Factsheet 31 August 2021

NIKKO AM INCOME STRATEGY

Applies to: Nikko AM Income Fund (retail).

Market Overview

- We continue to 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 compared to past tightening cycles.
- New Zealand's economic activity has surpassed pre-COVID levels and therefore the COVID inspired cut in the Official Cash Rate from 1% to 0.25% over 2020 can expect to be taken back, and perhaps rise to 1.5% to 2% in 2023 where rises should top out.

Fund Highlights

- The Income Fund returned 1.2% over August.
- Bond returns were mostly negative as the NZ bond curve moved higher in yield - both short-term and longer term bonds finished the month around 20 basis points higher.
- The fund's equity holdings delivered a strong result pulling the fund into positive territory for the month. Eleven of the thirteen holdings increased in value with one company's share price increasing by more than 15% over the month.
- The combined return from all sectors delivered an acceptable return illustrating the benefit of holding a diverse portfolio of assets.

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.

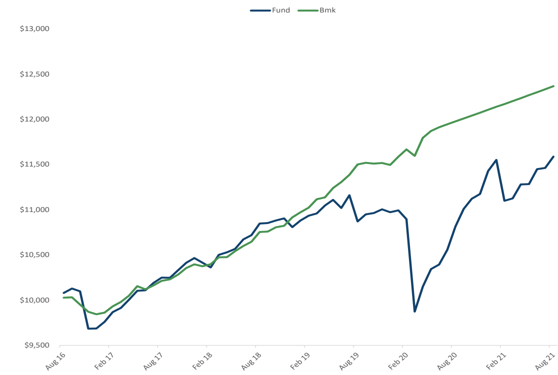
Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Retail[1]	1.17%	2.78%	7.23%	2.25%	2.84%	5.54%
Benchmark[2]	0.27%	0.81%	3.25%	4.77%	4.29%	7.05%
Market Index[3]	1.31%	2.11%	2.35%			

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, 7.5% 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.

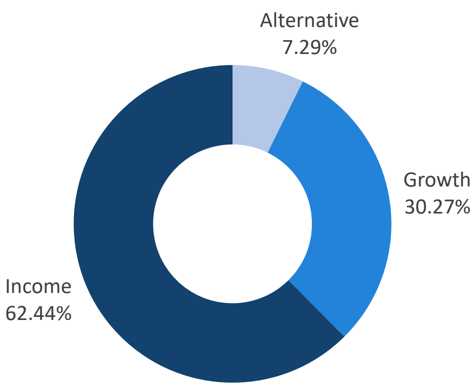
Overview

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*	(%)
Westpac New Zealand Ltd	9.26
NZ Local Govt Funding	5.65
Bank of New Zealand	4.83
Kiwibank Ltd	3.88
Housing NZ	3.12

Duration*
Fund 4.22 years
Yield to Maturity
Fund (gross) 2.05%

Top 10 Equities	(%)		(%)
Heartland Group	3.24	Contact Energy Ltd	2.27
Spark New Zealand Ltd	2.86	Works Finance NZ Ltd	2.07
Skellerup Holdings Ltd	2.85	Argosy Property Ltd	1.95
Stride Stapled Group	2.81	Mercury NZ Ltd	1.88
Infratil Ltd	2.51	Scales Corp Ltd	1.82

*Applies to the portfolio of directly held fixed income assets only.

Fund Commentary

The Income Fund returned 1.17% over August. Long-term bonds prices fell with only very short-term bonds holding their values. In contrast the Income Fund's equity holdings delivered a strong result pulling the fund into positive territory for the month. Eleven of the thirteen holdings increased in value with one company's share price increasing by more than 15% over the month. The combined return from all sectors delivered an acceptable return illustrating the benefit of holding a diverse portfolio of assets. Longer term bond yields increased by around 20 basis points with one-year rates moving 14 basis points higher. Even though the Reserve Bank didn't increase the cash rate in August due to the timing of the Delta outbreak, they made it clear that a rise is not far away as the economy no longer requires emergency levels of support. Future rate rises continue to be data dependent. The economy went into the new round of lockdowns with a good head of steam and can be expected to emerge in a similar vein, as long as the current lockdown is not drawn out. In our view the economic rebound from the 2021 lock down will not be as robust as the 2020 recovery. Importantly the tight labour market will help keep consumer confidence at reasonable levels, as even though house price increases and the flow of Kiwis returning home will unlikely be repeated, the fear of a shrinking job market has receded.

As mentioned above, the share portfolio of the Income Fund performed well over August. Eleven of the thirteen holdings gained in value with the best performer being Heartland (+15%). Heartland announced a strong set of numbers in the company's full year report, along with indicating robust future prospects. Consequently, the market has raised their price targets for the company. Chorus, Scales, Skellerup and Stride Properties all gained in excess of 5%. Genesis was the laggard falling around 1%. Heartland continues to be the largest equity weighting and Meridian the lowest.

We continue to believe that even though the NZ economy has recovered well and the outlook for a global economic recovery is looking promising (even with the rise in the Delta variant) short-term rates will stay low compared to past tightening cycles. New Zealand's economic activity has surpassed pre-COVID levels and therefore the COVID inspired cut in the Official Cash Rate from 1% to 0.25% over 2020 can expect to be taken back and perhaps rise to 1.5% to 2% in 2023 where rises should top out. With interest rates likely to remain low relative to historical levels, we continue to believe it is appropriate for investors to seek income from more diverse sources than the interest rate market alone. 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. We are happy to have exposure to longer term assets as the Official Cash Rate looks likely to remain relatively low over the next year or two, and longer term rates have already risen significantly in response to the economic recovery.

The manager of the fund continues to look for opportunities to add value and income. Low and stable short-term interest rates represent both a threat and an opportunity. High levels of liquidity in the banking system have 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, 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:	Strategy size	Strategy Launch
Click to view	$5.1m	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.

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