Investment Commentary
Month to 30 November 2024

Yarra Australian Bond Fund

Net returns as at 30 November 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^	1.16	-0.55	5.78	-0.64	-0.40	2.23	4.74
Growth return#	1.16	-1.40	3.55	-1.72	-2.24	-1.11	-0.14
Distribution return#	0.00	0.85	2.23	1.08	1.84	3.35	4.89
Bloomberg AusBond Composite 0+YR Index	1.14	-0.46	5.16	-0.93	-0.61	2.09	4.66
Excess return#	0.03	-0.09	0.61	0.28	0.22	0.14	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 1.16% in November to outperform the benchmark return of 1.14%, by 3 basis points (bps).

The Fund began the month with an overweight duration position of 0.68 years, which increased to 0.77 years by month-end. Bond yields ended the month lower across the curve, which contributed positively to performance.

The Fund remains positioned to benefit from a steepening yield curve (a widening gap between the 3-year and 10-year bond yields). This positioning was a negative contributor to performance this month, as the curve flattened. Our central view remains that the curve will steepen once the RBA initiates its rate cut cycle.

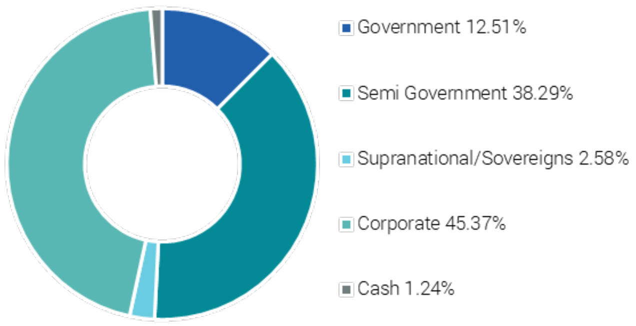
Sector positioning continues to favour an overweight stance in spread products, mainly senior financials, residential mortgage-backed securities, and high-grade corporates with maturities up to 5 years. We believe that the semi-government spread widening trend has peaked, leading to a reallocation away from the sector. However, we remain overweight in longer-dated semi-government bonds with maturities between 12 and 15 years.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.64	4.96	0.68
Corporate Spread Duration (yrs)	1.19	0.30	0.88
Total Spread Duration (yrs)	4.58	2.39	2.19
Yield to Maturity (%)	5.00	4.43	0.57
Average Coupon (%)	3.92	2.92	1.00
Weighted-average Credit Rating#	A+	AA	-

#Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	6.73%
3 Year Tracking Error (p.a.)	0.81%

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 Commentary

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, recorded a return of 1.14% in November. An initial increase in yields was primarily driven by market expectations of inflationary pressures from potential policies under the new Trump administration, including tax cuts and tariffs. However, much of the rise was undone as the month went on, following a 25-bps rate cut by the Federal Reserve and stable US CPI data. As a result, the bond yield curve flattened by 5 basis points (bps), narrowing the spread to 43 bps. The yield on 3-year government bonds fell by 11 bps to 3.91%, while the 10-year bond yield decreased by 16 bps to 4.34%. Short-term bank bill rates remained relatively stable, with 3-month rates up 1 basis point to 4.43%, while 6-month rates rose by 2 basis points to 4.66%. Additionally, the Australian dollar depreciated slightly against the US dollar, closing the month at USD 0.65.

The Reserve Bank of Australia (RBA) opted to maintain its cash rate at 4.35% during its November meeting, marking one year since the rate was last increased to this level. This decision aligns with market expectations. The central bank highlighted that while headline inflation has dropped significantly and is projected to remain lower for a while, underlying inflation remains persistently high. This indicates the need for ongoing vigilance against inflationary risks, with the board not ruling out any options. The RBA emphasized that monetary policy would need to stay sufficiently restrictive until it is confident that inflation is consistently heading toward the target range. In terms of household consumption, the RBA observed signs of increased spending in Q3 but noted the potential risk that the recovery may be slower than anticipated, which could result in continued weak output growth and a more pronounced deterioration in the labour market.

Domestic data released throughout November indicates a resilient Australian economy. Australia's seasonally adjusted unemployment rate was 4.1% in October 2024, remaining unchanged for the third consecutive month and in line with market expectations. Retail sales in Australia rose by 0.60% in October 2024 compared to the previous month. Meanwhile, Australia's CoreLogic National Home Value Index (HVI) increased by just 0.1% in the final month of spring, marking the weakest nationwide result since January 2023. Although this is the 22nd consecutive month of growth, it may be nearing the end of this cycle.

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, its first monetary policy easing in four years. This was followed by a further rate cut of 25 basis points in November. These decisions were driven by progress on the Fed's dual mandate of achieving maximum employment and maintaining price stability.

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. Ongoing instability in the Middle East along with the ongoing war between Ukraine and Russia, could still significantly influence the trajectory of cash and bond yields as we close out 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 are carrying large debts having 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	**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$387 mn as at 30 November 2024	**Benchmark** Bloomberg AusBond Composite 0+YR Index
Minimum Investment A$10,000	

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