

Factsheet 31 March 2023

NIKKO AM INCOME STRATEGY

Applies to: Nikko AM Income Fund (retail).

Market Overview

- The S&P/NZX 50 Gross Index advanced approximately 3.6% over the March quarter however fell 0.1% over the March month. The bond sector increased 2.2% over the quarter as measured by the Bloomberg NZ Bond Credit Index and 1.4% over the past month.

Fund Highlights

- The fund delivered a positive return for the first quarter of 2023.
- Recent storm damage in the North Island continued to have a negative impact on Scales Corporation who had some of their Hawkes Bay orchards and assets affected. The fund owns 14 companies in its equity's portfolio, over the month nine fell in price and five increased. EBOS, Infratil, Spark, Chorus, Contact, Mercury Energy and Skellerup all saw their share prices advance by over 2%. At the other end of the scale, Hartland performed poorly as investor sentiment to smaller banks soured due to stress on the international banking sector and downward moves in bank share prices globally.

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 2023 is 5.5%. This income will be distributed in four equal amounts each calendar quarter, based on the price at 1 January 2023.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Retail ¹	1.07%	1.35%	-3.11%	3.19%	0.65%	3.11%
Benchmark ²	0.64%	1.79%	6.12%	4.94%	5.05%	6.29%
Market Index ³	1.01%	2.76%	0.43%			

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.

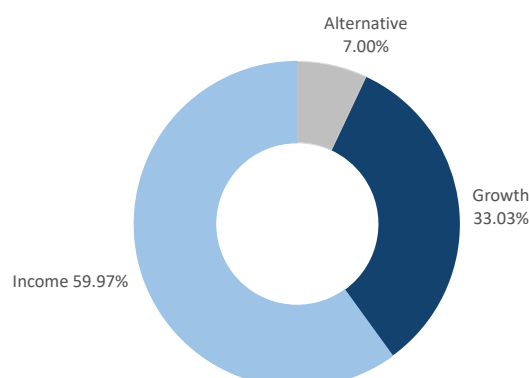
Overview

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	13.14	Fund 4.05 years	Spark New Zealand Ltd	3.25	Chorus Limited 2.52
ASB Bank Ltd	4.89	Yield to Maturity	Infratil Limited	3.17	Works Finance NZ 2.38
Kiwibank Ltd	3.96	Fund (gross) 5.76%	Contact Energy Limited	2.83	EBOS Group Limited 2.28
Powerco Ltd	3.67		Skellerup Holdings Limited	2.75	Meridian Energy 1.91
TR Group Ltd	3.16		Heartland Group	2.53	Genesis Energy 1.61

*Includes cash holdings.

Fund Commentary

The last few months have been a volatile time for financial markets and the Income Fund. The fund closed 2022 on a down note with returns falling in December, they were up again in January as the new year started strongly, only to fall again in February and rebound in March. The silver lining of all this volatility is that the fund delivered a positive return for the first quarter of 2023.

The S&P/NZX 50 Gross Index advanced 3.9% over the March quarter however returned only 0.2% over the March month. The bond sector increased 2.2% over the quarter as measured by the Bloomberg NZ Bond Credit Index and 1.4% over the past month. Interest rate changes have been the main driver of returns from bond markets with large moves occurring due to considerable uncertainty and changing expectations for economic growth and central bank actions to calm inflation. For example, NZ interest rates made new highs early March on the view that central banks would have to hike more and hold rates higher for longer in response to “sticky” inflation. Subsequently rates fell significantly with rising global banking sector concerns. Fears for financial stability increased as Silicon Valley Bank failed, and others followed suit or were close to doing so before various rescue packages and confidence build actions were put into place. Equity markets continued to see high levels of volatility in individual company performances from month to month. In general companies and industries that are sensitive to rising interest rates have performed poorly over the past year however as the trend towards higher rates fades these sectors may perform better as the year progresses.

Recent storm damage in the North Island continued to have a negative impact on Scales Corporation who had some of their Hawkes Bay orchards and assets affected. The fund owns 14 companies and over the month nine fell in price and five increased. EBOS, Infratil, Spark, Chorus, Contact, Mercury Energy and Skellerup all saw their share prices advance by over 2%. At the other end of the scale, Hartland performed poorly as investor sentiment to smaller banks soured due to stress on the international banking sector and downward moves in bank share prices globally. We feel cash rates are close to peaking and that interest rates on long term bonds may have already seen their highs. Locking into longer term bonds around current levels will outperform cash returns as the next significant move is likely to be down in rates but we might have to wait until 2024 until this occurs in any meaningful way. The Option Fund declined over the month after performing strongly in January. Bond yields moved through a number of option strike levels and income earned by the fund was insufficient to compensate for the losses. The Option Fund return was a positive contributor over the March quarter.

We continue to believe investors should seek income from a diverse range of sources. Bond rates are looking attractive and even though some equity prices have fallen over the past year we believe the environment remains acceptable for many companies. 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 dividend income we expect 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	Estimated annual fund charges (incl. GST)
Distributions for this fund are defined annually and are effective for the calendar year. The defined rate is 0.80%, refer PDS for more details gross of tax. Distributions are not a taxable event. Tax will be deducted (refunded) at 31 March and on full or partial withdrawals.	
Hedging All investments will be in New Zealand dollars	Buy /Sell spread:Strategy size Click to view \$4.2m
Exclusions: Controversial weapons.	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 .	

Compliance

The fund complied with its investment mandate and trust deed during the quarter, except that an error has been identified in the Option Fund where the value of specific options were incorrectly accounted for in the net asset value of the fund on certain days. The matter was resolved before 31 March with the impact to the fund (which was negligible) restored to its rightful position, this was completed during the month of March 2023.

Contact Us

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