

Factsheet 30 April 2021

NIKKO AM INCOME STRATEGY

Applies to: Nikko AM Income Fund (retail).

Market Overview

- April was a positive month for both bond and equity market performance after experiencing a number of volatile months especially in the performance of some New Zealand equity names.
- Bond markets provided positive returns for the second month in a row after being under pressure from rising longer term interest rates since last November.
- Global markets also generated positive returns for both bonds and equities.

Fund Highlights

- The equity portfolio of the fund increased overall in value during April however it was a mixed bag with eight increasing in value and five falling. The star performer was Skellerup Holdings, up 9%, with Contact Energy, Mercury, Argosy Property and Heartland Group all performing well. Chorus tailed the field falling 4% as the pandemic seems to have constrained broadband growth.

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 2021 is 3.0% p.a. This income will be distributed in four equal amounts each calendar quarter, based on the price as at 1 January 2021.

Performance

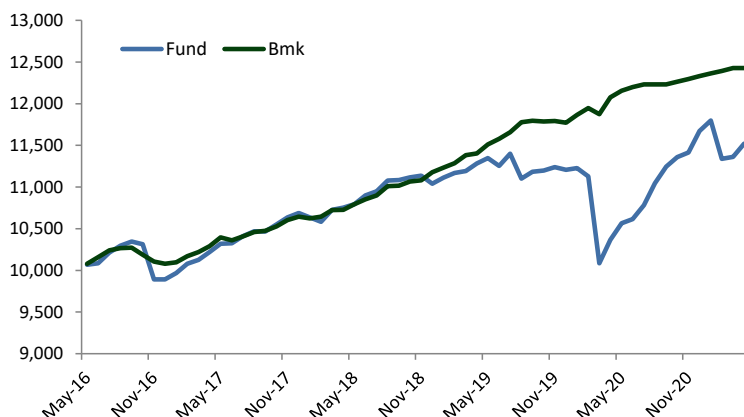
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Retail ¹	1.39%	-2.35%	11.15%	2.32%	2.87%	4.76%
Benchmark ²	0.20%	0.72%	3.11%	5.10%	4.49%	7.21%

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}

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.

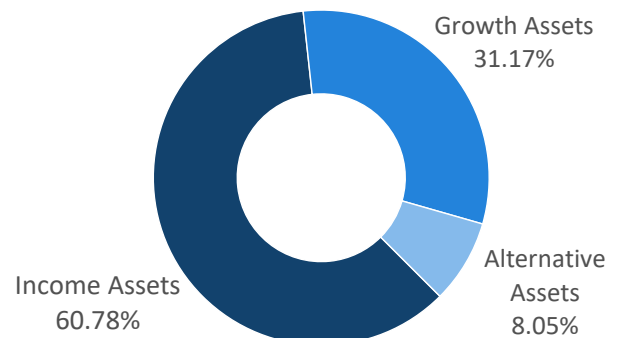
Overview

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*	(%)	Top 10 Equities	(%)	(%)	Duration
Nikko AM Wholesale Option	8.05%	Heartland Group	3.18%	Spark New Zealand	2.26%
Kiwibank Ltd	4.81%	Stride Property Ltd	3.09%	Argosy Property Ltd	2.16%
NZ Local Gov Funding Agency	4.56%	Skellerup Ltd	3.02%	Scales Corporation L	2.05%
Infratil Ltd	3.80%	Works Finance NZ Ltd	2.53%	Chorus Ltd	1.92%
Fonterra Co Operative Group	3.62%	Mercury NZ Ltd	2.44%	Genesis Energy Ltd	1.89%
					Yield
					Fund 4.74 years
					Fund (gross) 2.38%
					(applies to fixed income only)

*Aggregation of directly held assets and Option Fund

Fund Commentary

April was a positive month for both bond and equity market performance after experiencing a number of volatile months especially in the performance of some New Zealand equity names. Bond markets provided positive returns for the second month in a row after being under pressure from rising longer term interest rates since last November. Shorter term bonds continued to generate steady albeit low returns. Global markets also generated positive returns.

The equity portfolio of the fund increased overall during April however, it was a mixed bag, with eight adding value and five falling. The star performer was Skellerup Holdings, up 9%, with Contact Energy, Mercury, Argosy Property and Heartland Group all performing well. Chorus tailed the field falling 4% as the pandemic seems to have constrained broadband growth. The largest equity exposures in the funds are to the Heartland Group and Skellerup at around 3% and the smallest is Meridian at close to 1% of the fund's assets. Longer term bonds were the best performers in the fixed income sector with the very longest bonds advancing 3% over the month.

The fund's exposure to equities is close to 29% in equities with a small additional holding in preference shares. The balance of the fund is held in fixed income securities and an 8% weighting to the Nikko Option Fund. The fund is 58% invested in bonds with an average credit rating of A- and 11% is spread across four unrated bond issuers. We believe that even though the NZ economy has recovered well and the outlook for a global economic recovery is looking promising, short term rates will stay low over 2021 and 2022 before possibly rising in 2023. The RBNZ's messaging continues to be that expansionary monetary policy will be needed for a "considerable time". They repeated they won't tighten policy until inflation was up to 2% on a "sustainable basis" and employment was at or above its maximum sustainable level. The RBNZ has kept potential for OCR cuts on the table "if required" however we believe this outcome is unlikely. The global growth outlook continues to improve, inflation expectations are building and progress is being made to open borders, all of which will support growth.

With this in mind we have likely seen the low point in interest rates, looking forward short term rates will remain stable however longer term rates in NZ will likely move around with global trends as will our local equity market. With the prospect of interest rates remaining low for some time we continue to believe it is appropriate for investors to seek income from more diverse sources than just interest rates alone. Even though some equity prices have fallen we believe the growth environment remains attractive for the equity market. For the Income Fund this means investing 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. The fund has exposure to shares in companies that pay dividends likely to be higher than the interest rate that would be available if the companies issued fixed interest securities. In addition, it is expected that over time the industry sector and business models adopted by these companies should see a steady or rising share price.

The bond sector of the fund is invested primarily in medium to longer duration assets. At present we are happy to have exposure to longer term assets as the Official Cash Rate looks likely to remain low over the next year or two. The prospect of low cash rates and the RBNZ keeping downward pressure on longer term rates by buying bonds in the secondary market will likely keep a lid on the size of any future interest rate rises. The fund is fully invested and the manager will continue to look for opportunities to add value and income to the fund. Low and stable short term interest rates represent 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 gives them an opportunity to earn more than bank deposits. This search for income is likely to be an enduring theme for the next few years and we believe this 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 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** \$4.2m **Strategy Launch** October 2007

Compliance

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

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