

# Nikko AM Income Strategy

Monthly Update 31 January 2025

Applies to the Nikko AM Income Fund.

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

## Market Overview

- Both bond and equity markets fell over the month with the NZ equity market falling 0.88% and the bond market returns marginally negative. Bonds, as measured by the Bloomberg Composite Bond Index returned -0.04%.
- The RBNZ has indicated they will continue to cut the cash rate over 2025 with a further 0.5% cut likely to occur on 19 February. This would bring the OCR down to 3.75% with further cuts to 3% over the balance of 2025 probable.

## Fund Highlights

- Over recent months, individual holdings of bond and equity securities were sold and the proceeds used to purchase units in the Nikko Wholesale NZ Bond and NZ Core Equity Fund. The primary reason for this is to increase the liquidity of the assets of the Income Fund and provide a more diverse asset base.
- The Core Equity 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.

## Distributions

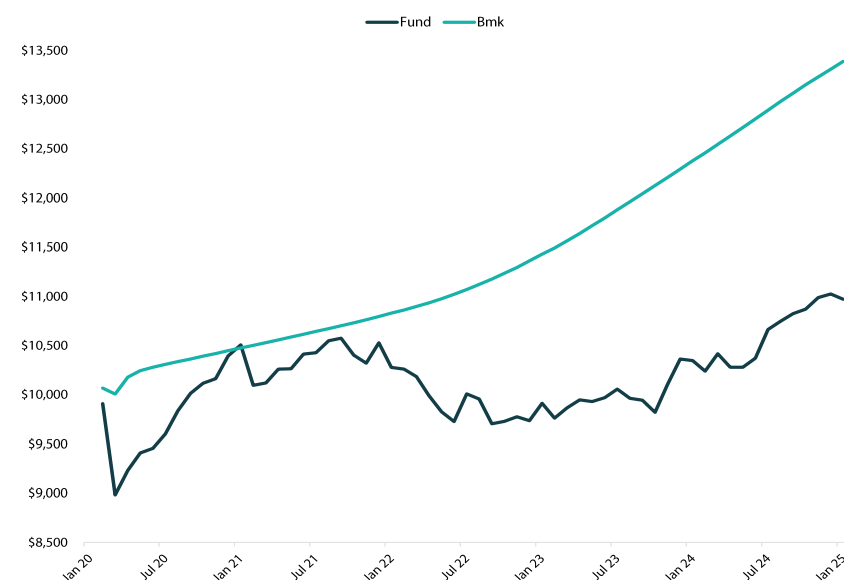
- The defined distribution rate for 2024 was 6.5%, based on the price on 1 January 2024. The same quarterly rate of 1.0338 cents per unit will be used to pay the final distribution on 18<sup>th</sup> March 2025.

## Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
<b>Retail<sup>1</sup></b>	-0.49%	0.93%	6.02%	2.19%	1.87%	3.20%
<b>Benchmark<sup>2</sup></b>	0.60%	1.81%	8.16%	7.33%	6.01%	5.99%
<b>Market Index<sup>3</sup></b>	-0.27%	1.98%	8.63%	3.92%		

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.



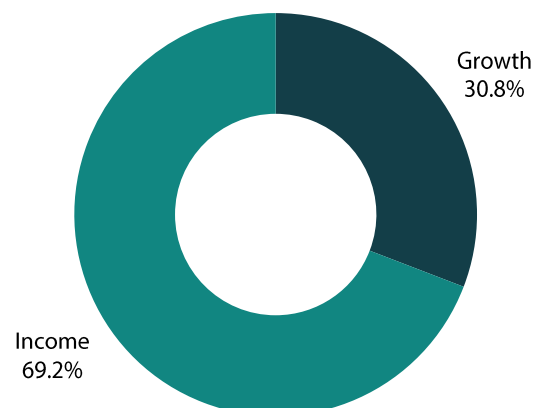
## Overview

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	(%)	(%)	
New Zealand Government	15.06	Fund 4.94 years	Fisher & Paykel Healthcare	4.96	Spark New Zealand	1.66
Bank of New Zealand	5.19	<b>Yield to Maturity</b>	Auckland International Airport	3.24	Mainfreight	1.50
NZ Local Govt Funding Agency	5.00	Fund (gross) 4.63%	Infratil	3.04	Summerset	1.37
Housing New Zealand	4.56		Contact Energy	2.27	EBOS	1.33
Westpac New Zealand	4.32		Meridian Energy	1.93	A2 Milk	1.19

\*Includes cash holdings.

## Fund Commentary

The Income Fund decreased by 0.5% over January. Both bond and equity markets fell over the month with the NZ equity market falling 0.88% and the bond market returns marginally negative. Bonds, as measured by the Bloomberg Composite Bond Index returned -0.04%.

Markets were trying to determine the economic and financial market impact of the new Trump administration policies, particularly in the area of tariffs. Most analysts are of the view that there is only downside for consumers and economic activity with the introduction of tariffs by the US especially if they result in retaliatory action from other countries. For financial markets the impact on inflation and future central bank action is less certain and this uncertainty is flowing into lower equity and bond prices. Of particular note was the underperformance of bonds with longer-term maturities, however these now seem at levels that look attractive and provide the possibility of strong returns as the year progresses.

Locally, the Reserve Bank of NZ has delivered two 0.5% cuts to the Official Cash Rate in 2024. 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 has indicated they will continue to cut the cash rate over 2025 with a further 0.5% cut likely to occur on 19 February. This would bring the OCR down to 3.75% with further cuts to 3% over the balance of 2025 probable. These are significant falls in interest rates and should help stimulate economic activity towards late 2025 and into 2026.

Turning back to the global environment, most equity markets around the world delivered strong returns during January as inflation, interest rate and economic growth outlooks continue to be positive drivers. January also saw the inauguration of President Trump and both bond and equity markets will keep a close eye on how policies relating to immigration, healthcare, climate change / renewable energy / fossil fuels and tariffs are implemented and potential impacts on individual companies, industries and economies. Technology stocks were impacted by the almost overnight arrival of the Chinese developed artificial intelligence (AI) engine DeepSeek which purports to require a fraction of the cost to develop and run compared to Western AI engines. The New Zealand equity market was somewhat of an outlier, delivering a negative return of 0.9%. The key driver of the New Zealand negative return was the poor performance of several companies that have large weights in the S&P/NZX 50 index with Infratil, Fisher & Parkel Healthcare, Ryman Healthcare and Contact Energy delivering negative returns of 11.0%, 2.1%, 7.4% and 2.1% respectively.

Over recent months, individual holdings of bond and equity securities were sold and the proceeds used to purchase units in the Nikko Wholesale NZ Bond and NZ Core Equity Fund. The primary reason for this is to increase the liquidity of the assets of the Income Fund and provide a more diverse asset base.

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 with 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>	\$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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