

NIKKO AM INCOME STRATEGY

Applies to: Nikko AM Income Fund (retail).

Market Overview

- The NZX 50 Index increased by 1.4% over the month, recovering some of the falls seen earlier in the year.
- Financial markets have been volatile and experienced outsized moves as central banks signalled intentions to move cash rates higher and faster to combat inflation.
- Over the month and (quarter) the NZ 2-year government bond finished 53(94) basis points (bps) higher, the 5-year finished 47(91) bps, and the 10-year and 2051 government bond were 45(85) bps, and 34(55) bps higher in yield.

Fund Highlights

- The Income Fund declined over the March month and quarter as positive equity returns were insufficient to fully offset the negative returns from the bond market and the Option Fund.
- The fund's equity holdings performed well with the highest monthly returns posted by Genesis and Ebos. The largest equity holding is Skellerup which advanced 2.9%, only one company fell in price - Investore Property fell 2.3%.

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 at 1 January 2022.

Performance

	One mth	Three mths	One yr	Three yrs (pa)	Five yrs (pa)	Ten yrs (pa)
Retail ¹	-0.74%	-3.27%	0.64%	0.72%	2.46%	4.39%
Benchmark ²	0.33%	0.94%	3.48%	4.34%	4.82%	6.67%
Market Index ³	-0.54%	-3.81%	-3.91%			

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.



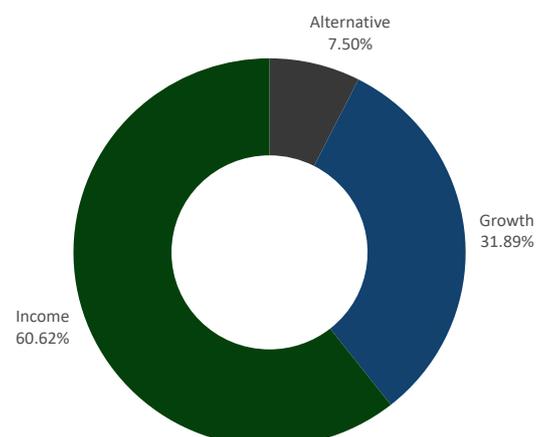
Overview

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*	(%)	Duration*	Top 10 Equities	(%)	(%)
Westpac New Zealand Ltd	8.14	Fund 4.48 years	Skellerup Holdings Ltd	3.16	Contact Energy Limited 2.35
New Zealand Local Govt Funding	5.00	Yield to Maturity	Stride Stapled Grp	2.86	Works Finance NZ Ltd 2.08
Bank of New Zealand	4.51	Fund (gross) 3.86%	Infratil Limited	2.82	Scales Corp Ltd 1.89
GMT Bond Issuer Ltd	3.27		Spark New Zealand Ltd	2.80	Chorus Limited 1.74
Infratil Ltd	2.98		Heartland Group	2.53	Argosy Property Limited 1.71

*Includes cash holdings.

Fund Commentary

The Income Fund declined over the month and quarter as positive equity returns were insufficient to fully offset the negative returns from the bond market and the Option Fund. The NZX 50 Index increased by 1.4% over the month, recovering some of the falls seen earlier in the year. The NZ bond market, as measured by the Bloomberg Composite Bond Index, fell by -2.0%. The fund's equity holdings performed well with the highest monthly returns posted by Genesis and Ebos. The largest equity holding is Skellerup which advanced 2.9%, only one company fell in price - Investore Property fell 2.3%. Longer term bonds continued to underperform even though interest rates increases were greater in shorter term bonds. The price of longer dated bonds are more sensitive to interest rate movements so even though the yield curve flattened, and one-year rates increased by around 0.6% they outperformed long term bonds in price terms.

Financial markets have been volatile and experienced outsized moves as Central banks signalled intentions to move cash rates higher and faster to combat inflation. The moves in global bonds yields have weighed heavily on NZ and lack of local buy-side interest has exacerbated the pace and quantum of moves higher in NZ rates. Over the month and (quarter) the NZ 2-year government bond finished 53(94) basis points (bps) higher, the 5-year finished 47(91) bps higher, and the 10-year and 2051 government bond were 45(85) bps, and 34(55) bps higher in yield. The yield curve has become very flat with short term bond yields rising more than longer bonds in what is termed a "bear flattening", creating a difficult environment for bond returns. 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. The Official Cash Rate will rise further however much of the anticipated increases are already reflected in market pricing. The OCR peak is likely to be around 3%, which is low compared to previous tightening cycles. With most of the recent corporate and bank bond issues being sold with yields between the mid to high 3% and 5%, we feel that investing at these levels is looking attractive compared to the likely peak in the OCR, even if there is the risk markets overshoot for a while. If the OCR quickly rises to 3% or above, we believe there is a high probability the New Zealand economy slows abruptly, if the economy does slow the time period before rates start falling again may be short lived.

Key Fund Facts

Distributions	Estimated annual fund charges (incl. GST)
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.	0.80%, refer PDS for more details
Hedging	Buy / Sell spread: Click to view
All investments will be in New Zealand dollars	Strategy size \$5m
Restrictions	Strategy Launch October 2007
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 quarter.

Contact Us

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