

Factsheet 30 November 2022

NIKKO AM INCOME STRATEGY

Applies to: Nikko AM Income Fund (retail).

Market Overview

- The bond market performed well even though the Reserve Bank hiked the OCR more aggressively than expected (0.75%), another 0.75% increase is likely when the Monetary Policy Committee meet again in February next year.
- Equity markets performed well in general however individual company performances continues to be volatile from month to month.

Fund Highlights

- EBOS was a standout, gaining 9.2% as it was confirmed as entering the MSCI Small Cap Index. The Fund owns 14 companies in its equities portfolio and over the month six increased in price and eight declined. Genesis Energy was the laggard, falling around 10.4%. The Option Fund detracted from performance.

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%. This income will be distributed in four equal amounts each calendar quarter, based on the price at 1 January 2022.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Retail ¹	0.48%	-1.82%	-5.28%	-0.78%	0.64%	3.22%
Benchmark ²	0.53%	1.55%	4.94%	4.35%	4.79%	6.38%
Market Index ³	1.30%	-0.07%	-4.51%			

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.

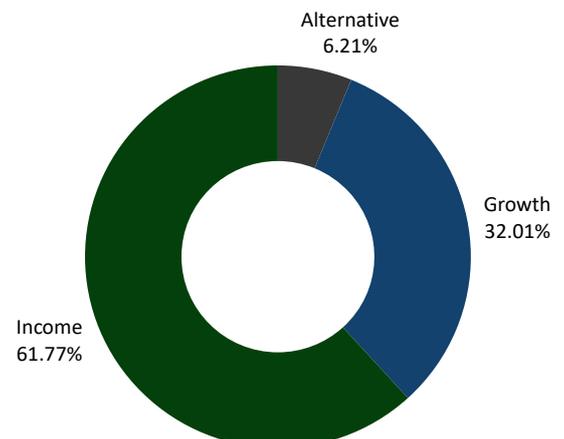
Overview

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 2020 these were amended to include equities.

Asset Allocation



Top 5 Fixed Income Issuers*	(%)	Duration*	Top 10 Equities	(%)	(%)	
Westpac New Zealand Ltd	7.30	Fund 4.34 years	Heartland Group	3.32	Stride Stapled Grp Npv	2.31
Bank of New Zealand	4.68	Yield to Maturity	Skellerup Holdings Limited	3.18	Works Finance NZ Ltd	2.21
ASB Bank Ltd	4.34	Fund (gross) 5.57%	Spark New Zealand Ltd	2.92	Chorus Limited	2.16
New Zealand Local Govt Funding	3.98		Infratil Limited	2.69	EBOS Group Ltd	1.75
Kiwibank Ltd	3.42		Contact Energy Limited	2.37	Scales Corp Ltd	1.72

*Includes cash holdings.

Fund Commentary

The Fund increased modestly over November as both bond and equity markets advanced. The S&P/NZX 50 Gross Index increased by almost 1.9% over the month. The bond sector, as measured by the Bloomberg Corporate Bond Index gained 0.67%.

Equity markets performed well in general however individual company performances continues to be volatile from month to month. The property sector continues to be under pressure from rising interest rates and downward property revaluations. Perhaps there may be some respite on this front as the top of the interest rate tightening cycle is in sight even though it looks like the Official Cash Rate will plateau at a higher level than previously expected. Looking at the performance of some individual equity names in the fund, EBOS was a standout, gaining 9.2% as it was confirmed as entering the MSCI Small Cap Index. The fund owns 14 companies in its equities portfolio and over the month six increased in price and eight declined. Genesis Energy was the laggard, falling around 10.4%.

The bond market performed well even though the Reserve Bank hiked the OCR more aggressively than expected with a 0.75% increase and the likelihood of another 0.75% when the Monetary Policy Committee meet again in February next year. The New Zealand market was helped by global bond yields falling as investors mulled over whether the US Federal Reserve will soon be slowing the pace of their cash rate rises as a global economic slowdown in 2023 looks increasingly likely. Only the extent of the slowdown remains uncertain in many commentators' minds.

The Option Fund was down over the month. Bond yields increased from 4.06% at the beginning of the month to a high of 4.24% before closing November at the monthly low of 3.6%. Bond yields moved through a number of option strike levels resulting in losses for the fund which were not fully covered by option income.

In its final meeting of the year, the RBNZ increased the cash rate by 75bps, its largest hike since the OCR was introduced in 1999. The front end of the yield curve is pricing a higher OCR and the longer end is pricing recession. How long short rates need to remain elevated is uncertain, and the fate of longer-term bond rates are likely to remain much more heavily influenced by offshore direction rather than domestic considerations, however it looks increasingly likely we may have already seen the peak in longer term interest rates. In this environment it still makes sense to not have too much risk to the direction of interest rate moves, however bonds with yields in the mid 5% range and above look attractive to us as they will likely outperform the returns from cash over the medium term.

We continue to believe investors should seek income from a diverse range of sources. Bond rates are looking attractive and even though most equity prices have fallen over the past year we believe the environment remains acceptable for equities although we concede catalysts for new growth remain elusive and an economic slowdown looks inevitable. 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 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.

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 \$4.7m	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

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