

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	2.23	8.30	10.77	23.34	1.16	-0.43	-1.51	0.29	-0.63	2.54
Fund Distribution return	0.00	0.40	1.90	5.30	4.86	6.30	7.35	7.16	7.81	6.48
Total Fund return (net)*	2.23	8.69	12.67	28.64	6.02	5.88	5.84	7.44	7.18	9.02
Fund grossed up dividend yield				6.10	6.21	8.27	8.32	8.47	8.82	8.63
S&P/ASX 200 Accumulation Index Yield (grossed up for franking credits)				4.09	4.48	4.95	5.18	5.31	5.59	5.82
Excess yield				2.01	1.73	3.33	3.14	3.16	3.23	2.81

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 6.10% 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:

- **Westpac, National Australia Bank** and **ANZ** all contributed to performance. Banks reported during May, with results generally well received with impairments at extraordinarily low levels due to writebacks and little mortgage stress.
- **IOOF** outperformed for the month as it finalised the MLC acquisition. This will see IOOF almost double its assets under administration, which should provide opportunities for management to deliver on its synergy targets, thus driving earnings growth.
- **QBE Insurance** outperformed as global peers highlighted the continuation of strong double-digit premium rate increases in commercial insurance lines globally, which appears to be flowing into improvements in profitability. This improvement was confirmed by QBE at their AGM in May.

Key detractors from absolute performance over the month:

- **APA** underperformed the market on little news, with the investor day reconfirming previous earning guidance. As an extremely defensive business, the stock was out of favour in May.

- **Woodside Petroleum** detracted from performance. Local oil and gas stocks underperformed the market in May, despite oil prices rising ~3% over the month.
- Despite a grossed up dividend yield of over 9%, **Aurizon** remained out of favour in May. Coal volumes continue to be affected by production issues in Queensland and the breakdown of one of the coal loaders in Newcastle.
- **Origin Energy** underperformed despite improving electricity futures prices and a rise in oil prices over the month. The Australian energy sector has lagged the commodity recovery and global energy stocks.
- **Lendlease** underperformed as concerns over the short-term impact of the change in CEO and CFO have led to continued weakness in the share price.

Top 10 Holdings

Security Name	% of Fund
ANZ Bank	7.65
Westpac Bank	7.27
National Australia Bank	6.94
BHP Group	5.99
Coles Group	4.74
Telstra	4.70
Suncorp Group	3.13
Downer EDI	3.05
IOOF	2.94
Woodside Petroleum	2.86

Franking Levels

Financial year ending	%
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
30 June 2014 (74% on income entitlements)	53.08

Fund Metrics

	Price to Earnings Ratio*	Forecast Grossed Up Dividend Yield (%)*
Fund	15.65	4.95

Actual figures may vary. Forecasts are 12 months forward.

* Based on Broker Consensus forecast.

Market Commentary

The S&P/ASX 200 Accumulation Index returned 2.3% during the month. Australian equities outperformed in May on the back of a strong Federal Budget and as commodity prices remained elevated. In major global developed markets the DJ Euro Stoxx 50 was up 2.5%, the UK's FTSE 100 was up 1.1% and the US S&P 500 was up 0.7%. Japan's Nikkei 225 was the laggard, up just 0.2% (in local currency terms).

Monetary policy settings remained unchanged in May, 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 the parameters of the Term Funding Facility (TFF) and government bond purchase program.

The Federal Budget was released on May 11, with a focus on jobs and spending rather than fiscal repair. The 2021-22 budget deficit is estimated to be AUD106.6 billion (5% of GDP) falling to AUD57 billion (2.4% of GDP) in 2024-25. The larger than expected stimulus is positive for equities.

Domestic economic data releases in May were mostly upbeat. Employment fell by 30,600 positions in April, despite expectations of a market gain. The unemployment rate fell to 5.5%, the lowest rate in a year. The NAB Survey of Business Conditions reached a record high of 32 in April. Business confidence also reached a record high, rising 9 points to 26. Retail sales rose 1.3% in March, which was better than expected. National CoreLogic dwelling prices saw another consecutive monthly rise in May, ending the month up 2.2%.

Sector returns were mostly positive in May. The best performing sectors were financials (5.7%), consumer discretionary (3.5%), health care (3.5%) and consumer staples (2.5%). Communication services (2.0%), materials (1.7%), real estate (1.4%), industrials (-1.0%), energy (-1.8%) and utilities (-6.6%) all underperformed the broader index. Information technology (-9.9%) was the worst performing sector.

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 180.25 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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