

Nikko AM Income Strategy

Monthly Update 30 November 2023

Applies to the Nikko AM Income Fund.

Market Overview

- It was a strong month for returns with the S&P/NZX 50 Gross (with imputation credits) Index returning 5.35%.
- The bond sector as measured by the Bloomberg NZ Bond Composite Index had a strong month too, returning 3.25% as interest rates moved a lot lower.

Fund Highlights

- The Income Fund performed strongly over November as equity and bond markets performed well.
- The fund owns 14 companies in its equities portfolio, with 12 delivering positive returns for the month.
- Skellerup Holdings was the star performer returning 12.39%, and Investore Property Ltd and Stride Property Group were the only negative performers.

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

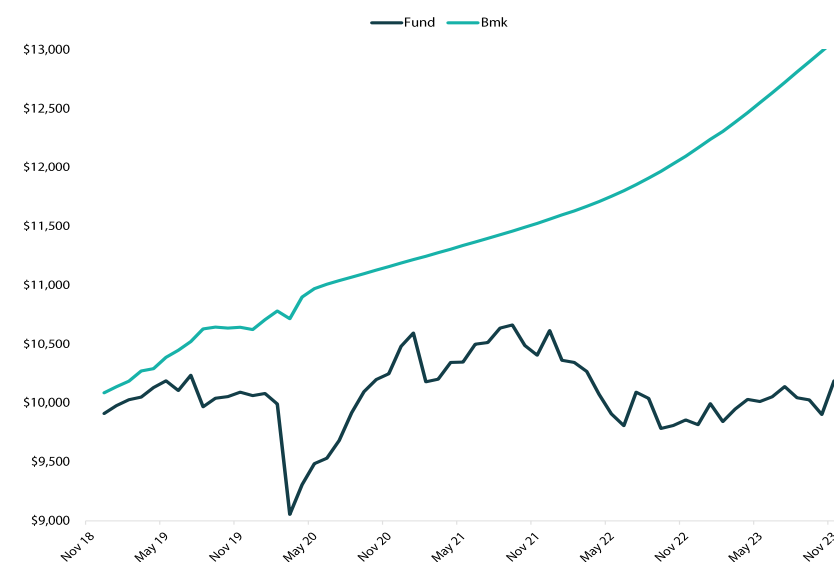
	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Retail¹	2.88%	1.42%	3.36%	-0.19%	0.37%	3.18%
Benchmark²	0.67%	2.05%	8.09%	5.42%	5.50%	6.19%
Market Index³	3.30%	0.71%	2.90%	-1.41%		

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%.

Five Year Cumulative Performance, \$10,000 invested^{1,2}



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, Senior Fixed Income Manager and Matthew Johnson, Fixed Income Manager.



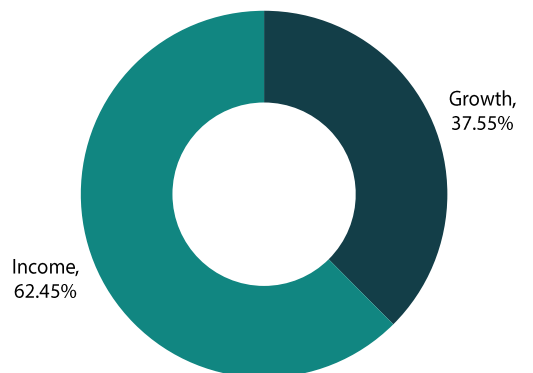
Overview

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 Income Issuers*	(%)	Duration	Top 10 Equities	(%)	(%)	
Westpac New Zealand	18.48	Fund 3.49 years	Bank Of New Zealand	3.28	Infratil	2.85
Kiwibank	5.12	Yield to Maturity	Spark New Zealand	3.18	Heartland	2.83
Powerco	4.85	Fund (gross) 6.29%	Works Finance NZ	3.18	Skellerup	2.73
TR Group	4.28		Chorus	3.04	Meridian Energy	2.56
Kiwi Property	4.01		Contact Energy	2.86	Kiwibank	2.05

Fund Commentary

The Income Fund performed strongly over November as equity and bond markets performed well.

It was a strong month for returns with the S&P/NZX 50 Gross (with imputation credits) Index returning 5.35%. Pleasingly the bond sector as measured by the Bloomberg NZ Bond Composite Index had a strong month too, returning 3.25% as interest rates moved a lot lower.

The move lower in interest rates was the key driver of bond returns with capital gains boosting bond returns to respectable levels year-to-date. Longer maturity bonds were the best performers as they have a higher price sensitivity to falls in rates and the shift lower in rates was relatively consistent along the yield curve.

It is very pleasing that the longer duration positioning has benefited the fund this year and bonds have delivered a respectable return. Although we remain unsure that the pace of slowing in growth and inflation is sufficient for the RBNZ to deliver rate cuts earlier in 2024 the market has swung to price this. Ultimately economic developments and the data will inform the way forward and markets may remain volatile.

We think the RBNZ maintains a “hawkish hold” and conditions are likely restrictive enough to slow the economy and inflation, however given the lag of policy we expect meaningful improvement in data will take time which may test the bank’s patience. On a medium term view we think it makes sense locking in higher rates for longer, but rates have fallen a lot in short order and entry levels and positioning size remain important so we remain patient for opportunities. We prefer quality credit over governments while government bonds still face supply issues. We are approaching an issuing hiatus for bonds over the holiday period and expect good demand for credit into the new year as monies need to be invested.

It was also a good month for the fund’s equities portfolio with 12 out of 14 holdings delivering positive returns, interest rate moves and expectations continue to dominate the equity market rather than earnings results and the outlook for earnings. Over November Skellerup Holdings (SKL) was the star performer returning 12.39%, and Investore Property Ltd (IPL) and Stride Property Group (SPG) were the only negative performers. While IPL’s result was in line with expectations, it cut its dividend guidance as it looks to conserve capital to protect its balance sheet and allow for likely tax changes that will see more tax payable in the year ahead. IPL fell 9.5% over the month. SPG had a very strong performance in October and gave up some of that in November, ending down 4.4% despite an earnings result in line with expectations.

We continue to believe investors should seek income from a diverse range of sources. Looking ahead over the medium term a lower rate environment should be supportive for both bond and equity returns. 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

Estimated annual fund charges (incl. GST)	0.80%, refer PDS for more details.	Hedging:	All investments will be in New Zealand dollars.	Strategy Launch:	October 2017
Exclusions:	Controversial weapons.	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.	Strategy size:	\$3.2m
Restrictions:	Adult entertainment, gambling, fossil fuels, alcohol stocks, tobacco stocks. For more information please refer to the Statement of Investment Policy and Objectives (SIPO) on our website https://www.nikkoam.co.nz/invest/retail .			Buy / Sell spread:	Click to view

Compliance

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

Contact Us

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