

Factsheet 30 April 2023

NIKKO AM INCOME STRATEGY

Applies to: Nikko AM Income Fund (retail).

Market Overview

- The S&P/NZX 50 Gross Index increased by approximately 1.1% over the month and the bond sector increased 0.75% as measured by the Bloomberg NZ Bond Credit Index.

Fund Highlights

- The Income fund gained in value over April as bond and equity markets both advanced.
- Interest rate changes continue to be 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. There are signs that inflation may have peaked and is now looking to moderate.

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 | 0.82% | 0.35% | -0.43% | 2.52% | 0.76% | 3.05% |
| Benchmark ² | 0.65% | 1.84% | 6.44% | 4.57% | 5.18% | 6.28% |
| Market Index ³ | 0.88% | 1.07% | 2.80% | | | |

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.

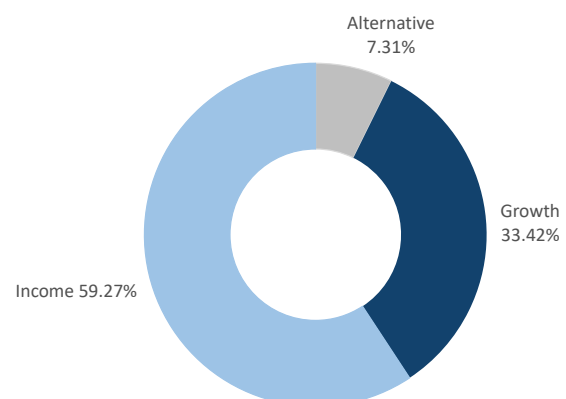
Overview

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 | 12.10 | Fund 3.64 years | Spark New Zealand Ltd | 3.38 | Works Finance NZ 2.44 |
| ASB Bank Ltd | 4.96 | Yield to Maturity | Infratil Limited | 3.31 | EBOS Group Limited 2.18 |
| Kiwibank Ltd | 3.91 | Fund (gross) 5.74% | Contact Energy Limited | 2.88 | Meridian Energy 1.99 |
| Powerco Ltd | 3.73 | | Heartland Group | 2.59 | Genesis Energy 1.64 |
| TR Group Ltd | 3.19 | | Skellerup Holdings Ltd | 2.58 | KiwiBank Ltd 1.54 |

*Includes cash holdings.

Fund Commentary

The Income fund gained in value over April as bond and equity markets both advanced. The S&P/NZX 50 Gross Index increased by approximately 1.1% over the month and the bond sector increased 0.75% as measured by the Bloomberg NZ Bond Credit Index. Interest rate changes continue to be 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. There are signs that inflation may have peaked and is now looking to moderate. For example, the latest quarterly CPI increased less than expected with annual inflation falling from 7.2% to 6.7%, however inflation is still a long way above the Reserve Bank’s target of between 1% to 3%. This means that the RBNZ will continue to hold interest rates up until inflation and inflation expectations fall significantly.

Adding to the domestic volatility in interest rates is the global environment. Further unrest has been seen in the US regional bank sector which resulted in further uncertainty as investors tried to determine if the situation was serious enough for the Federal Reserve to bring an end to their tightening cycle. Equity markets continued to see high levels of volatility in individual company performances. 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. The fund owns 14 companies in its equities portfolio, and over the month nine fell in price and five increased. Meridian Energy, Infratil Spark and Chorus saw their share prices advance by over 2%. At the other end of the scale, Skellerup, EBOS, Scales and Stride Properties share prices declined over the month.

We feel cash rates are close to peaking and 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 performed strongly over the month. Bond yields continued to move in a volatile manner intra-month but closed the month at a similar level to where they started.

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 | Buy /Sell spread: | Strategy size | Strategy Launch |
| All investments will be in New Zealand dollars | Click to view | \$4.2m | October 2007 |
| Exclusions: Controversial weapons. | | | |
| 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 month.

Contact Us

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