Factsheet 28 February 2022

NIKKO AM INCOME STRATEGY

Applies to: Nikko AM Income Fund (retail).

Market Overview

- The NZX 50 Index increased by 0.74% over the month, recovering a small part of the large fall seen in January. The NZ bond market, as measured by the Bloomberg Composite Bond Index, fell by 0.75%.
- At the OCR update the RBNZ again increased their rate hike projections, and yields went higher on the day.
- The NZ 2-year government bond finished 24 basis points higher, the 5-year finished 22 basis points higher, and the 10-year bond and 2051 government bond were 18 bps, and 13 bps higher in yield respectively.

Fund Highlights

- The Income Fund declined over February as the positive equity returns were insufficient to fully offset the negative returns from the bond market.
- The energy sector recovered well with all names recording price gains of 3% or higher.

Distributions

- The defined distribution rate (which is used to calculate the distribution you receive from the fund) is set at the start of each calendar year, based on the price of the fund at that point.
- The defined distribution rate for 2022 is 3.5% p.a. This income will be distributed in four equal amounts each calendar quarter, based on the price as at 1 January 2022.

Performance

	One mth	Three mths	One yr	Three yrs (pa)	Five yrs (pa)	Ten yrs (pa)
Retail[1]	-0.18%	-0.60%	1.62%	1.04%	2.71%	4.52%
Benchmark[2]	0.29%	0.92%	3.42%	4.52%	4.85%	6.72%
Market Index[3]	-0.15%	-2.26%	-2.31%			

1. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).
2. Current benchmark: RBNZ Official Cash Rate +3.00% p.a.
3. Current appropriate market index: 62.5% Bloomberg NZBond Credit 0+ Yr Index, 30% S&P/NZX 50 Gross Index, 7.5% Alternatives exempt.

Five Year Cumulative Performance, $10,000 invested[1,2]

Change of investment strategy 01/07/2020

Portfolio Manager

Fergus McDonald,

Head of Bonds and Currency

Fergus is responsible for the investment of the Bond, Cash and Currency mandates. Fergus has been actively involved in the NZ financial markets since 1981. The portfolio management team for the domestic fixed income funds includes Ian Bellew, Fixed Income Manager and Matthew Johnson, Fixed Income Manager.

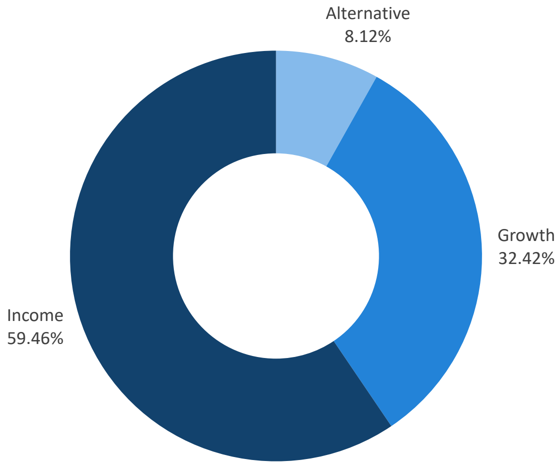
Overview

The strategy aims to provide investors with regular income from an actively managed investment portfolio. The fund invests in NZ fixed interest, Australasian equities and property. Equities with a good dividend stream and a focus on growing value over time are selected as an attractive alternative to fixed income securities. Equity selection is determined by the NZ investment team.

Objective

The objective of this fund is to outperform the RBNZ Official Cash Rate by 3.00% p.a. over a rolling three-year period before fees, expenses and taxes. Prior to June 2020, the objective and strategic asset allocation of fund were materially different. From 1 July these were amended to include equities.

Asset Allocation



Top 5 Fixed Income Issuers*	(%)
Westpac New Zealand Ltd	7.72
New Zealand Local Govt Funding	5.11
Bank of New Zealand	4.53
GMT Bond Issuer Ltd	3.28
Infratil Ltd	2.99

Duration*
Fund 4.53 years
Yield to Maturity
Fund (gross) 3.36%

Top 10 Equities	(%)		(%)
Heartland Group	3.31	Works Finance	2.06
Skellerup Holdings Limited	3.07	Scales Corp	1.83
Stride Stapled Units	2.75	Chorus Ltd	1.70
Infratil Limited	2.68	Argosy Property	1.66
Contact Energy Limited	2.26	Mercury	1.61

*Includes cash holdings.

Fund Commentary

The Income Fund declined over February as the positive equity returns were insufficient to fully offset the negative returns from the bond market. The NZX 50 Index increased by 0.74% over the month, recovering a small part of the large fall seen in January. The NZ bond market, as measured by the Bloomberg Composite Bond Index, fell by 0.75%.

In general, interest rate sensitive stocks in the property sector of the equity market performed poorly however the majority of the equity portfolio performed strongly. The energy sector recovered well with all names recording price gains of 3% or higher. Bond markets have been jostled by the "tug of war" between concern over inflation and rising cash rates versus heightened geopolitical concerns and the possibility of slower growth. Unfortunately, it looks like "there is still a fair amount of wood to chop" before the situation improves. The NZ 2-year government bond finished 24 basis points higher, the 5-year finished 22 basis points higher, and the 10-year bond and 2051 government bond were 18 bps, and 13 bps higher in yield respectively.

At the OCR update the RBNZ again increased their rate hike projections, and yields went higher on the day. There is a lot priced in for higher interest rates in what is an uncertain world. The bank sees a neutral level of rates as around 2-2.5% but we question if cash rates above 3% should be priced in as further rate hikes risk significantly slowing the economy over 2022 and 2023 which ironically may coincide with inflation peaking and moving lower as large price increases seen in 2021 are not fully repeated in 2022. The Ukrainian war remains a wild card with the potential to push inflation and commodity prices higher. A flexible approach to monetary policy is needed. If the RBNZ does not deliver fully on their projected rate rises, bond yields are starting to look attractive to us.

We continue to believe investors should seek income from diverse sources. Even though some equity prices have fallen we believe the environment remains attractive for equities even though catalysts for new growth remain elusive. This means the Income Fund will remain invested in a range of NZ companies listed on the NZX that pay an acceptable level of dividends or who have the likelihood of doing so in the future. In addition to the fund receiving a steady stream of dividend income, we expect that over time the industry sectors and business models adopted by these companies should be rewarded by a steady or rising share price.

The bond sector of the fund is invested primarily in medium to longer duration assets balanced out with a higher than usual allocation to cash assets. We are happy to have exposure to longer term assets as even though the Official Cash Rate will rise, much of the anticipated increases are already reflected in market pricing and the OCR peak is likely to be low compared to previous tightening cycles.

Key Fund Facts

Distributions
Distributions for this fund are defined annually and are effective for the calendar year. The defined rate is gross of tax. Distributions are not a taxable event. Tax will be deducted (refunded) at 31 March and on full or partial withdrawals.

Estimated annual fund charges (incl. GST)
0.80%, refer PDS for more details

Hedging
All investments will be in New Zealand dollars

Buy / Sell spread: Click to view

Strategy size $5.2m

Strategy Launch October 2007

Restrictions
Adult entertainment, gambling, fossil fuels, alcohol stocks, tobacco stocks. For more information please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website https://www.nikkoam.co.nz/invest/retail.

Exclusions
Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009. Tobacco manufacturers.

Compliance

The fund complied with its investment mandate and trust deed during the month.

Contact Us www.nikkoam.co.nz | nzenquiries@nikkoam.com