

# NIKKO AM INCOME STRATEGY

Applies to the Nikko AM Income Fund

## Market Overview

- Equity markets produced a small positive return and bond markets a small negative return.
- There are signs that inflation has peaked globally.
- Equity markets, like bond markets, continued to see high levels of volatility in individual company performances.

## Fund Highlights

- The fund owns 14 companies in its equities portfolio. Five produced solid returns however one had a significant fall in price.
- The Option Fund holding was redeemed over June with the funds redeployed into bond and cash assets.

## 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 2023 is 5.5%. This income will be distributed in four equal amounts each calendar quarter, based on the price on 1 January 2023.

## Performance <sup>1,2,3</sup>

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Retail <sup>1</sup>	0.41%	1.05%	2.51%	1.79%	0.54%	3.29%
Benchmark <sup>2</sup>	0.67%	2.01%	7.05%	4.69%	5.22%	6.25%
Market Index <sup>3</sup>	0.26%	0.61%	5.30%	0.04%		

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<sup>1,2</sup>



## 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.

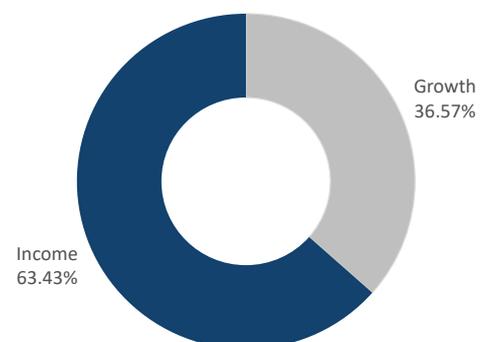
## Overview

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 2020 these were amended to include equities.

## Asset Allocation



## NIKKO AM NZ INCOME FUND

Top 5 Fixed Income Issuers*	(%)	Duration*	Top 10 Equities	(%)	(%)
Westpac New Zealand Ltd	14.22	Fund 3.88 years	Infratil Ltd	4.21	Works Finance NZ Ltd 2.58
ASB Bank Ltd	5.11	<b>Yield to Maturity</b>	Contact Energy Limited	3.17	Skellerup Holdings Ltd 2.57
Kiwibank Ltd	4.15	Fund (gross) 6.02%	Heartland Group	2.94	Spark NZ Ltd 2.52
Powerco Ltd	3.94		Chorus Ltd	2.70	Meridian Energy Ltd 2.17
TR Group Ltd	3.43		Bank of New Zealand	2.60	EBOS Group Ltd 1.92

\*Includes cash holdings.

## Fund Commentary

The Income Fund produced a small gain in June with equity markets providing a small positive return and bond markets a small negative return. The S&P/NZX 50 Gross (with imputation credits) Index rose by +0.9% over the month while the bond sector fell 0.1% as measured by the Bloomberg NZ Bond Credit Index. Looking to the quarter, equities were up +0.4% and the bond sector up +0.7% with returns supported by ongoing positive income accrual due to the relatively high interest rate environment.

Interest rate movements on longer term bonds continues to be the main driver of returns in the fixed income sector. Interest rate volatility remains elevated, triggered by ongoing uncertainty surrounding the future strength of economic growth, inflation and central bank actions. This uncertainty is occurring in New Zealand and globally as central banks continue to review data to see if they have raised cash rates enough to tame inflation. There are signs that inflation has peaked globally with energy prices and shipping costs falling and supply chain bottlenecks generally easing. The question is turning from how high cash rates will go, to how long rates will be held at restrictive levels for.

The Reserve Bank's May Monetary Policy Statement indicated they will hold the cash rate at an elevated level of 5.5% until the second half of 2024 as they monitor incoming economic data. They hope they have done enough to cool consumer demand, inflationary pressures and inflation expectations and further rate rises will not be required. It now seems the RBNZ is looking for reasons not to push cash rates higher, however it looks likely the US Federal Reserve, the European Central Bank, and the Bank of England have more hikes to come.

In previous commentaries we have expressed our view that locking into longer term bonds around current levels will likely outperform cash returns over the next few years, as the next significant move is likely to be down in rates. Although, we might have to wait until the second half of 2024 until this occurs in any meaningful way.

Equity markets, like bond markets, continued to see high levels of volatility in individual company performances. In general companies and industries that are sensitive to rising interest rates and the property sector have performed poorly over the past year however as the trend towards higher rates fades these sectors may perform better as the year progresses.

The fund owns 14 companies in its equities portfolio. Heartland, Argosy, Stride Property and Chorus all produced solid returns, however EBOS disappointed with a significant fall in price as they revealed the loss of the Chemist Warehouse account. The Option Fund holding was redeemed over June with the funds redeployed into bond and cash assets.

We continue to believe investors should seek income from a diverse range of sources. Bond rates are looking attractive and even though some equity prices have fallen over the past year we believe the environment remains acceptable for many companies. The Income Fund remains invested in a range of NZ companies listed on the NZX that pay a consistent level of dividends or who have the likelihood of doing so in the future. In addition to dividend income, we expect over time the industry sectors and business models adopted by these companies should be rewarded by a steady or rising share price.

## Key Fund Facts

<b>Distributions</b>	<b>Estimated annual fund charges (incl. GST)</b>		
Distributions for this fund are defined annually and are effective for the calendar year. The defined rate is 0.80%, refer PDS for more details gross of tax. Distributions are not a taxable event. Tax will be deducted (refunded) at 31 March and on full or partial withdrawals.			
<b>Hedging</b>	<b>Buy /Sell spread:</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
All investments will be in New Zealand dollars	<a href="#">Click to view</a>	\$3.9m	October 2007
<b>Exclusions:</b> Controversial weapons.			
<b>Restrictions:</b> 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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .			

## Compliance

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

## Contact Us

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