As a result, we expect the RBA to hold rates at 4.35% in the near term. Recent data volatility has caused market fluctuations in expectations regarding the timing and magnitude of rate cuts. In our view, while data continues to indicate a weakening consumer and inflation trending in the right direction, we remain cautious of potential upside surprises.

In contrast to Australia's ongoing battle with inflation, several developed economies have successfully reined in inflation and have begun easing their monetary policy. The European Central Bank, Bank of Canada and Bank of England have eased rates, with the US Federal Reserve joining the rate cut club in September, reducing interest rates by 50 basis points, marking its first monetary policy easing in four years. This decision was driven by progress on the Fed's dual mandate of achieving maximum employment and maintaining price stability. Fed Chairman Jerome Powell emphasised that inflation is "much closer" to its 2% target and the labour market is "less tight" than pre-pandemic in 2019.

The Bank of Japan has been the outlier; after ending negative interest rates in March it raised its rate to 0.25% in July to

levels unseen in 15 years and unveiled a detailed plan to slow its massive bond buying, taking another step towards phasing out a decade of significant stimulus.

With the US elections now behind us, the prospect of a Trump-led Republican administration is generally seen as a positive for the US economy, especially with potential pro-business policies that could stimulate growth. However, concerns have emerged around the potential inflationary impact of these policies, particularly the raising of tariffs, particularly those targeting China. Such a move could escalate tensions and potentially lead to a trade war between the world's two largest economies. The repercussions of such a scenario could be far-reaching, with global markets, including Australia, likely to feel the impact. A trade war could disrupt supply chains, increase costs, and create uncertainty that would affect not only trade relations but broader economic stability worldwide.

Recent escalations in the Middle East, hinting at a potentially prolonged broader conflict in the region, along with the ongoing war between Ukraine and Russia, could still significantly influence the trajectory of cash and bond yields as we enter the final quarter of the year.

China, Australia's largest trading partner, has unveiled new stimulus measures aimed at reviving its struggling property sector and addressing weak domestic demand, with hints that further fiscal stimulus will follow. While the headline amount of the fiscal stimulus package is expected to be significant, investors should be closely watching how the funds will be allocated, as it may not prove as stimulative as anticipated. A large portion of the funds is likely to be directed toward restructuring local government debt. These local governments have heavily invested in areas from infrastructure to education but lack the necessary revenue streams to support these expenditures.

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$378 mn as at 31 October 2024

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

Contact Us

Yarra Capital Management
Level 11 Macquarie House
167 Macquarie Street Sydney NSW 2000, Australia

Phone 1800 251 589
Fax +61 2 8072 6304
Email sales.au@yarracm.com
Website www.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.

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, 2024.