

NIKKO AM AUSTRALIAN SHARE INCOME FUND

Fund Update

Fund Performance (%)

	1 Mth	3 Mths	6 Mths	1 Yr	2 Yrs p.a.	3 Yrs p.a.	4 Yrs p.a.	5 Yrs p.a.	7 Yrs p.a.	Since Inception p.a.
Fund Growth return	0.75	2.44	11.90	25.43	-0.07	-0.87	0.41	0.18	-0.49	2.52
Fund Distribution return	0.00	1.95	2.54	4.90	4.58	5.62	5.96	7.14	7.47	6.55
Total Fund return (net)*	0.75	4.39	14.44	30.33	4.52	4.75	6.37	7.33	6.98	9.07
Fund grossed up dividend yield				5.79	6.29	8.34	8.31	8.44	8.76	8.54
S&P/ASX 200 Accumulation Index Yield (grossed up for franking credits)				4.13	4.44	4.92	5.16	5.29	5.57	5.76
Excess yield				1.67	1.85	3.42	3.15	3.15	3.19	2.78

Source: Nikko AM. Fund growth return is the change in redemption prices over the period. Fund distribution return equals Total Fund minus Fund growth return. The grossed up dividend yield for the Nikko AM Australian Share Income Fund is before fees and relates to the Fund's holdings and differs from the Fund's distribution due to franking credits, management fees and other costs. There are also timing differences between the Fund grossed up dividend yield and the Fund distribution return. Dividends for the grossed up dividend yield are calculated on the stock's ex-dividend date. Dividends for the distribution return are generally calculated when the dividend is received (which can be after the ex-dividend date and the reporting period for this Fund Update). Nikko AM Australia adopts a distribution policy, whereby a certain amount of income is held back each quarter, with the full amount released at the end of the financial year. Nikko AM Australia net returns are post fees, pre tax using redemption prices and assume reinvestment of distributions. Past performance is not an indicator of future performance. Inception date: 14 November 2008.

*Due to share buy-back participation performance was negatively impacted: BHP April 2011 0.250%; TLS October 2014 0.295%; TLS October 2016 0.153%; RIO November 2017 0.011%; RIO November 2018 0.459%; BHP December 2018 0.061%; WOW May 2019 0.068%.

The Fund underperformed the broader equities market during the month (on a net basis).

The Fund has delivered a grossed up dividend yield of 5.79% over the past 12 months and continues to exceed its long-term performance objective, by delivering an excess grossed up dividend yield greater than 2.00% p.a. above its benchmark since inception.

Key contributors to absolute performance over the month:

- **BHP** and **Rio Tinto** contributed to performance with the stocks moving higher despite a mid-month pullback in iron ore prices. Stock outperformance was likely driven by market positioning ahead of the significant dividends expected during upcoming reporting period.
- **Spark Infrastructure** outperformed after receiving a takeover bid from a consortium led by private equity group KKR. The third bid was deemed sufficient to allow the consortium access to due diligence.
- **Lendlease** outperformed having announced the sale of the Engineering business at a price which was at the high end of recent speculation.
- **APA Group** outperformed along with other infrastructure and regulated utility stocks in July, after Sydney Airport and Spark Infrastructure received takeover offers.

Key detractors from absolute performance over the month:

- **Westpac** detracted from performance. The bank sector underperformed the market despite both ANZ and National Australia Bank announcing on-market buybacks.

- **Downer** underperformed given continued uncertainty around labour related cost pressures and the impact of lockdowns in Australia.
- **Tassal** underperformed as extended lockdowns weigh on the company's restaurant trade channel and its profitable wholesale distribution business.
- **Stockland** underperformed as concerns grew around another extended lockdown impacting its sizeable retail book.
- **Origin Energy** was a detractor after the company provided early guidance for FY22 which was materially lower than the market consensus.

