Yarra Australian Bond Fund

Net returns as at 31 March 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^	0.28	1.41	3.83	2.19	-0.12	1.99	4.76
Growth return#	-0.51	0.61	0.49	0.45	-1.81	-1.26	-0.14
Distribution return#	0.79	0.80	3.34	1.75	1.69	3.25	4.90
Bloomberg AusBond Composite 0+YR Index	0.17	1.29	3.20	1.67	-0.51	1.83	4.68
Excess return#	0.10	0.12	0.63	0.53	0.40	0.15	0.09

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 0.28% to outperform the benchmark by 10 basis points (bps).

The Fund began the month with an overweight duration position of 0.71 years and ended the month at 0.19 years. This shift was a modest contributor to performance, as we reduced the portfolio's duration position throughout the month via various strategies, taking profits as bonds rallied.

The Fund remains positioned to benefit from a steepening yield curve (a widening gap between the 3-year and 10-year bond yields), which was a significant contributor to performance this month as the curve steepened. Our central view remains that the curve will continue to steepen as the RBA progresses with interest rate cuts.

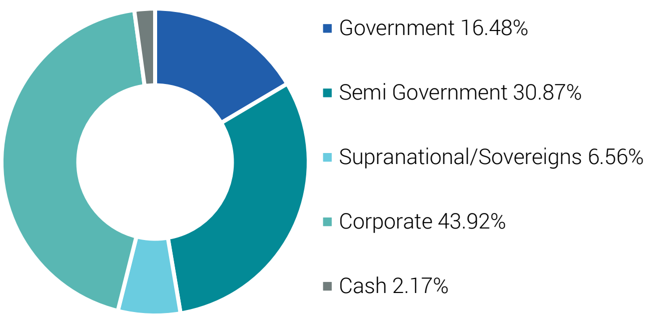
From a sector perspective, positioning continues to favour an overweight to spread, primarily in senior financials, residential mortgage-backed securities, and high-grade corporates with maturities up to five years. This overweight allocation to spread contributed positively to performance during the month as spreads contracted. However, our allocation to semi-government securities in the 10–15 year segment of the curve likely offset some of these gains, as the curve steepened.

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.01	4.82	0.19
Corporate Spread Duration (yrs)	1.14	0.30	0.85
Total Spread Duration (yrs)	3.89	2.37	1.53
Yield to Maturity (%)	4.79	4.29	0.50
Average Coupon (%)	3.83	2.97	0.86
Weighted-average Credit Rating#	A+	AA	-

#Standard & Poor's

Portfolio Asset Allocation



Risk Characteristics

3 Year Volatility (p.a.)	6.24%
3 Year Tracking Error (p.a.)	0.78%

Market Commentary

The Australian bond market, as measured by the Bloomberg AusBond Composite 0+ Yr Index, posted a return of 0.17% in March. Australian government bond yield movements were mixed over the month amidst continued global volatility triggered by US tariff talks. The 3-year bond yield fell by 4 basis points to 3.70%, while the 10-year bond yield rose by 9 basis points to 4.38%. This led to a steepening of the bond yield curve by 13 basis points, broadening the spread to 68 basis points. Short-term bank bill rates ended the month higher, with 3-month rates up by 1 basis point to 4.13%, and 6-month rates increasing by 9 basis points to 4.30%. The Australian dollar remained stable against the US dollar, closing the month at USD 0.62.

The RBA Board did not convene in March, with the next scheduled meeting set at the start of April. Market expectations were that rates would remain unchanged.

Domestic data releases throughout March indicate a resilient Australian economy. Australia's GDP rose by 0.6% in the December quarter, the highest quarterly increase of the year, following modest gains in the previous three quarters. The seasonally adjusted unemployment rate remained steady at 4.1% in February 2025, up slightly from 4.0% in December, in line with market expectations. Retail sales rose by a modest 0.2% month-on-month in February 2025.

Improved buyer sentiment following rate cuts in February led to CoreLogic's national Home Value Index recording a 0.4% increase in March, continuing the positive trend from February (a 0.3% increase) and reversing a brief three-month downturn that had seen national home values fall by 0.4%. The March increase was broad-based, with every capital city except Hobart recording a gain.

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+
CPPIB Capital Inc	AAA
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 focused on restoring price stability and bringing inflation back within its 2-3% target range. Although inflation has significantly decreased since its peak in 2022, aided by higher interest rates that have helped balance aggregate demand and supply, 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 by 3.2% year on year in Q4 2024, the slowest increase in three years, but still above the central bank's target.

Recent economic data, including moderate GDP growth and consumers spending their pandemic savings, suggests the economy is slowing. As a result, the RBA made its first rate cut of this cycle in February, but they remain at very restrictive levels. The RBA's strong focus on ensuring inflation sustainably returns to target suggests they are more likely to act after the release of quarterly inflation data.

Given the current state of the economy, we expect 2-3 more rate cuts from the RBA this year, likely in May, August, and November. If the economic situation worsens more than expected, we could see an additional rate cut in 2026, bringing the terminal rate to 3.10%. However, like most central banks globally, the RBA may consider cutting rates more quickly if escalating US tariffs and retaliatory measures pose a greater threat to Australia's economic outlook.

A Trump-led Republican government was initially viewed as positive for the US economy, thanks to pro-business policies that could drive growth. However, concerns have quickly arisen over the potential inflationary effects and impact on economic growth, particularly due to Trump's "Liberation Day" tariffs, which have targeted key trading partners such as China, Mexico, and Canada. This has escalated tensions and raised the risk of a trade war between the world's two largest economies, with global markets, including Australia, likely to feel the consequences. Such a scenario could disrupt supply chains, increase costs, and destabilise the global economy. Additionally, ongoing instability in the Middle East and the Ukraine-Russia conflict could further affect cash and bond yields.

Since taking office on January 20, President Trump has signed a record number of executive orders and declared a national emergency, imposing widespread tariffs under the International Emergency Economic Powers Act of 1977. This law allowed him to bypass Congress, marking the first time a president has used this authority. Through these unprecedented actions, he is reshaping US priorities both domestically and internationally. These moves are aimed at dismantling existing policies and institutions, clearing the way for his "Make America Great Again" agenda, while appealing to his populist base.

China, Australia's largest trading partner, will need to manage not only potential flare-ups in the trade war with the US but also its own domestic economic issues. The country has set a 2025 GDP growth target of around 5% and announced a broader fiscal stimulus package to tackle economic challenges, including the ongoing trade tensions with the US. The government has raised its budget deficit target to 4% of GDP, the highest level since 2010, and plans to issue 1.3 trillion yuan in special treasury bonds to drive growth. Inflation expectations have been reduced to 2%, the lowest in more than 20 years, reflecting weak domestic demand. To address economic stagnation, China aims to boost domestic consumption, ease local government debt, and stabilise the real estate market. The government also acknowledged the impact of rising US tariffs and stressed the importance of dialogue with the US amid deteriorating trade relations. Despite these measures, analysts are concerned that the 5% growth target may be overly optimistic given weak consumer spending and ongoing economic challenges.

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 March 2025	**Benchmark** Bloomberg AusBond Composite 0+YR Index
Minimum Investment A$10,000	

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