

# 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)	1.79	2.93	-0.60	-1.27	-1.62	0.68	-0.61	-0.24	0.23
Fund distribution return (net)	0.00	0.05	0.95	2.13	3.89	4.30	4.21	5.20	5.54
Total Fund return (net)	1.79	2.98	0.35	0.86	2.27	4.98	3.60	4.96	5.77
Benchmark	1.76	2.73	0.41	0.53	2.05	4.77	3.40	4.96	5.72
<b>Excess return</b>	<b>0.03</b>	<b>0.25</b>	<b>-0.06</b>	<b>0.33</b>	<b>0.23</b>	<b>0.21</b>	<b>0.20</b>	<b>0.00</b>	<b>0.05</b>

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 1.79% in July, outperforming the benchmark by 3 basis points (bps).

The Fund held a small overweight duration position in the early half of the month, which was reduced as bonds rallied and was positive for performance. During the month the economic data continued to be positive, with the unemployment rate falling to 4.9%, home loans continued to rise, headline inflation rose to above 3% and business conditions remained strong. However, as COVID-19 spread throughout New South Wales (NSW) a number of states locked down their economies, with NSW the worst hit being closed for the entire month. Bond yields rallied over the month. The Fund is biased towards a flattening in yields, with a large overweight in 10-15 year maturity bonds. This was a contributor to performance as 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. This was neutral for performance over the month as supranational spreads where mostly unchanged with long dated semi-government spreads widening slightly. We favour high grade spread (State government and Supranational issuers) at the moment as historically corporates have underperformed when QE programs begin to unwind. The recent commentary from both the US Federal Reserve and Reserve Bank of Australia (RBA) suggest QE tapering could occur over the second half of this year and as such we hold a defensive spread position.

### Risk Characteristics

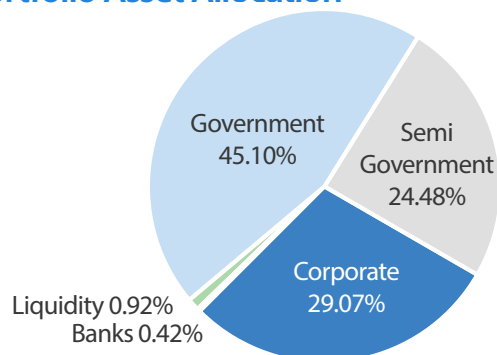
3 Year Volatility (p.a.)	3.76%
3 Year Tracking Error (p.a.)	0.39%

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	5.99	6.04	-0.05
Corporate Spread Duration (yrs)	0.32	0.30	0.02
Yield to Maturity (%)	1.20	0.84	0.36
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+
Treasury Corporation of Victoria	AA
National Housing Finance & Investment Corporation	AAA
South Australian Govt Financial Authority	AA+
Queensland Treasury Corporation	AA+
Export Finance & Insurance Corp	AAA
International Finance Corporation	AAA
Kommunalbanken AS	AAA
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 1.76% over the month. The yield curve flattened as 3-year government bond yields ended the month 17 basis points (bps) lower at 0.24%, while 10-year government bond yields fell by 35 bps to 1.18%. 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

0.02%, while the 6-month rate was 2 bps lower at 0.05%. The Australian dollar was lower, closing the month at USD 0.73.

Monetary policy settings remained unchanged in July, as the Reserve Bank of Australia (RBA) maintained both the cash rate and 3 year yield target at 0.10%. The RBA also indicated it will maintain its government bond purchase program, purchasing AUD 5 billion a week until early September and then AUD 4 billion a week until at least mid November.

Domestic economic data releases in July were mixed. Q2 inflation was 0.8% for the quarter, but spiked to 3.8% for the year to the June quarter, largely reflecting the unwinding of some earlier COVID-19-related price declines. Employment rose by 29,100 positions in June. The unemployment rate fell to 4.9%, the eighth straight monthly fall. The NAB Survey of Business Conditions fell 12 points, to 24, down from its record high in May. Business confidence fell sharply, down to 11 (from 20 the month prior) as the latest COVID-19 outbreaks dented confidence. Retail sales rose 1.1% in April, which was in line with expectations. National CoreLogic dwelling prices saw another consecutive monthly rise in July, ending the month up 1.6%.

## Market Outlook

The Australian economy has remained resilient and the recovery is ongoing. However the recent outbreaks of the highly contagious Delta strain and subsequent lockdowns are likely to put the brakes on growth. The RBA's central economic forecasts expect just over 4.00% GDP growth in 2022 and 2.5% over 2023. Their forecast unemployment rate continues to trend lower, with expectations it will fall to 4.25% by the end of 2022. Inflation is expected to remain subdued, with underlying inflation estimated to be 1.75% over 2022. 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 risk to the recovery of a stop/start economy has come to fruition thanks to the Delta variant outbreak with an extended lockdown in Greater Sydney and South-East Queensland also battling an outbreak. The impact on small businesses remains to be seen given ongoing lockdowns. 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

<b>Responsible Entity</b> Nikko Asset Management Australia Limited	<b>Management Cost</b> 0.30% p.a.
<b>APIR Code</b> TYN0104AU	<b>Buy/Sell Spread</b> 0.05%/0.05%
<b>Portfolio Manager</b> Darren Langer	<b>Distribution Frequency</b> Quarterly
<b>Fund Size</b> AUD 243.1 million	<b>Benchmark</b> Bloomberg AusBond Composite 0+YR Index
<b>Minimum Investment</b> AUD 10,000	

## Contact Us

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### Important Information

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