

# Nikko AM Income Strategy

Monthly Update 30 April 2024

Applies to the Nikko AM Income Fund.

## Market Overview

- The S&P/NZX 50 Gross (with imputation credits) Index fell by 1.2% over April and is up 1.6% over the year-to-date.
- The bond sector as measured by the Bloomberg NZ Bond Composite Index also fell over April, declining 1.03% and is down 0.78% so far in 2024.
- The Reserve Bank of NZ continues to push back on market expectations of a quick pivot to start rate cuts and have commented that the weak economy is evolving as expected, however they remain wary of ongoing persistent inflation.

## Fund Highlights

- The Income Fund declined over April with the New Zealand bond and equity markets both falling.
- There continued to be a wide variance in stock returns over the month with previous laggards such as EBOS and Scales performing well and Heartland Group tailing the field.
- Cash and short-term bonds were the best performing parts of the fixed income market as they held their value as the Official Cash Rate remained unchanged.

## 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 2024 is 6.5%. This income will be distributed in four equal amounts each calendar quarter, based on the price on 1 January 2024.

## Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
<b>Retail<sup>1</sup></b>	-1.31%	-0.65%	3.34%	0.06%	0.46%	3.06%
<b>Benchmark<sup>2</sup></b>	0.67%	2.03%	8.51%	6.15%	5.61%	6.13%
<b>Market Index<sup>3</sup></b>	-0.73%	0.66%	3.35%	-0.03%		

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



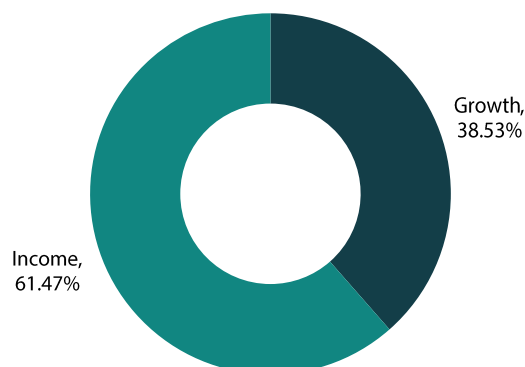
## Overview

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	8.22	Fund 4.28 years	Contact Energy	3.29	Spark New Zealand	2.97
Auckland International Airport	5.48	<b>Yield to Maturity</b>	Bank Of New Zealand	3.28	Chorus	2.90
Powerco	4.90	Fund (gross) 6.37%	Infratil	3.27	Heartland	2.50
Toyota Finance New Zealand	4.89		Works Finance NZ	3.18	Skellerup	2.45
Kiwi Property	4.11		Meridian Energy	3.03	Kiwibank	2.08

\*Includes cash holdings.

## Fund Commentary

The Income Fund declined over April with the New Zealand bond and equity markets both falling. April's results continue the bumpy start to the year which has seen the local bond and equity markets struggling to regain the positive momentum seen in the final months of last year.

How sticky inflation will be versus how much and how quickly it might subside continues to be top of mind for many investors. Central banks seem both pleased that inflation has fallen but concerned that it is not yet tamed. The messaging from many central banks including the Reserve Bank of NZ is that interest rate cuts have been delayed not derailed. The play book seems to be that interest rates are high enough to bring inflation back to around 2% and further rate hikes are off the table, however rates can be held at restrictive levels for as long as it takes to get inflation down.

The Reserve Bank of NZ continues to push back on market expectations of a quick pivot to start rate cuts and have commented that the weak economy is evolving as expected, however they remain wary of ongoing persistent inflation. The bank's projections show some rate reductions may start next year with the OCR at 3.5% by the end of 2026, as always, the projections are dependent upon data points continuing in the right direction to deliver sustainably lower inflation.

If cash rates move significantly lower over the next year or two, we would expect bond rates to follow and deliver strong returns to the portfolio. In the short term the direction of the NZ bond and equity markets are likely to be influenced by trends and sentiments in the large offshore markets.

The S&P/NZX 50 Gross (with imputation credits) Index fell by 1.2% over April and is up 1.6% over the year to date. There continued to be a wide variance in stock returns over the month with previous laggards such as EBOS and Scales performing well and Heartland Group tailing the field as they raised additional capital to complete the purchase of Challenger Bank in Australia.

The bond sector as measured by the Bloomberg NZ Bond Composite Index also fell over April, declining 1.03% and is down 0.78% so far in 2024. Cash and short-term bonds were the best performing parts of the fixed income market as they held their value as the Official Cash Rate remained unchanged.

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

<b>Estimated annual fund charges (incl. GST)</b>	0.80%, refer PDS for more details.	<b>Hedging:</b>	All investments will be in New Zealand dollars.	<b>Strategy Launch:</b>	October 2017
<b>Exclusions:</b>	Controversial weapons.	<b>Distributions:</b>	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.	<b>Strategy size:</b>	\$3.1m
<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) on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .			<b>Buy / Sell spread:</b>	<a href="#">Click to view</a>

## Compliance

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

## Contact Us

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