

# Nikko AM Income Strategy

Monthly Update 30 September 2024

Applies to the Nikko AM Income Fund.

## Market Overview

- September saw rates on longer term bonds stay the same or in some cases increase after performing strongly over the past quarter.
- The NZ equity market was modestly positive over September and advanced strongly over the quarter as investors were encouraged by the Reserve Bank indicating a series of interest rate cuts were likely over the back end of 2024 and over 2025.

## Fund Highlights

- The Income Fund increased by 0.72% over the month of September and 4.37% over the past quarter as the bond market performed well as the prospect of further cuts to the cash rate reduced the yield of shorter-term bonds.
- The interest rate sensitive property sector had a strong boost with Stride and Investore advancing by more than 14% over the quarter. Skellerup, Chorus Ebos and Infratil also performed strongly. Spark and Contact tailed the field.

## Distributions

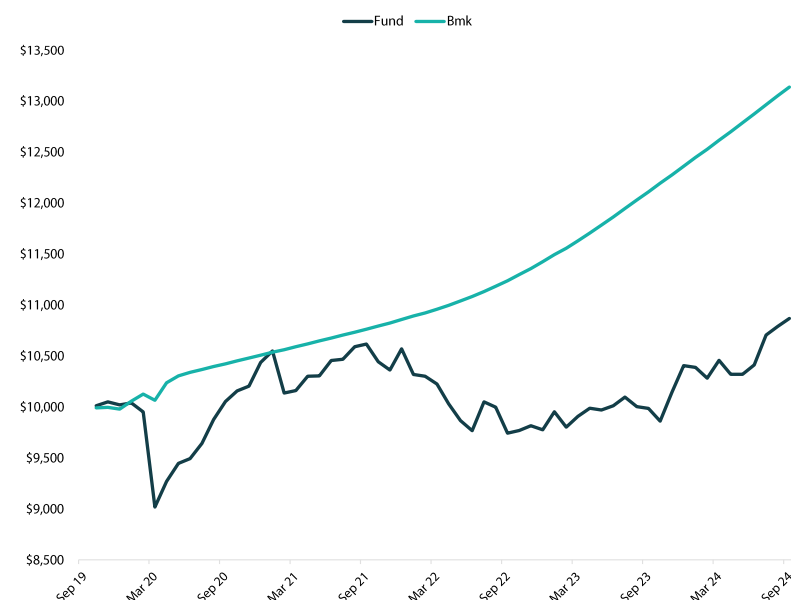
- The defined distribution rate (which is used to calculate the distribution you receive from the fund) is set at the start of each calendar year, based on the price of the fund at that point. The defined distribution rate for 2024 is 6.5%. This income will be distributed in four equal amounts each calendar 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>	0.72%	4.37%	8.84%	0.78%	1.68%	3.24%
<b>Benchmark<sup>2</sup></b>	0.65%	2.05%	8.49%	6.88%	5.62%	6.07%
<b>Market Index<sup>3</sup></b>	0.66%	4.87%	11.02%	1.49%		

- Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).
- Current benchmark: RBNZ Official Cash Rate +3.00% p.a.
- Current appropriate market index: 65% Bloomberg NZBond Credit 0+ Yr Index, 35% S&P/NZX 50 Gross Index.

## 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, Senior Fixed Income Manager.

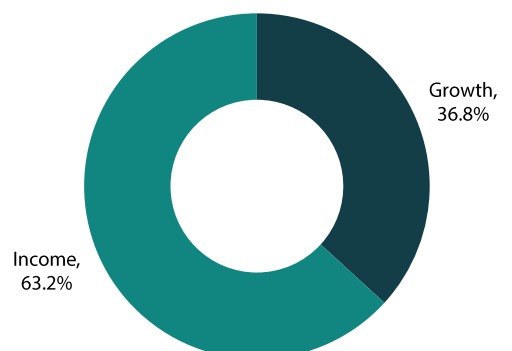
## Overview

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	10.19	Fund 3.88 years	Infratil	4.04	Meridian Energy	2.50
ANZ Bank New Zealand	5.42	<b>Yield to Maturity</b>	Chorus	3.37	Skellerup	2.38
Powerco	4.95	Fund (gross) 5.10%	Bank Of New Zealand	3.18	Heartland	2.35
Kiwi Property	4.16		Works Finance NZ	3.07	Kiwibank	2.07
Auckland International Airport	3.63		Contact Energy	2.64	Scales	2.01

\*Includes cash holdings.

## Fund Commentary

The Income Fund increased by 0.72% over the month of September and 4.37% over the past quarter as the bond market performed well as the prospect of further cuts to the cash rate reduced the yield of shorter-term bonds. September saw rates on longer term bonds however, stay the same or in some cases increase after performing strongly over the past quarter. Longer term bonds were the best performing part of the fixed income sector. The NZ equity market was modestly positive over September and advanced strongly over the quarter as investors were encouraged by the Reserve Bank indicating a series of interest rate cuts were likely over the back end of 2024 and over 2025.

Over the month the NZX50 (gross with imputation credits) increased 0.05% while the NZ Composite Bond Index advanced 0.63%. Cash provided a steady return of around 0.5%. The quarterly return for the bond sector was 3.89% and 6.37% for the NZX50.

Markets continue to focus on the words and actions of the Reserve Bank of NZ and influential central banks such as the US Federal Reserve for signs of when and by how much cash rates will be cut. The RBNZ did surprise markets by delivering a 0.25% cut to the Official Cash Rate at their August meeting and projected further cuts in the OCR until it reaches 3.0% by late 2026 or early 2027. The US Federal Reserve also started their cutting cycle by lowering their cash benchmark by 0.5% at their September meeting to help defend US economic activity and to help bolster the labour market. US investors are also looking for another large interest rate cut in November however the size of future rate cuts will be dependent upon the future direction of data releases.

Like in the US the market is anticipating further cuts to the OCR possibly as early as on 9 October and a number of economists forecasting an Official Cash Rate of 4.25% by the end of 2024. The prospect of lower interest rates helped propel equity markets higher and bond rates lower over the past quarter. How far and how fast the rate cuts would occur was the dominant investment theme over the past quarter. Interest rates will continue to be on the minds of investors however the escalation of middle east tensions and the potential impact on oil prices is of rising concern.

If cash rates move significantly lower over the next year or two, we would expect bond rates to follow but not to the same extent. We are also aware that large falls in cash rates are already priced into markets so any disappointment could see some retracement in prices/yields however if this does occur it could represent a good buying opportunity.

The interest rate sensitive property sector had a strong boost with Stride and Investore advancing by more than 14% over the quarter. Skellerup, Chorus Ebos and Infratil also performed strongly. Spark and Contact tailed the field.

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>	\$3.3m
<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 quarter.

## Contact Us

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