Yarra Australian Bond Fund

Net returns as at 31 January 2025

	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^	0.12	1.94	3.28	-0.07	-0.36	1.98	4.74
Growth return#	0.12	0.83	0.38	-1.52	-2.24	-1.35	-0.16
Distribution return#	0.00	1.11	2.90	1.45	1.87	3.32	4.90
Bloomberg AusBond Composite 0+YR Index	0.19	1.84	2.91	-0.39	-0.60	1.83	4.66
Excess return#	-0.06	0.10	0.37	0.32	0.24	0.15	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 0.12% to underperform the benchmark by 6 basis points (bps).

The Fund started the month with an overweight duration position of 0.69 years and ended the month at 0.67 years, which slightly detracted from performance. Government bond yields experienced significant volatility throughout the month, driven by a series of global events and mixed economic data. The 3-year government bond yields ended the month flat, while 10-year government bond yields rose, steepening the yield curve. A stronger-than-expected US non-farm payrolls report triggered a bond market sell-off, with concerns about policy changes under President Donald Trump adding uncertainty. Markets stabilised after a CPI print in line with expectations and an ambiguous stance from the Federal Reserve, offering no clear indication on the timing of the next rate cut. Momentum shifted domestically towards the end of the month on release of the Q4 Australian CPI data, both headline and trimmed mean, came in below expectations, leading markets to fully price in a rate cut at the Reserve Bank of Australia's mid-February meeting.

The Fund continues to be positioned to benefit from a steepening yield curve (a widening gap between the 3-year and 10-year bond yields), which contributed positively to performance over the month. We maintain the view that the curve will steepen further once the RBA initiates its rate cut cycle.

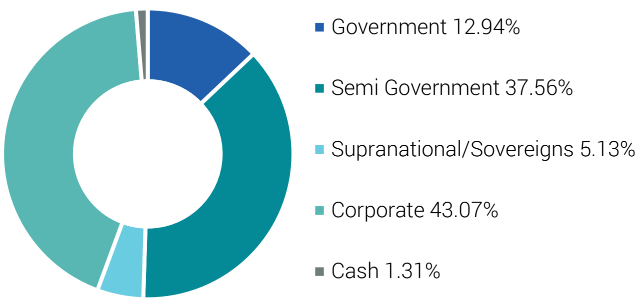
Sector positioning favours an overweight to spread, primarily in senior financials, residential mortgage-backed securities, and high-grade corporates with maturities out to 5 years. The Fund's semi-government allocation detracted from performance this month, as the sector weakened following a series of unfavourable updates on state budgets, including a significant debt requirement in Queensland's mid-year budget update. We consider that semi spreads have now peaked and will retain our current allocation, anticipating that investors will be attracted to the sector's higher relative value.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.50	4.84	0.67
Corporate Spread Duration (yrs)	1.10	0.31	0.79
Total Spread Duration (yrs)	4.28	2.36	1.92
Yield to Maturity (%)	4.98	4.38	0.60
Average Coupon (%)	3.96	2.93	1.03
Weighted-average Credit Rating#	A+	AA	-

#Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	6.72%
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 0.19% in January. Australian government bond yields experienced significant volatility throughout the month, driven by a series of global events and mixed economic data. The 3-year bond yield peaked at 4.07% before ending the month unchanged at 3.82%. The 10-year bond yield reached a high of 4.63% and a low of 4.36%, settling at 4.43% by month-end. As a result, the bond yield curve steepened by 7 basis points (bps), widening the spread to 61 bps. Short-term bank bill rates ended the month lower, in response to a lower-than-expected inflation reading, with 3-month rates falling by 17 basis points to 4.25%, and 6-month rates dropping by 18 basis points to 4.31%. The Australian dollar remained stable against the US dollar, closing the month at USD 0.62.

The Reserve Bank of Australia (RBA) did not hold a monetary policy meeting in January 2025, the cash rate remains unchanged at 4.35%. The next scheduled meeting is in February.

Domestic data released throughout January indicates a slight weakening of the Australian economy. Australia's annual inflation rate dropped to 2.4% in Q4 2024, down from 2.8% in Q3, coming in lower than the market consensus of 2.5%. This marked the lowest rate since Q1 2021, driven by a sharp easing in goods inflation (0.8% compared to 1.4% in Q3), largely due to significant declines in electricity prices and fuel prices, reflecting the ongoing effects of Energy Bill rebates. Additionally, the rise in the cost of new dwellings slowed. Meanwhile, although services inflation remained elevated, it fell to a three-quarter low of 4.3%, down from 4.6%. Australia's seasonally adjusted unemployment rate rose slightly to 4.0% in December 2024, up from November's eight-month low of 3.9%, in line with market expectations.

