

Nikko AM Income Strategy

Monthly Update 30 November 2024

Applies to the Nikko AM Income Fund.

Market Overview

- The NZ equity market as measured by the NZX50 (gross with imputation credits) increased 3.39% 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 also had a good month advancing 0.57% as longer-term bond yields fell after being pushed higher by global anxiety over what a new Trump Presidency may mean for economic growth, inflation and new bond issuance.

Fund Highlights

- Skellerup's share price continued its recent strong performance, up 6.9% for the month. The property sector and Heartland Bank tailed the field, however 11 of the 14 equity names in the portfolio increased in price.
- Longer term bonds were the best performing part of the fixed income sector and if the RBNZ carry out their rate cut projections bond yields will be significantly higher than cash returns over the next few years.

Distributions

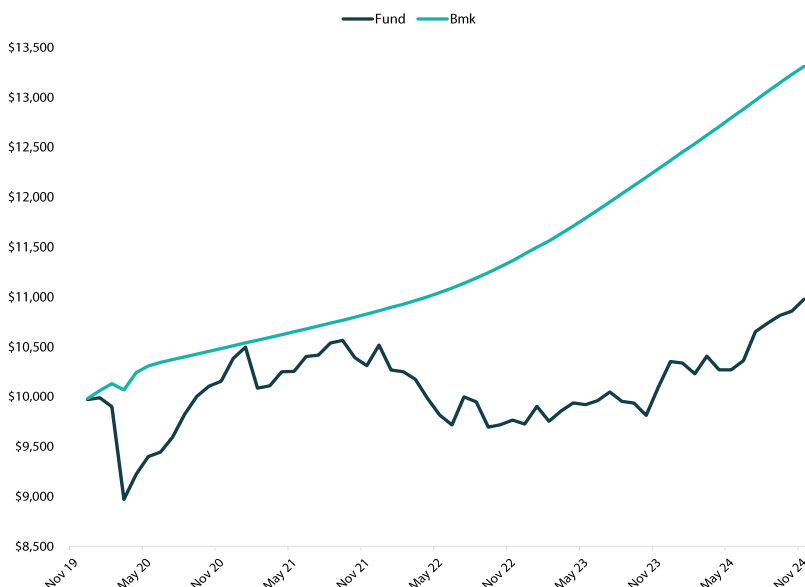
- The defined distribution rate (which is used to calculate the distribution you receive from the fund) is set at the start of each calendar year, based on the price of the fund at that point. The defined distribution rate for 2024 is 6.5%. This income will be distributed in four equal amounts each calendar 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)
Retail¹	1.10%	2.25%	8.75%	2.11%	1.88%	3.39%
Benchmark²	0.61%	1.92%	8.38%	7.12%	5.89%	6.03%
Market Index³	1.41%	2.61%	11.16%	2.99%		

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^{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, Senior Fixed Income Manager.



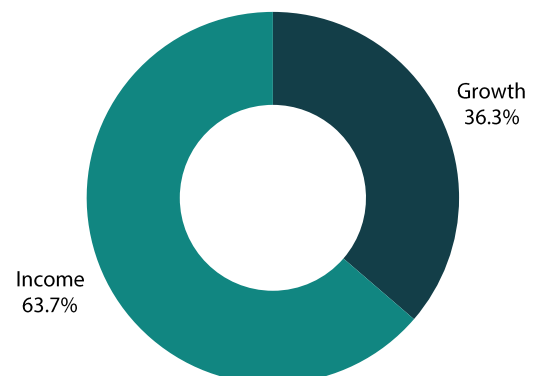
Overview

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	9.35	Fund 4.11 years	Infratil	4.00	Skellerup	2.59
Powerco	4.69	Yield to Maturity	Chorus	3.27	Meridian Energy	2.47
Kiwi Property	3.95	Fund (gross) 5.18%	Bank Of New Zealand	3.00	Scales Corp	2.28
Auckland International Airport	3.34		Works Finance NZ	2.98	Heartland	2.16
Bank of New Zealand	3.30		Contact Energy	2.75	Kiwibank	1.95

*Includes cash holdings.

Fund Commentary

The Income Fund increased by 1.10% over November. The bond market and equity market performed well, propelled higher by global influences and confirmation the Reserve Bank of NZ will continue to cut the cash rate over 2025.

The NZ equity market continued its strong recent performance. The NZ equity market as measured by the NZX50 (gross with imputation credits) increased 3.39% 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 also had a good month advancing 0.57% as longer-term bond yields fell after being pushed higher by global anxiety over what a new Trump Presidency may mean for economic growth, inflation and new bond issuance.

The RBNZ cut the cash rate by an additional 0.5% on the 27th of November to 4.25% and markets are anticipating a further 0.5% cut early next year. The pace of cuts is expected to slow however an ultimate target of around 3% is likely. The Reserve Bank continues to expect global economic growth to remain subdued in the near term so it is unlikely NZ can rely on global growth to help our local economy. Geopolitical conditions and policy uncertainty could also contribute to increased economic and inflation uncertainty so it is no surprise that lower cash rates will be delivered in NZ even if there is some degree of volatility in the flow of economic data.

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. 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 3.39% over November as falling cash rates continued to encourage investors to look for buying opportunities. Skellerup's share price continued its recent strong performance, up 6.9% for the month. The property sector and Heartland Bank tailed the field however 11 of the 14 equity names in the portfolio increased in price.

The Composite Bond Index increased by 0.57%, reversing the previous month's fall. Longer term bonds were the best performing part of the fixed income sector and if the RBNZ carry out their rate cut projections bond yields will be significantly higher than cash returns over the next few years.

With cash rates forecast to fall 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:	\$3.4m
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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