

# Nikko AM Income Strategy

Monthly Update 31 October 2024

Applies to the Nikko AM Income Fund.

## Market Overview

- The NZ equity market as measured by the NZX50 (gross with imputation credits) increased 1.74% over the month as the prospect of lower interest rates continued to increase the appeal of New Zealand listed companies.
- The NZ Composite Bond Index fell 0.51% and the cash sector provided a steady return of around 0.5%.

## Fund Highlights

- The bond market underperformed after a strong run this year, however the NZ equity market gains outweighed the bond market losses resulting in a modest gain for the fund.
- Skellerup and Investore Property share prices continued their recent strong performances and Scales Corp had a nice bounce over the month. Spark tailed the field amongst the portfolio's equity holdings.

## Distributions

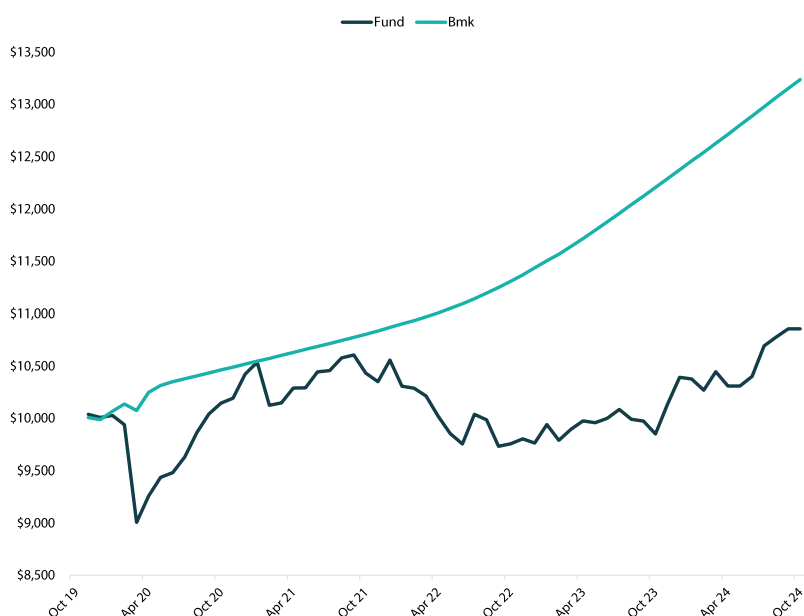
- The defined distribution rate (which is used to calculate the distribution you receive from the fund) is set at the start of each calendar year, based on the price of the fund at that point. The defined distribution rate for 2024 is 6.5%. This income will be distributed in four equal amounts each calendar 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>	0.41%	1.93%	10.66%	1.47%	1.74%	3.35%
<b>Benchmark<sup>2</sup></b>	0.65%	2.00%	8.44%	7.01%	5.77%	6.05%
<b>Market Index<sup>3</sup></b>	0.51%	1.89%	13.22%	2.25%		

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: 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.

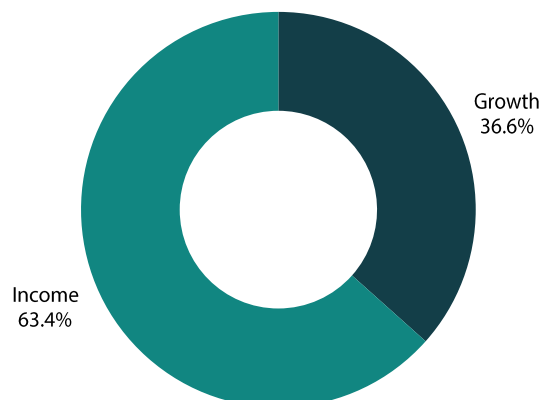
## Overview

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	9.66	Fund 4.14 years	Infratil	4.03	Skellerup	2.49
Powerco	4.79	<b>Yield to Maturity</b>	Chorus	3.29	Meridian Energy	2.44
Kiwi Property	4.04	Fund (gross) 5.24%	Bank Of New Zealand	3.03	Heartland	2.31
Auckland International Airport	3.43		Works Finance NZ	2.98	Scales	2.24
Spark Finance	3.12		Contact Energy	2.70	Kiwibank	1.98

\*Includes cash holdings.

## Fund Commentary

The Income Fund returned by 0.41% over October. The bond market underperformed after a strong run this year, however the NZ equity market gains outweighed the bond market losses resulting in a modest gain for the fund. October saw rates on longer term bonds increase, however interest rates on shorter term bonds and the cash sector were supported by the Reserve Bank's projections for further rate cuts in 2024 and into 2025.

The NZ equity market as measured by the NZX50 (gross with imputation credits) increased 1.74% over the month as the prospect of lower interest rates continued to increase the appeal of New Zealand listed companies. The NZ Composite Bond Index fell 0.51% and the cash sector provided a steady return of around 0.5%.

The RBNZ cut the cash rate by 0.5% on the 9th of October to 4.75% and markets are anticipating a further 0.5% cut when the bank meets on 27 November. This will be the last time this year the RBNZ meets to discuss the cash rate. Further cuts are expected over 2025 however the pace of cuts will slow.

The RBNZ will breathe a big sigh of relief as NZ's annual inflation rate fell sharply in the third quarter, returning to within the central bank's target band for the first time in three years. The CPI inflation rate fell to 2.2% from 3.3% in the second quarter of 2024. Consumer spending also fell further in the third quarter, adding to the signs of recession that have been growing for a year or more. All these weak data prints have encouraged the central bank to act early and decisively to cut rates now that inflation and inflation expectations are at acceptable levels.

In contrast, bond yields have been rising and prices falling all around the world. At the heart of the global debt selloff was investor soul searching around US Federal Reserve rate-cut expectations and whether they appear overdone. A robust US economy, firming odds of a Donald Trump election victory and cautious comments from Fed officials on the pace of monetary policy easing muddled the prospects for bond gains.

The weaker economic prospects in New Zealand has seen local bond yields outperforming global counterparts however the direction for yields was still up.

Over the medium term, if cash rates move significantly lower, 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. Global developments will likely see bond market volatility continue at least in the short term.

The S&P/NZX 50 Gross (with imputation credits) Index increased by 1.74% in October as falling cash rates encouraged investors to look for buying opportunities. Skellerup and Investore Property share prices continued their recent strong performances and Scales Corp had a nice bounce over the month. Spark tailed the field amongst the portfolio's equity holdings.

The Composite Bond Index fell by 0.51% over the month, however longer term bonds have been the best performing part of the fixed income sector for most of the past year.

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 month.

## Contact Us

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