

# 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)	-1.14	-0.73	0.30	0.72	0.81	0.86	0.19	0.03	0.29
Fund distribution return (net)	0.91	0.92	1.19	4.21	5.46	4.83	4.60	5.54	5.65
Total Fund return (net)	-0.23	0.19	1.50	4.93	6.28	5.69	4.79	5.57	5.95
Benchmark	-0.27	-0.10	0.92	4.48	5.86	5.42	4.56	5.59	5.88
<b>Excess return</b>	<b>0.04</b>	<b>0.29</b>	<b>0.58</b>	<b>0.45</b>	<b>0.42</b>	<b>0.27</b>	<b>0.23</b>	<b>-0.02</b>	<b>0.06</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 -0.23% in December, outperforming the benchmark by 4 basis points (bps).

The Fund held a slight underweight duration position throughout the month, as a more positive narrative was beginning to form around reflation and the potential for vaccines to be rolled out in developed economies. Over the month bond yields sold off, with 10 year yields rising 13 bps and 3 year yields largely unchanged, making the duration positioning positive for performance. The Fund was biased towards a steepening yield curve in the 3/10's part of the curve and a flattening in yields from 10 years onwards. This was neutral for performance as the curve steepened in both 3/10's and the longer dated maturities.

The Fund continues to favour 10-15 year Semi-Government bonds, long dated Australian Government bonds, 0-3 year corporates and more recently 5-10 year Supranational issuers. This was positive for performance over the month as Semi-Government spreads and corporate spreads where stable, with the extra running yield contributing to the Fund. We continue to be cautious in adding additional spread risk to the portfolio, as while the market is getting some comfort around COVID-19 coming under control, credit spreads now are tight and offer little compensation for the risk of being wrong. However our rotation in credit has seen continued buying in corporate names and adding to Residential Mortgage Backed Securities (RMBS). This contributed to performance as spreads continue to contract and these issuers offer higher running yield for the Fund.

### Risk Characteristics

3 Year Volatility (p.a.)	2.68%
3 Year Tracking Error (p.a.)	0.30%

### Market Commentary

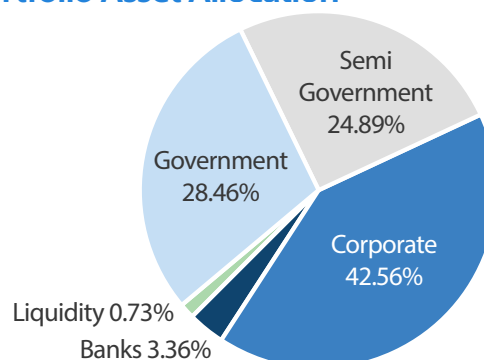
The Australian bond market (as measured by the Bloomberg AusBond Composite 0+ Yr Index) returned -0.27% over the month. The yield curve steepened as 3-year government bond yields ended the month flat at 0.11%, while 10-year government bond yields rose by 7 basis points (bps) to 0.97%. Short-term bank bill rates were largely unchanged. The 1-month rate was 1 bp lower at 0.01%, the 3-month rate was

### Fund Overview

Characteristics	Fund	Benchmark	Difference
Modified Duration (yrs)	6.05	6.07	-0.03
Corporate Spread Duration (yrs)	0.77	0.29	0.48
Yield to Maturity (%)	1.07	0.69	0.38
Weighted-average Credit Rating*	AA-	AA	

\*Standard & Poor's

### Portfolio Asset Allocation



### Top 10 Issuers

Security	Rating
Commonwealth Government Bonds	AAA
Treasury Corporation of Victoria	AA
New South Wales Treasury Corporation	AA+
Export Finance & Insurance Corp	AAA
Australian Capital Territory	AAA
Queensland Treasury Corporation	AA+
International Finance Corporation	AAA
Kommunalbanken AS	AAA
Tasmanian Public Finance	AA+
Pepper Residential Securities	AAA

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

also down 1 bp at 0.01%, while the 6-month rate was steady at 0.02%. The Australian dollar was up sharply, closing the month at USD 0.77.

The Reserve Bank of Australia (RBA) maintained monetary policy settings in December after having delivered a rate cut and additional measures to support the recovery at its November meeting (where the cash rate was cut from 0.25% to 0.10%, as was the 3 year yield target). The parameters of the Term Funding Facility and the government bond purchase program were also maintained in December.

Domestic economic data releases in December were mostly upbeat. Q3 GDP exceeded expectations to be up 3.3%, partially recovering from the record -7% recorded in Q2. Employment rose by 90,000 positions in November, which exceeded market expectations. The unemployment rate ticked lower to 6.8%, which was also better than expected. The NAB Survey of Business Conditions showed improvement, rising to 9 in November, and is now at above average levels. Business confidence also improved, rising to 12. Retail sales were up 1.4% in October. National CoreLogic dwelling prices saw a third consecutive monthly rise in December, ending the month up 1.0%, and closing the year 3.0% higher.

## Market Outlook

December saw continued hope for both the Australian and global economies as COVID-19 vaccines are rushed to market. However question marks remain about how quickly any vaccines will be rolled out and also the willingness of the population to be early adopters of a new vaccine.

Despite a severe contraction in Q2 GDP which saw Australia enter recession, the downturn is not as severe as previously expected and a recovery appears to be under way. The RBA has updated its economic forecasts as a result, with expectations of 5% GDP growth in 2021 and 4% growth in 2022. Unemployment is expected to peak closer to 8% in the next year, rather than the 10% previously expected. Inflation is expected to remain subdued, at 1% in 2021. We believe there could be upside risk to the inflation forecast, given recent increases in commodity prices and also rising house prices which are being supported by record low interest rates.

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 Term Funding Facility 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 vaccine roll-out goes to plan, 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. Other risks include the early withdrawal of government stimulus if the data continues to look rosy. This includes the impact on small businesses when JobKeeper ceases and the end to JobSeeker, both expected at the end of March. From an external standpoint, the lack of international visitors and students also weighs on the outlook for the local economy, as does the trade war 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

**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**

AUD 223.0 million

**Benchmark**

Bloomberg AusBond  
Composite 0+YR Index

**Minimum Investment**

AUD 10,000

## Contact Us

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### Important Information

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