

Factsheet 31 August 2020

# NIKKO AM NZ INCOME STRATEGY

Applies to: Nikko AM Income Fund (retail).

## Market Overview

- The United States S&P 500 index rose 7.0%, the Japanese Nikkei 225 index was up 6.6%, the UK FTSE 100 index added 1.1%, the Australian ASX 200 index increased 2.8% and the MSCI World index ended the month up 6.1%.
- The S&P/NZX 50 index was a relative underperformer versus the world albeit ended the month up 1.8%.
- NZ interest rates have continued lower. Credit has performed strongly, and may find some stability around current levels.

## Fund Highlights

- The fund returned 2.4% over the month.
- All sectors contributed to returns with NZ shares once again being the highest performing sector with long duration bonds especially the holding of LGFA bonds performing well.

## Distributions

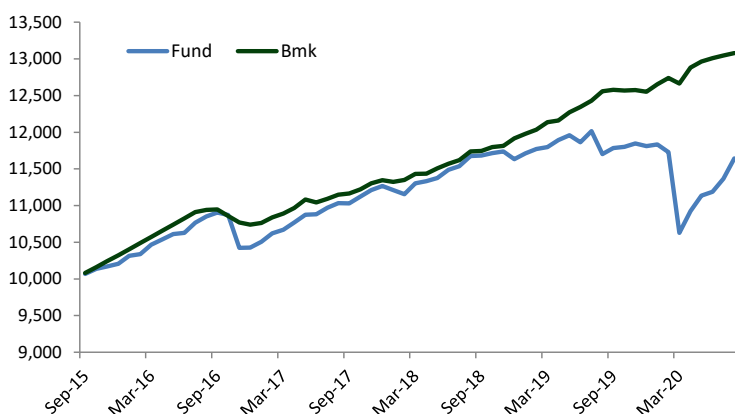
- The defined income rate for 2020 is 3.0% p.a. This income will be distributed in four equal amounts each calendar quarter, based on the price as at 1 July 2020. Remaining distributions in 2020 will be in September and December.
- The defined income rate (which is used to calculate the distribution you receive from the fund) will be set at the start of each calendar year, based the price of the fund at that point.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Retail <sup>1</sup>	2.44%	4.56%	-0.51%	1.81%	3.09%	5.11%
Benchmark <sup>2</sup>	0.27%	0.90%	4.16%	5.47%	5.52%	7.74%

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<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.

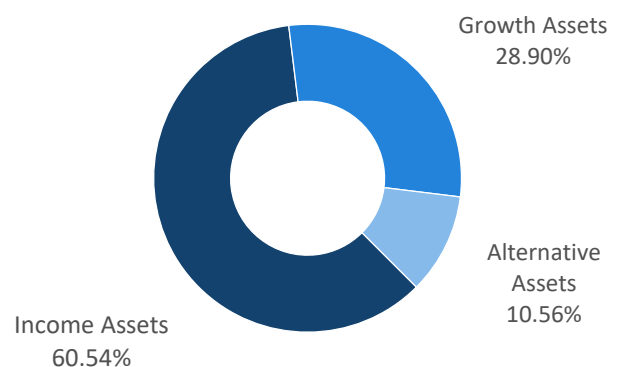
## Overview

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 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	10.96	Vector	2.52	Skellerup Holdings	2.23
NZ Local Govt Funding Agency	10.87	Investore Property	2.46	Spark	2.22
Nikko AM Option Fund	10.56	Argosy Property	2.40	Stride Property	2.21
Westpac Banking Corp	5.22	Chorus	2.32	Meridian Energy	2.15
Fonterra	4.64	Mercury NZ	2.28	Heartland Group	2.05
					Yield
					Fund (gross) 1.90%
					(applies to Fixed Income only)

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

## Fund Commentary

The fund returned 2.4% over August. All sectors contributed to returns with NZ shares once again being the highest performing sector with long duration bonds especially the holding of Local Government Funding Authority (LGFA) bonds performing well. The long dated LGFA bonds returned close to 2.5% over the month as credit margins contracted and the bonds remained in high demand. The fund's exposure to the Option Fund and Corporate Bond Fund also added to returns.

There have been notable increases in some of the fund's equity holdings; Vector, Contact Energy, Chorus, Skellerup Holdings, Mercury and Investore Property have all seen their share prices increasing by over 10% in the past month.

The Income Fund has an exposure of approximately 29% to NZ shares. The shares are in companies that pay dividends at a level that is 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. Bond yields fell over the month which meant the bond sector performed well. The fund continued to hold some long dated government and local government bonds. Interest rates on most bonds moved lower over the month resulting in a gain in value of the bond sector. This movement lower translated into an approximate gain in value of the long bond holdings of approximately 3%.

The fund is fully invested and we will continue to look for opportunities to add value and income. 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 for the fund to deliver an enhanced level of performance.

## 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.

### Estimated annual fund charges (incl. GST)

0.81%, refer PDS for more details

### Hedging

All investments will be in New Zealand dollars

### 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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