

# Yarra Australian Bond Fund

## Net returns as at 30 September 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 <sup>a</sup>	0.28	3.66	7.85	-0.90	-0.15	2.52	4.82
Growth return <sup>#</sup>	-0.58	2.77	5.57	-1.98	-1.99	-0.84	-0.11
Distribution return <sup>#</sup>	0.86	0.89	2.28	1.08	1.85	3.36	4.93
Bloomberg AusBond Composite 0+YR Index	0.31	3.02	7.11	-1.19	-0.40	2.40	4.73
Excess return <sup>#</sup>	-0.03	0.64	0.73	0.29	0.25	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.

<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).

<sup>a</sup>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 0.28% to underperform the benchmark by 3 basis points (bps).

The Fund began the month with an overweight duration position of 0.53 years and ended at 0.52 years. Bond yields fluctuated but remained largely unchanged by month's end. In September, the ECB, BoC, and PBoC all implemented rate cuts, while the Fed initiated its easing cycle with a 50 basis point reduction, concerned about potential further deterioration in the labor market. Meanwhile, the RBA maintained that rate cuts are not on the table for this year, although they acknowledged that a rate hike was not discussed in the September meeting. Contrary to the RBA's stance, we believe there is a possibility that if unemployment rises significantly beyond their forecasts and inflation cools more quickly than anticipated, the rate cut cycle could begin as early as December this year.

The Fund remains 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 has been relatively neutral to performance over the month as the curve only steepened 1 basis point. 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. We believe the trend of semi-government spread widening has peaked, prompting a reallocation into the sector. We remain overweight longer dated semi-government bonds with maturities between 12 and 15 years. This positioning negatively impacted performance, as semi-government spreads widened again in September. However, we believe that the increased semi supply will eventually be absorbed by

offshore investors, leading to a subsequent compression in spreads.

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.46	4.94	0.52
Corporate Spread Duration (yrs)	1.26	0.29	0.96
Total Spread Duration (yrs)	4.58	2.35	2.23
Yield to Maturity (%)	4.77	4.11	0.66
Average Coupon (%)	4.02	2.84	1.17
Weighted-average Credit Rating <sup>#</sup>	A+	AA	-

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

### Portfolio Asset Allocation



- Government 13.35%
- Semi Government 36.25%
- Supranational/Sovereigns 2.63%
- Corporate 46.78%
- Cash 0.99%

## Risk Characteristics

3 Year Volatility (p.a.)	7.02%
3 Year Tracking Error (p.a.)	0.80%

## Market Commentary

The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned 0.31% over the month. The slope of the Australian bond yield curve saw a slight steepening of 1 basis point (bp), bringing the spread to 43 bps, as bond yields remained relatively stable month-on-month. The yield on 3-year government bonds dipped by 1 bp to 3.54%, while the yield on 10-year government bonds remained unchanged at 3.97%. Short-term bank bill rates edged up, with 3-month rates rising by 4 basis points to 4.43%, while 6-month rates increased by 9 basis points to 4.62%. The Australian dollar appreciated against the US Dollar, closing the month at USD 0.69.

The Reserve Bank of Australia (RBA) held its cash rate steady at 4.35% during its September meeting, marking the seventh consecutive hold since its last increase in November 2023, the decision was in line with market expectations. The RBA emphasised that underlying inflation, as indicated by the trimmed mean, remains elevated. While headline inflation may decline further, they have not projected to return to the 2-3% target range until 2026. The board reaffirmed the need to remain alert to potential upside inflation risks, adopting a data-dependent approach without ruling out future adjustments. The RBA also acknowledged that while household consumption is anticipated to improve in the second half of 2024, 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 releases throughout September indicate further softening of the economy. The Australian economy grew by 0.2% quarter-on-quarter in Q2 2024, maintaining its pace for the third consecutive quarter but falling short of market expectations of 0.3%. This marked the 11th consecutive quarter of growth, though at a slower pace, primarily driven by increased government spending. Notably, household spending, which accounts for half of GDP, declined after rising in the previous two quarters. On a year-on-year basis, Australia's Gross Domestic Product (GDP) grew by 1% in Q2 2024, the slowest rate since Q4 2020. Historically, Australia's annual GDP growth rate has averaged 3.35% from 1960 to 2024. Australia's seasonally adjusted unemployment rate stood at 4.2% in August 2024 in line with market expectations and unchanged from the previous month.

The Australian Bureau of Statistics (ABS) monthly consumer price index (CPI) indicator stands at 2.7% for the 12 months to August, down from 3.5% in July. The sharp fall over the month can be attributed largely to the temporary 2024-25 Commonwealth Energy Bill Relief Fund rebate and introduction of some State government rebates, which came into effect in July 2024. These rebates help reduce electricity costs for households. Falls in automotive fuel also contributed

significantly to the lower reading. Retail sales in Australia rose by 0.7% month on month in August 2024, exceeding market forecasts of 0.4%. It marked the fifth straight month of growth and the fastest pace since January, driven by warm weather and higher spending due to Father's Day sales events.

Australia's CoreLogic Home Value Index (HVI) rose by 0.4% in the first month of spring, broadly in line with the monthly change in July and August at 0.3% as momentum continues to leave the market. The September quarter saw a 1% rise in the national HVI, the lowest growth over a rolling three-month period since March 2023 when the market was moving through the early phases of the current upswing. The slowdown in the pace of growth can be attributed to more listings hitting the market and affordability constraints.

## Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
Queensland Treasury Corporation	AA+
New South Wales Treasury Corporation	AA+
South Australian Govt Financial Authority	AA+
Treasury Corporation of Victoria	AA
Suncorp	AA-
New York Life Global Funding	AA+
Paccar Financial	A+
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. In June both the European Central Bank and the Bank of Canada cut interest rates, followed by the Bank of England in July. In September, the US Federal Reserve joined the rate cut club, 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.

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 announced new stimulus measures aimed at reviving its struggling property sector and addressing weak domestic demand, with indications that fiscal stimulus will follow. These announcements have renewed optimism in Australia's mining sector, leading to a strengthening of commodity prices.

## 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\$383 mn as at 30 September 2024	<b>Benchmark</b> Bloomberg AusBond Composite 0+YR Index
<b>Minimum Investment</b> A\$10,000	

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