Top 10 Holdings

Security Name	% of Fund
BHP Group	7.50
ANZ Bank	7.23
Commonwealth Bank	7.08
Rio Tinto	5.37
Coles Group	5.07
Telstra	4.87
Westpac Bank	3.42
Suncorp Group	3.08
IOOF	2.98
National Australia Bank	2.94

Franking Levels

Financial year ending	%
30 June 2021 (66% on income entitlements)	72.75
30 June 2020 (76% on income entitlements)	79.35
30 June 2019 (91% on income entitlements)	103.12
30 June 2018 (81% on income entitlements)	57.85
30 June 2017 (78% on income entitlements)	40.65
30 June 2016 (67% on income entitlements)	71.53
30 June 2015 (78% on income entitlements)	49.40

Fund Metrics

	Price to Earnings Ratio*	Forecast Grossed Up Dividend Yield (%)*
Fund	14.58	5.36

Actual figures may vary. Forecasts are 12 months forward.

* Based on Broker Consensus forecast.

Market Commentary

The S&P/ASX 200 Accumulation Index returned 1.1% during the month. Australian equities lagged global markets which had mixed results in July. In the major developed markets the US S&P 500 was up 2.4%, the DJ Euro Stoxx 50 was up 0.8% and the UK's FTSE 100 was up 0.1%. Japan's Nikkei 225 was the laggard, down 5.2% (in local currency terms).

Monetary policy settings remained unchanged in July, as the Reserve Bank of Australia (RBA) maintained both the cash rate and 3 year yield target at 0.10%. The RBA also indicated it will maintain its government bond purchase program.

Domestic economic data releases in July were mixed. Q2 inflation was 0.8% for the quarter, but spiked to 3.8% for the year to the June quarter, largely reflecting the unwinding of some earlier COVID-19-related price declines. Employment rose by 29,100 positions in June. The unemployment rate fell to 4.9%, the eighth straight monthly fall. The NAB Survey of Business Conditions fell 12 points, to 24, down from its record high in May. Business confidence fell sharply, down to 11 (from 20 the month prior) as the latest COVID-19 outbreaks dented confidence. Retail sales rose 1.1% in April, which was in line with expectations. National CoreLogic dwelling prices saw another consecutive monthly rise in July, ending the month up 1.6%.

Sector returns were mixed in July. The best performing sectors were materials (7.1%), industrials (4.3%) and utilities (1.6%). Consumer staples (1.5%) and health care (1.2%) also outperformed the broader index. Real estate (0.6%), consumer discretionary (-0.5%), communication services (-1.4%), financials (-1.4%) and energy (-2.5%) underperformed the broader index, while information technology (-6.9%) was the worst performing sector.

In stock specific news, mergers and acquisition activity remained buoyant. Sydney Airport received an AUD22 billion takeover bid from a consortium of superannuation funds led by IFM Investors, which was subsequently rejected by the board. Spark Infrastructure also received a takeover offer, from

a consortium led by private equity group KKR. The consortium's third bid was deemed sufficient to allow them access to perform due diligence on the company.

Fund Objective

The Fund aims to provide a tax-effective income stream that exceeds the dividend yield of the S&P/ASX 200 Accumulation Index (grossed up for franking credits) by 2% p.a. over rolling five-year periods, before fees, expenses and tax, plus the potential for capital growth over the long term.

Key Facts

Responsible Entity Nikko Asset Management Australia Limited	Buy/Sell Spread 0.25%/0.25%
APIR Code TYN0038AU	Management Cost 0.85% p.a.
Portfolio Manager Michael Maughan, Mal Whitten	Distribution Frequency Quarterly
Asset Allocation** Australian Shares 70% - 100% International Shares 0% - 10% Cash 0% - 20%	Fund Size AUD 160.78 million
Minimum Investment AUD 10,000 or platform nominated minimums	

** The fund does not currently hold any stocks defined as 'manufacturers of cigarettes and other tobacco products' by GICS (Global Industry Classification Standard).

Contact Us

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Important Information

This material was prepared and issued by Nikko Asset Management Australia Limited ABN 34 002 542 038, AFSL 229664 (Nikko AM Australia) who is the responsible entity and issuer of units in the Nikko AM Australian Share Income Fund ARSN 133 980 819 (Fund).

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