

Factsheet 31 July 2020

NIKKO AM NZ INCOME STRATEGY

Applies to: Nikko AM Income Fund (retail).

Market Overview

- The United States S&P 500 index rose 5.5%, the Japanese Nikkei 225 index was down 2.6%, the UK FTSE 100 index lost 4.4%, the Australian ASX 200 index increased 0.5% and the MSCI World index ended the month up 4.0%.
- The S&P/NZX 50 index performed well, ending the month up 2.5%
- NZ interest rates finished the month lower in yield. NZ credit remains supported by demand /supply dynamics. The actions and language of central banks and governments continues to have a strong influence on bond markets.

Fund Highlights

- The fund returned 1.6% over the month.
- All sectors contributed to returns with NZ shares being the highest performing sector and long duration bonds and the exposure to the Option Fund and Corporate Bond Fund all adding value.
- The fund is fully invested and the manager will continue to look for opportunities to add value and income to the fund.

Distributions

- The Defined Income rate for 2020 is 3.0% p.a. This is the amount distributed each quarter based on the price as at 1st July 2020.
- The Defined Income Rate (which is used to calculate the distribution you receive from the fund) will be set at the start of each calendar year, based the price of the fund at that point. Your specific distributions will depend on the price when you invest.

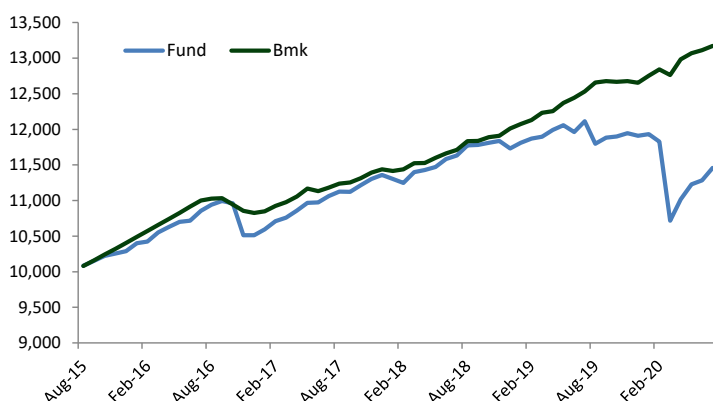
Performance

| | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Retail ¹ | 1.57% | 4.03% | -5.41% | 1.18% | 2.76% | 4.95% |
| Benchmark ² | 0.27% | 1.27% | 4.94% | 5.56% | 5.63% | 7.79% |

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

Five Year Cumulative Performance, \$10,000 invested^{1,2}



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.

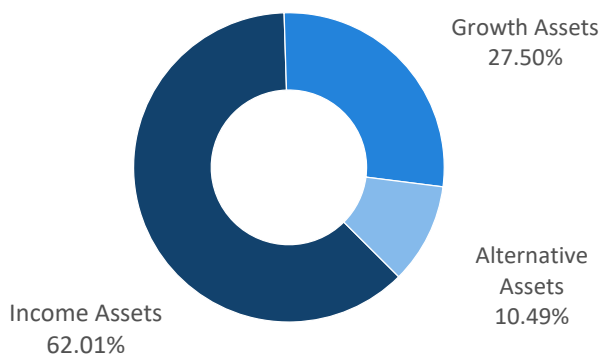
Overview

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



NIKKO AM NZ INCOME STRATEGY

| Top 5 Fixed Income Issuers* | (%) | Top 10 Equities | (%) | (%) | Duration |
|------------------------------|-------|--------------------|------|-----------------|--------------------------------|
| Nikko AM Corporate Bond Fund | 12.64 | Spark NZ | 2.27 | Heartland Group | 2.19 |
| NZ Local Govt Funding Agency | 10.53 | Stride Property | 2.24 | Scales Corp | 2.17 |
| Nikko AM Option Fund | 10.49 | Argosy Property | 2.23 | Meridian Energy | 2.06 |
| Westpac Banking Corp | 8.53 | Investore Property | 2.23 | Mercury NZ | 2.05 |
| NZ Government | 6.45 | Vector Limited | 2.19 | Chorus | 2.05 |
| | | | | | Yield |
| | | | | | Fund 5.47 years |
| | | | | | Fund (gross) 1.71% |
| | | | | | (applies to Fixed Income only) |

*Aggregation of directly held assets, Option and Corporate Bond Funds

Fund Commentary

The Income Fund returned 1.6% over July. All sectors contributed to returns with NZ shares being the highest performing sector and long duration bonds and the exposure to the Option Fund and Corporate Bond Fund all adding value.

The fund has an exposure of approximately 27% to NZ shares. The shares are in companies that pay dividends that are likely to be at a higher level than the interest rate that would be available if the companies issued fixed interest securities to institutional and retail investors. In addition, it is expected that over time the industry sector and business models adopted by the companies should see a steady or rising share price.

The bond sector of the fund is invested primarily in long duration assets. Longer term bond yields fell over the month which meant the bond sector performed well. The fund purchased some long dated Government and Local Government bonds early in the month during a period when rates increased. The interest rates on long term bonds moved lower into month end, this movement lower translated into an approximate gain in value of the long bond holdings of approximately 3%.

The fund is fully invested and the manager will continue to look for opportunities to add value and income to the fund. The possibility of the Reserve Bank cutting the Official Cash Rate into negative territory in 2021 has increased. This represents both a threat and an opportunity for the fund. High levels of liquidity in the banking system has left many investors looking for a home for their money that will give them an opportunity to earn more than on offer from bank deposits. This search for income is likely to be an enduring theme for the next few years at least and will also mean it is likely higher yielding assets of all kinds will perform well as long as the entity or asset remains solvent. We believe this operating environment should create opportunities that are beneficial to the fund.

Key Fund Facts

Distributions

Distributions for this fund are defined annually and are effective for the calendar year. The annual defined income rate for 2020 is effective on a pro rata basis from 1 July 2020 for the balance of the calendar year.

Hedging

All investments will be in New Zealand dollars

Estimated annual fund charges (incl. GST)

0.81%, refer PDS for more details

Buy / Sell spread:

[Click to view](#)

Strategy size

\$3.3m

Strategy Launch

October 2007

Compliance

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

Contact Us

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