

NIKKO AM AUSTRALIAN BOND FUND

Fund Update

Fund Performance

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	2 Years p.a. (%)	3 Years p.a. (%)	5 Years p.a. (%)	10 Years p.a. (%)	Since Inception p.a. (%)
Fund growth return (net)	0.61	-3.42	-4.95	-3.72	-2.24	-0.35	-0.88	-0.63	0.09
Fund distribution return (net)	0.00	0.87	1.74	3.18	5.03	4.79	4.57	5.59	5.60
Total Fund return (net)	0.61	-2.55	-3.21	-0.54	2.79	4.44	3.69	4.96	5.69
Benchmark	0.56	-2.26	-3.04	-1.19	2.54	4.29	3.52	5.04	5.65
Excess return	0.05	-0.29	-0.17	0.65	0.24	0.15	0.17	-0.08	0.04

Source: BNP Paribas. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund Return minus Fund growth return. Fund net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Past performance is not an indicator of future performance. Benchmark: Bloomberg AusBond Composite 0+YR Index. Inception date: July 2000

After fees and expenses, the Fund returned 0.61% in April, outperforming the benchmark by 5 basis points (bps).

The Fund held a slight overweight duration position throughout most of the month, which was reduced to neutral just before the release of the Australian Inflation figures. During the month economic data continued to be positive, with the unemployment rate falling to 5.6% and business conditions rising to 30 year highs. Despite this inflation remains weaker than expected, with core inflation struggling to rise much above 1% year on year. Over the month bond yields rallied, making duration positioning neutral for performance. The Fund was biased towards a flattening in yields, with an overweight in 10-15 year maturity bonds. This contributed to performance as the curve flattened.

The Fund continues to favour 10-15 year semi-government bonds and 5-10 year supranational issuers, having recently reduced its credit exposure to be only mildly long. This was positive for performance over the month as supranational spreads contracted, while semi-government spreads were unchanged. We have reduced our corporate spread risk in the Fund, having seen credit spreads tighten to post GFC lows. The risk to spread product could potentially come from less supportive central banks, as the Reserve Bank of Australia (RBA) recently announced that the Term Funding Facility (TFF) that it has provided to the banks will end, requiring the largest credit issuers in the Australian market to begin issuing bonds again.

Risk Characteristics

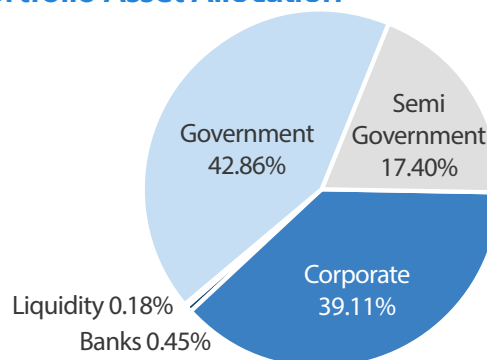
3 Year Volatility (p.a.)	3.67%
3 Year Tracking Error (p.a.)	0.38%

Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	6.02	5.80	0.22
Corporate Spread Duration (yrs)	0.40	0.29	0.11
Yield to Maturity (%)	1.65	1.09	0.56
Weighted-average Credit Rating*	AA	AA	

*Standard & Poor's

Portfolio Asset Allocation



Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
Queensland Treasury Corporation	AA+
Treasury Corporation of Victoria	AA
Kommunalbanken AS	AAA
International Finance Corporation	AAA
Asian Development Bank	AAA
International American Development Bank	AAA
Export Finance & Insurance Corp	AAA
South Australian Govt Financial Authority	AA+
Australian Capital Territory	AAA

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) returned 0.56% over the month. The yield curve flattened as 3-year government bond yields ended the month 18 basis points (bps) higher at 0.30%, while 10-year government bond yields fell by 5 bps to 1.75%. Short-term bank bill rates were marginally higher. The 1-month rate was 1 bps higher at 0.02%, the 3-month rate was steady at

0.04%, while the 6-month rate was 1 bps higher at 0.10%. The Australian dollar was stronger, closing the month at USD 0.77.

Monetary policy settings remained unchanged in April, as the RBA maintained both the cash rate and 3 year yield target at 0.10%. The RBA also indicated it will maintain the parameters of the TFF and government bond purchase program.

Domestic economic data releases in April were mostly upbeat. The inflation rate rose 0.6% in Q1 and the annual rate rose to 1.1%, which were both slightly below expectations. Employment rose by 70,700 positions in February. The unemployment rate fell to 5.6%, the lowest rate in a year. The NAB Survey of Business Conditions rose 8 points to a record high of 25 in March. Business confidence however fell slightly to 15 points. Retail sales were down 0.8% in February, which was slightly better than expected. National CoreLogic dwelling prices saw another consecutive monthly rise in April, ending the month up 1.8%, but easing back from the 32-year high of 2.8% in March.

Market Outlook

The economic downturn is not as severe as previously expected and a recovery is under way. The RBA has again updated its central economic forecasts, with expectations of 4.75% GDP growth in 2021 and 3.5% over 2022. Their forecast unemployment rate has also been revised lower, with expectations it will fall to 5% by year end. Inflation is expected to remain subdued at 1.5% in 2021. We believe there could be upside risk to the headline inflation forecast, given increases in commodity prices and also rising house prices which are being supported by record low interest rates, while core inflation is likely to remain muted.

The RBA remains committed to its current policy settings and has repeatedly stated that it is not expecting to increase the cash rate for at least 3 years. Lower interest rates should assist the recovery through: lower financing costs for borrowers; a lower exchange rate than otherwise; and support for asset prices and balance sheets. The TFF is also supporting the supply of credit to businesses.

The Australian economic outlook is highly dependent on how well COVID-19 will be controlled. Assuming the domestic vaccine roll-out gets back on track, following what has been a very slow start, we expect a moderate economic recovery as many lead indicators have now turned positive, including: business conditions, global PMI, employment indicators, lending statistics, retail sales, house prices and commodity prices. The key risk to the recovery is a stop/start economy if for any reason the vaccine roll-out does not go to plan. The impact on small businesses also remains to be seen following the end of JobKeeper. From an external standpoint, the lack of international visitors and students also weighs on the outlook for the local economy, as do trade tensions with China.

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

Nikko Asset Management Australia Limited

APIR Code

TYN0104AU

Portfolio Manager

Darren Langer

Fund Size

AUD 227.6 million

Minimum Investment

AUD 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

Nikko Asset Management Australia Limited

Level 26, One International Towers Sydney
 100 Barangaroo Avenue, Barangaroo NSW 2000, Australia
 Phone: 1800 251 589
 Fax: +61 2 8072 6304
 Email: sales.au@nikkoam.com

Important Information

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