

Factsheet 31 July 2023

# NIKKO AM INCOME STRATEGY

Applies to the Nikko AM Income Fund

## Market Overview

- Equity and bond markets both produced small positive returns for the month of July.
- Interest rate volatility remains elevated globally, triggered by ongoing uncertainty surrounding the future strength of economic growth, inflation and central bank actions.
- There are signs that inflation has peaked with energy prices and shipping costs falling and supply chain bottlenecks easing.

## Fund Highlights

- The fund owns 14 companies in its equities portfolio. During the month of July, 11 of the 14 companies share prices improved.
- In the bond portfolio, short term securities outperformed longer term bonds as bond market weakness was seen across many global markets.

## 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 on 1 January 2023.

## Performance <sup>1,2,3</sup>

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Retail <sup>1</sup>	0.86%	1.09%	0.47%	1.55%	0.62%	3.31%
Benchmark <sup>2</sup>	0.70%	2.06%	7.32%	4.84%	5.28%	6.24%
Market Index <sup>3</sup>	0.60%	0.34%	2.78%	-0.13%		

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<sup>1,2</sup>



## 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

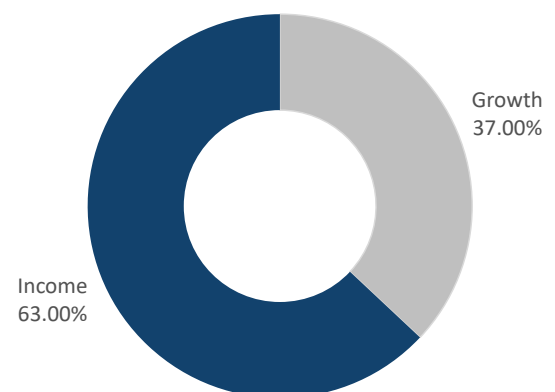
The strategy aims to provide investors with regular income from an actively managed investment portfolio. The fund invests in NZ fixed interest, Australasian equities and property. Equities with a good dividend stream and a focus on growing value over time are selected as an attractive alternative to 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



## NIKKO AM NZ INCOME FUND

Top 5 Fixed Income Issuers*	(%)	Duration*	Top 10 Equities	(%)	(%)	
Westpac New Zealand	14.21	Fund 3.32 years	Infratil	4.09	Bank of New Zealand	2.58
ASB Bank	5.08	<b>Yield to Maturity</b>	Contact Energy	3.22	Spark NZ	2.55
Kiwibank	4.14	Fund (gross) 6.16%	Heartland Group	3.09	Skellerup Holdings	2.48
Powerco	3.92		Chorus	2.73	Meridian Energy	2.17
TR Group	3.41		Works Finance NZ	2.59	EBOS Group	2.00

\*Includes cash holdings.

## Fund Commentary

The Income Fund produced a modest gain in July with equity and bond markets providing small positive returns. The S&P/NZX 50 Gross (with imputation credits) Index rose by +1.17% over the month while the bond sector returned 0.28% as measured by the Bloomberg NZ Bond Credit Index.

Interest rate movements on longer term bonds continue to be the main driver of returns in the fixed income sector with short term interest rates being much more stable. Interest rate volatility remains elevated globally, triggered by ongoing uncertainty surrounding the future strength of economic growth, inflation and central bank actions. Increasingly central banks around the world are looking at pausing interest rate increases however uncertainty remains as central banks review data to see if they have raised cash rates enough to tame inflation. There are signs that inflation has peaked with energy prices and shipping costs falling and supply chain bottlenecks easing. Investor focus is now turning from how high cash rates will go to how long rates will be held at restrictive levels for.

The Reserve Bank's latest Monetary Policy Statement indicated they will hold the cash rate at an elevated level of 5.5% until the second half of 2024 as they monitor incoming economic data. They hope they have done enough to cool consumer demand, inflationary pressures and inflation expectations and further rate rises will not be required. It now seems the RBNZ is looking for reasons not to push cash rates higher.

In previous commentaries we have expressed our view that locking into longer term bonds around current levels will likely outperform cash returns over the next few years as the next significant move is likely to be down in rates but we might have to wait for a year or so until this occurs in any meaningful way. An OCR cash rate of around 3.5% is probable by mid 2026.

Equity markets, like bond markets, continued to see high levels of volatility in individual company performances. In general companies and industries that are sensitive to rising interest rates and the property sector have performed poorly over the past year however as the trend towards higher rates fades these sectors may perform better as the year progresses. We saw a partial rebound in the listed property sector over the past month with strong contributions from Argosy, Stride and Investore Property Ltd.

Including the three property names, the fund owns 14 companies in its equities portfolio. Heartland, Scales and EBOS all produced solid gains over July after a period of weakness and in total, 11 of the 14 companies share prices improved. In the bond portfolio, short term securities outperformed longer term bonds as bond market weakness was seen across many global markets. This global push higher in bond rates also nudged NZ rates higher but it seems bond markets are marking time until a clearer picture emerges on the extent of weakening economic growth rates and inflation.

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

<b>Distributions</b>	<b>Estimated annual fund charges (incl. GST)</b>
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.	
<b>Hedging</b>	<b>Buy /Sell spread:Strategy size</b>
All investments will be in New Zealand dollars	<a href="#">Click to view</a> \$3.96m
<b>Exclusions:</b> Controversial weapons.	<b>Strategy Launch</b>
<b>Restrictions:</b> 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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	October 2007

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

## Contact Us

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