

Nikko AM Income Strategy

Monthly Update 28 February 2025

Applies to the Nikko AM Income Fund.

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

Market Overview

- Company results reflected the downbeat economic environment NZ has experienced over the last 6 to 12 months that the companies were reporting on. This flowed through to weak share prices for a number of stocks.
- The market was also impacted by funding required to participate in the Ryman capital raising with investors selling stocks to raise money to participate.
- Locally, the Reserve Bank delivered a further 50 basis point cut to the Official Cash Rate on 19 February. In addition, the RBNZ indicated they will continue to cut the cash rate over 2025 to a low point of 3% to 3.25%.

Fund Highlights

- The Income Fund decreased by 0.72% over February with bond markets posting positive returns, however the S&P/NZX 50 index ended the month down 3.0%.
- NZ bonds had a positive return for the month as interest rates finished lower. Both absolute and relative returns were attributed to monthly income accrual and some modest capital gain due to the move lower in rates.

Distributions

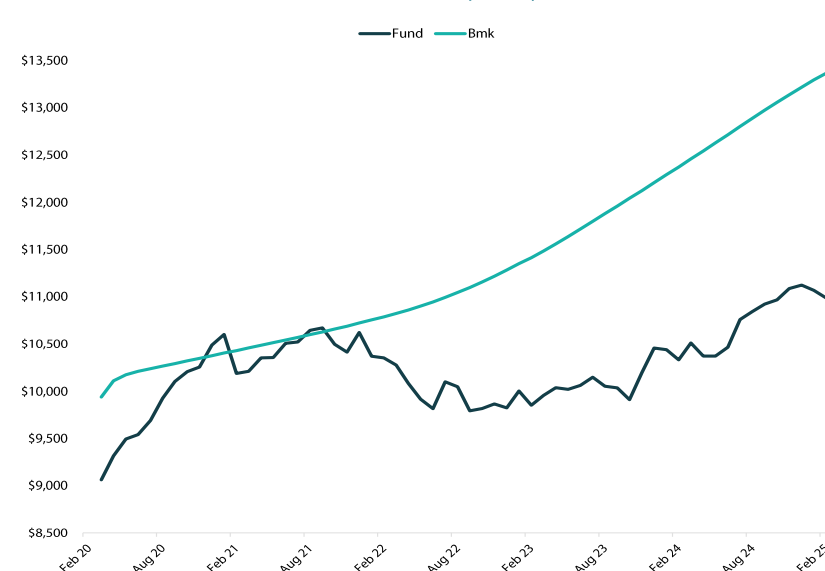
- The defined distribution rate for 2024 was 6.5%, based on the price on 1 January 2024. The same quarterly rate of 1.0338 cents per unit will be used to pay the final distribution on 18th March 2025.

Performance

	One month	Three months	One year	Three years (pa)	Five years (pa)	Ten years (pa)
Retail¹	-0.72%	-0.89%	6.35%	2.01%	1.90%	3.13%
Benchmark²	0.53%	1.73%	8.03%	7.41%	5.98%	5.96%
Market Index³	-0.82%	-0.27%	8.17%	3.68%		

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.



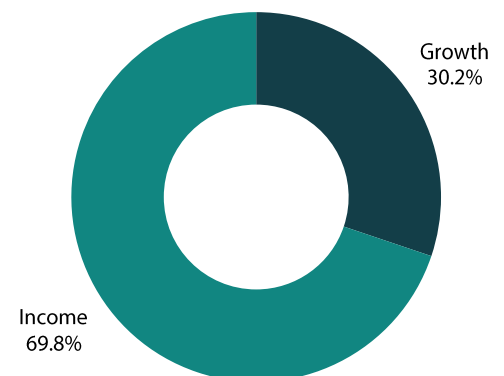
Overview

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	(%)	(%)	
New Zealand Government	15.60	Fund 4.94 years	Fisher & Paykel Healthcare	4.51	A2 Milk	1.54
NZ Local Govt Funding Agency	5.05	Yield to Maturity	Auckland International Airport	2.95	Mainfreight	1.49
Housing New Zealand	4.58	Fund (gross) 4.63%	Infratil	2.92	EBOS	1.31
Kiwibank	4.44		Contact Energy	2.16	Spark New Zealand	1.28
Westpac New Zealand	4.43		Meridian Energy	1.91	Summerset	1.28

*Includes cash holdings.

Fund Commentary

The Income Fund decreased by 0.72% over February with bond markets posting positive returns, however the S&P/NZX 50 index ended the month down 3.0%.

A lot of investor attention was focused on global events, primarily the US. President Trump threatened wide ranging tariffs with likely rates of 25% on Canadian and Mexican goods and an additional 10% on Chinese goods. Further tariffs on other markets and goods were threatened and are likely. The implications for financial markets, inflation and economic growth remain uncertain and will likely ensure markets remain volatile for some months ahead.

It was a very busy month for the NZ equity market with a steady flow of news and updates as companies reported their earnings results for the period ending December 2024.

Ryman Healthcare surprised the market with a \$1b capital raising at a 29% discount to the last traded price in order to materially reduce debt and gearing levels.

Company results reflected the downbeat economic environment NZ has experienced over the last 6 to 12 months that the companies were reporting on. This flowed through to weak share prices for a number of stocks. The market was also impacted by funding required to participate in the Ryman capital raising with investors selling stocks to raise money to participate.

NZ bonds had a positive return for the month as interest rates finished lower. Both absolute and relative returns were attributed to monthly income accrual and some modest capital gain due to the move lower in rates. In general, the fund has been positioned with longer duration than benchmark which helped when rates declined.

Locally, the Reserve Bank delivered a further 50 basis point cut to the Official Cash Rate on 19 February. In addition, the RBNZ indicated they will continue to cut the cash rate over 2025 to a low point of 3% to 3.25%. These are significant falls in interest rates and should help stimulate economic activity towards late in 2025 and into 2026 and drag New Zealand out of its prolonged recession.

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 Equity funds. 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 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:	\$2.5m
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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