

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) | 0.84 | 1.73 | -2.83 | -2.54 | -1.95 | 0.14 | -0.82 | -0.29 | 0.15 |
| Fund distribution return (net) | 0.05 | 0.05 | 0.93 | 2.10 | 3.88 | 4.27 | 4.20 | 5.19 | 5.56 |
| Total Fund return (net) | 0.89 | 1.79 | -1.91 | -0.44 | 1.93 | 4.42 | 3.38 | 4.91 | 5.70 |
| Benchmark | 0.69 | 1.52 | -1.74 | -0.84 | 1.64 | 4.22 | 3.19 | 4.95 | 5.65 |
| Excess return | 0.20 | 0.26 | -0.16 | 0.40 | 0.29 | 0.20 | 0.20 | -0.04 | 0.05 |

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 0.89% in June, outperforming the benchmark by 20 basis points (bps).

The Fund held a neutral duration position throughout most of the month, which was neutral for performance. During the month economic data continued to be positive. Despite this inflation remains weaker than expected, with core inflation struggling to rise much above 1% year on year and wages growth has been anaemic. Over the month bond yields were mixed, with 10 year yields falling and 3 year yields rising. The Fund is biased towards a flattening in yields, with a large overweight in 10-15 year maturity bonds. This was the main contributor to performance as the long bonds outperformed shorter dated maturities substantially.

The Fund favours 10-15 year semi-government bonds, albeit the semi-government position has been reduced substantially over the past two months, and 5-10 year supranational issuers, having recently also reduced its credit exposure to be only mildly long. This was neutral for performance over the month as supranational spreads tightened, while long dated semi-government spreads widened slightly. 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 the market seeing the Reserve Bank of Australia (RBA) as less supportive to the market after reducing the size of their Quantitative Easing (QE) program.

Risk Characteristics

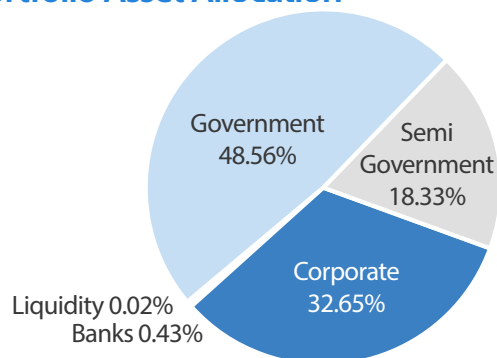
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|------------------------------|-------|
| 3 Year Volatility (p.a.) | 3.67% |
| 3 Year Tracking Error (p.a.) | 0.39% |

Fund Overview

| Characteristics | Fund | Benchmark | Difference |
|---------------------------------|------|-----------|------------|
| Modified Duration (yrs) | 6.11 | 6.00 | 0.11 |
| Corporate Spread Duration (yrs) | 0.34 | 0.30 | 0.05 |
| Yield to Maturity (%) | 1.47 | 1.05 | 0.42 |
| Weighted-average Credit Rating* | AA | AA | |

*Standard & Poor's

Portfolio Asset Allocation



Top 10 Issuers

| Security | Rating |
|---|--------|
| Commonwealth Government Bonds | AAA |
| New South Wales Treasury Corporation | AA+ |
| Kommunalbanken AS | AAA |
| National Housing Finance & Investment Corporation | AAA |
| Queensland Treasury Corporation | AA+ |
| Export Finance & Insurance Corp | AAA |
| Treasury Corporation of Victoria | AA |
| International Finance Corporation | AAA |
| South Australian Govt Financial Authority | AA+ |
| International American Development Bank | 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 0.69% over the month. The yield curve flattened as 3-year government bond yields ended the month 13 basis points (bps) higher at 0.41%, while 10-year government bond yields fell by 18 bps to 1.53%. Short-term bank bill rates were marginally lower. The 1-month rate was steady at 0.01%, the 3-month rate was 1 bp lower at

0.03%, while the 6-month rate was 2 bps lower at 0.07%. The Australian dollar was lower, closing the month at USD 0.75.

Monetary policy settings remained unchanged in June, 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 government bond purchase program.

Domestic economic data releases in June were mostly upbeat. March 2021 GDP was up 1.8%, which exceeded expectations, while the annual growth rate was 1.1%. Employment rose by 115,200 positions in May, significantly exceeding market expectations. The unemployment rate fell to 5.1%, the seventh straight monthly fall and lowest rate since February 2020. The NAB Survey of Business Conditions reached another record high of 37 in May. Business confidence however fell slightly, down to 20. Retail sales rose 1.1% in April, which was in line with expectations. National CoreLogic dwelling prices saw another consecutive monthly rise in June, ending the month up 1.9%.

Market Outlook

The Australian economy remains resilient and the recovery is ongoing. The RBA's central economic forecasts show expectations of 4.75% GDP growth in 2021 and 3.5% over 2022. Their forecast unemployment rate has 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 until 2024. 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 Australian economic outlook is highly dependent on how well COVID-19 will be controlled. Assuming the domestic vaccine roll-out picks up pace, 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. Recent outbreaks of the highly contagious Delta variant and lockdowns across parts of Victoria, New South Wales, Queensland and the Northern Territory are cases in point. The impact on small businesses also remains to be seen given ongoing lockdowns and the end of JobKeeper. From an external standpoint, with international borders largely shut, 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 236.9 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

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Important Information

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