Retail sales in Australia fell by 0.1% month-on-month in December 2024, marking the first decline in nine months. Despite the smaller-than-expected drop, the result signals weakening consumer spending, which, coupled with a lower inflation reading and a slight uptick in unemployment, has led the market to price in interest rate cuts in the coming months.

CoreLogic's Home Value Index (HVI) was steady in January, down just -0.03%, with the headline result weighed down by the capital cities, where values fell by 0.2%. Three of the eight capitals—Melbourne, ACT, and Sydney—recorded a decline in home values in January, while Adelaide, Perth, and Brisbane saw growth. However, there has been a clear and steady loss of momentum in these markets. In contrast, the combined regional areas saw a modest gain of 0.4%, benefiting from a renewed wave of internal migration, an affordability advantage in some markets, and what appears to be a degree of permanence in hybrid working arrangements across certain occupations and industries.

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
CPPIB Capital Inc	AAA
New York Life Global Funding	AA+
Paccar Financial	A+
Suncorp	AA-
Westpac Bank	AA-

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

Market Outlook

The RBA remains dedicated to restoring price stability by bringing inflation back within its 2-3% target range. While inflation has significantly decreased since its peak in 2022, with higher interest rates helping to bring aggregate demand and supply closer to balance. However, part of the recent decline is expected to be temporary, with inflation likely to rise again as cost-of-living relief unwinds. The RBA's latest forecast predicts underlying inflation will return to the target midpoint by 2026. The RBA's preferred inflation measure, Trimmed Mean CPI, rose 3.2% year on year in Q4 2024, encouragingly the slowest increase in three years, but still above the central bank's 2-3% target. Recent economic data, including weak GDP growth and consumers depleting their pandemic savings, points to a clear economic slowdown. As a result, the RBA has adjusted its tone, moving away from a "not ruling anything in or out" approach and becoming more open to reducing rates if the data continues to improve.

Recent mixed data readings seem to have subsided, with most indicators now signalling a gradual slowdown in the economy, suggesting the RBA is making good progress towards its desired soft landing. Market expectations now point to rate cuts in the short to medium term, although these may be shallower than previously anticipated. Additionally, the impact of a weakening Australian dollar is another factor to consider. While the data suggests a weakening consumer and inflation moving in the right direction, we remain cautious about potential upside risks.

In contrast to Australia's prolonged battle with reducing inflation, several developed economies have successfully brought inflation under control and have begun easing their monetary policies. The European Central Bank, Bank of Canada, Bank of England, and the US Federal Reserve have all lowered interest rates.

The prospect of a Trump-led Republican administration is largely viewed as positive for the US economy, thanks to pro-business policies that could spur growth. However, concerns have arisen over the potential inflationary effects, particularly from tariff increases, especially targeting China. This could heighten tensions and risk a trade war between the world's two largest economies, with global markets, including Australia, likely feeling the impact. Such a scenario could disrupt supply chains, raise costs, and undermine global economic stability. Ongoing instability in the Middle East and the Ukraine-Russia war could also influence cash and bond yields as the year ends. Since taking office on January 20, Trump has signed a record number of executive orders, reshaping US priorities both domestically and internationally. These unprecedented actions aim to dismantle existing policies and institutions, setting the stage for his MAGA agenda and appealing to his populist base.

China, Australia's largest trading partner, will not only need to manage potential trade war flare-ups with the US but also focus on its own domestic economic challenges. The country has introduced new stimulus measures to revive its struggling property sector and address weak domestic demand. Despite repeated announcements of stimulus in the second half of 2024, Chinese leader Xi Jinping continues to project optimism, though the economy remains sluggish. When these policies fall short, the stock market declines, and Xi tries again. In his keynote speech at the Central Economic Work Conference in mid-December, Xi stated that "the economy is stable and making progress," with the key 2025 policy goal being to "boost consumption" through "moderately loose monetary policy" and "more active fiscal policy."

While the headline amount of the fiscal stimulus package is expected to be significant, investors should closely monitor 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 burdened with substantial debts due to heavy investments in areas ranging 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$395 mn as at 31 January 2025	**Benchmark** Bloomberg AusBond Composite 0+YR Index
Minimum Investment A$10,000	

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