

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	-1.27	14.60	10.93	-10.34	1.82	-4.97	-3.78	-1.47	-1.53	1.65
Fund Distribution return	1.33	1.54	1.77	4.56	5.30	6.13	7.31	7.26	7.82	6.62
Total Fund return (net)*	0.06	16.15	12.70	-5.79	7.12	1.16	3.53	5.78	6.29	8.27
Fund grossed up dividend yield				5.96	6.86	8.60	8.43	8.80	8.86	8.69
S&P/ASX 200 Accumulation Index Yield (grossed up for franking credits)				3.83	4.74	5.10	5.31	5.45	5.67	5.84
Excess yield				2.12	2.12	3.50	3.12	3.35	3.19	2.85

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 5.96% 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** both outperformed during the month. Commodities surged over December on optimism for China's ongoing strong demand for raw materials. Iron ore in particular has continued to defy market expectations.
- **Woolworths** outperformed following a spike in panic buying in Sydney given the new COVID-19 outbreak.
- **OZ Minerals** contributed to performance largely due to the strength in copper. In company specific news, the ramp up of Carrapateena is well on track and almost complete.
- **Iluka Resources** outperformed along with the mining sector. Iluka's significant China exposure aided its performance, as well as its residual exposure to iron ore through its 20% holding in the recently spun-out Deterra Royalties.

Key detractors from absolute performance over the month:

- **Aurizon Holdings** underperformed, despite another win in court against the ACCC regarding the Acacia Ridge sale. The market was more focused on the weak coal export volumes and continued noise around China tensions.
- **Lendlease** underperformed. The company concluded negotiations with the Victorian Government regarding

project over-runs on the Melbourne Metro project, with no further provisions required.

- **Origin Energy** underperformed, despite sustained strength in oil prices and improving electricity futures prices. The underperformance is likely due to intense competition in retail electricity, which was reflected in the reduction in AGL's earnings guidance late in the month.
- **Stockland** underperformed despite a lack of news. Speculation on how the new CEO will approach the group's asset mix and approach to capital partnering may have influenced sentiment.
- **QBE Insurance** underperformed after providing a disappointing market update. QBE flagged elevated catastrophe costs of circa USD 130 million, prior year reserve top ups of circa USD 470 million, as well as a meaningful non-cash write-down of assets.

Top 10 Holdings

Security Name	% of Fund
Commonwealth Bank	7.61
BHP Group	7.48
ANZ Bank	5.65
Telstra	4.90
Suncorp Group	4.11
Woolworths Group	4.05
Coles Group	3.99
Westpac Bank	3.69
National Australia Bank	3.55
Dexus	3.54

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	16.32	4.21

Actual figures may vary. Forecasts are 12 months forward.

* Based on Broker Consensus forecast.

Market Commentary

The S&P/ASX 200 Accumulation Index returned 1.2% during the month. Australian equities lagged key offshore markets during the month. Despite COVID-19 cases rising exponentially in the US and Europe, the start of the vaccine roll-out and further certainty regarding the US election result saw equities move higher. In major global developed markets Japan's Nikkei 225 was up 3.8%, the US S&P 500 was up 3.7%, the UK's FTSE 100 was up 3.1% and the DJ Euro Stoxx 50 was up 2.0%.

The Reserve Bank of Australia (RBA) maintained monetary policy settings in December after having delivered a rate cut and additional measures to support the recovery at its November meeting (where the cash rate was cut from 0.25% to 0.10%, as was the 3 year yield target). The parameters of the Term Funding Facility and the government bond purchase program were also maintained in December.

Domestic economic data releases in December were mostly upbeat. Q3 GDP exceeded expectations to be up 3.3%, partially recovering from the record -7% recorded in Q2. Employment rose by 90,000 positions in November, which exceeded market expectations. The unemployment rate ticked lower to 6.8%, which was also better than expected. The NAB Survey of Business Conditions showed improvement, rising to 9 in November, and is now at above average levels. Business confidence also improved, rising to 12. Retail sales were up 1.4% in October. National CoreLogic dwelling prices saw a third consecutive monthly rise in December, ending the month up 1.0%, and closing the year 3.0% higher.

Sector returns were mixed in December. The best performing sectors were information technology (9.5%), materials (8.8%) and consumer staples (2.3%). Sectors that underperformed the broader market included consumer discretionary (1.0%), real estate (-0.2%), financials (-0.5%), communication services (-0.6%), energy (-0.9%), industrials (-2.7%) and healthcare (-4.9%). Utilities (-5.4%) 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 172.00 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).

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