

# Nikko AM Income Strategy

Monthly Update 31 December 2024

Applies to the Nikko AM Income Fund.

**This fund is in wind up and is no longer open to new investors.**

## Market Overview

- The NZ equity market measured by the NZX50 (gross with imputation credits) increased 0.40% over the month and 5.62% over the December quarter.
- The NZ Composite Bond Index also had a good month advancing 0.61% as bond yields fell due to weak economic performance and the prospect of only slow improvement over the year ahead.

## Fund Highlights

- Skellerup, Scales and Contact were some of the better performers over the quarter with Spark continuing to be out of favour.
- Over December individual holdings of bond and equity securities were sold and the proceeds used to purchase units in the Nikko Wholesale NZ Bond and NZ Equity funds. The primary reason for this was to increase the liquidity of the assets of the Income Fund and provide a more diverse asset base while maintaining market exposure in preparation for the fund closure.

## Distributions

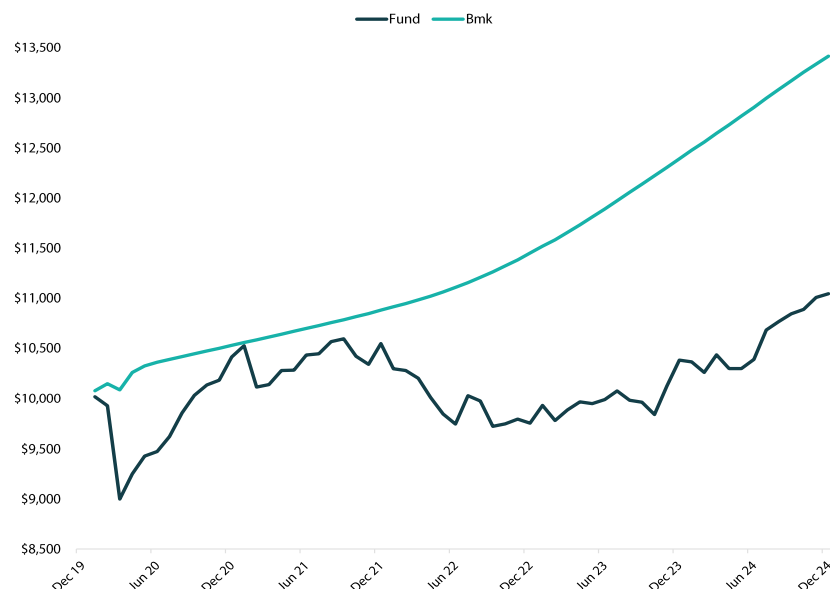
- The defined distribution rate for 2024 was 6.5%, based on the price on 1 January 2024. The same quarterly rate of 1.0338 cents per unit will be used to pay the final distribution on 18<sup>th</sup> March 2025.

## Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
<b>Retail<sup>1</sup></b>	0.32%	1.84%	6.37%	1.55%	2.01%	3.31%
<b>Benchmark<sup>2</sup></b>	0.60%	1.87%	8.27%	7.22%	6.05%	6.01%
<b>Market Index<sup>3</sup></b>	0.83%	2.78%	9.12%	2.90%		

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.



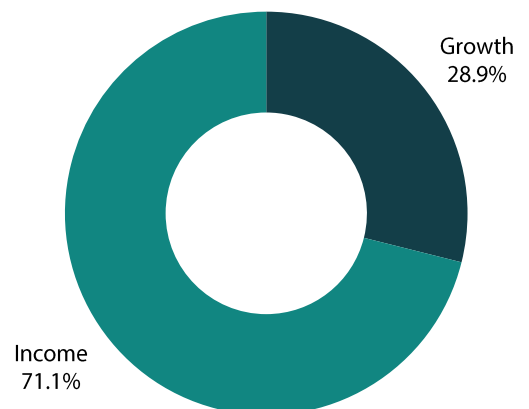
## Overview

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	(%)	(%)	
NZ Government	16.37	Fund 5.03 years	Fisher & Paykel Healthcare	4.69	Spark New Zealand	1.56
NZ Local Govt Funding Agency	5.19	<b>Yield to Maturity</b>	Infratil	3.09	Mainfreight	1.35
Housing New Zealand	4.61	Fund (gross) 4.53%	Auckland International Airport	3.01	Summerset	1.29
Bank of New Zealand	4.49		Contact Energy	2.25	EBOS	1.13
Westpac New Zealand	4.44		Meridian Energy	1.70	A2 Milk	1.08

\*Includes cash holdings.

## Fund Commentary

The Income Fund increased by 0.32% over December and advanced 1.84% over the last quarter of 2024. The bond and equity markets added positively to returns with the NZ equity market posting healthy gains over the past three months. Bonds, as measured by the Bloomberg Composite Bond Index, advanced a modest 0.67% over the same period.

Markets were propelled higher primarily by the Reserve Bank of NZ delivering two 0.5% cuts to the Official Cash Rate. The first occurred on 9 October followed by another on 27 November, these cuts quickly followed the first rate cut of 0.25% on 14 August. In addition, the RBNZ indicated they will continue to cut the cash rate over 2025.

The OCR finished the year at 4.25% with a further 0.5% cut on 19 February 2025 is likely based on current market pricing.

The quick pace of rate cuts so far and the strong probability of more to come is a result of inflation falling back into the RBNZ's 1-3% comfort zone and the surprisingly poor economic growth performance NZ recorded over the past year. In our view, larger interest rate cuts are required to stimulate the economy. Lower rates will help rebuild consumer and business confidence and encourage more spending and investment which in turn will help support jobs and tax revenue. The government's finances aren't in great shape and policies to enhance growth will make it easier for it to pay its bills without the need to continue to borrow billions of dollars a year to finance government overspending.

The NZ equity market consolidated its strong recent performance. The NZ equity market as measured by the NZX50 (gross with imputation credits) increased 0.40% over the month and 5.62% over the December quarter 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 0.61% as bond yields fell due to weak economic performance and the prospect of only slow improvement over the year ahead. Short to mid-term bonds had the largest fall in yields as the prospect of lower cash rates made these bonds look attractive to investors keen to lock into relatively higher yielding investments.

The S&P/NZX 50 Gross (with imputation credits) Index increased over the December quarter as falling cash rates continued to encourage investors to look for buying opportunities. Skellerup, Scales and Contact were some of the better performers over the quarter with Spark continuing to be out of favour.

Over December individual holdings of bond and equity securities were sold, and the proceeds were used to purchase units in the Nikko Wholesale NZ Bond and NZ Equity funds. The primary reason for this was to increase the liquidity of the assets of the Income Fund and provide a more diverse asset base while maintaining market exposure in preparation for the fund closure.

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

<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>	\$3.2m
<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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