

New Zealand Fixed Interest Fund

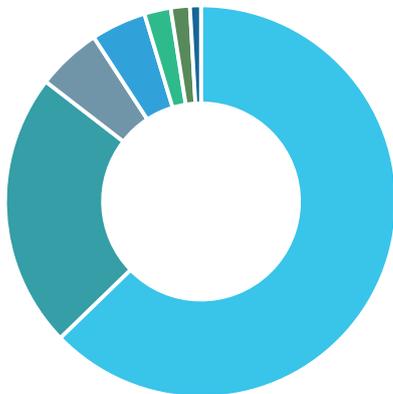
Investor Factsheet for the quarter ended 31 December 2025

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*
Gross Fund Return**	-0.04%	5.50%	6.72%	2.20%	5.26%
Bloomberg NZBond Composite 0+ Yr Index***	-0.15%	5.04%	6.01%	1.62%	4.98%
Out/under performance	0.11%	0.46%	0.71%	0.59%	0.28%
Tracking error	n/a	0.14%	0.36%	0.40%	0.89%
Information ratio	n/a	3.39	1.98	1.47	0.31
Sharpe ratio	n/a	0.82	0.50	-0.30	0.77

Key Fund Facts as at 31 December 2025

Fund Name	New Zealand Fixed Interest Fund	Risk Indicator	1 2 3 4 5 6 7
Inception Date	26/06/2008	Market Index***	Bloomberg NZBond Composite 0+Yr
Fund Value (NZD)	\$313,708,804	Yield to maturity ¹	4.00%
Unit Price	2.1269	Duration (years) ¹	4.95
		Average credit quality ²	AA-

INVESTMENTS BY SECTOR



● NZ Government Stock, 62.75%	● Cash and cash equivalents, 4.55%
● Corporate Investment, 22.71%	● Asset Backed Securities, 2.19%
● LGFA Securities, 5.32%	● Supranationals, 1.57%
	● Local Authority stock, 0.91%

The fund in its macro context

The domestic fixed interest market ended the final quarter of the 2025 calendar year with a whimper. Indeed, the fund's returns were largely made in the first three quarters of last year.

Market participants are in broad agreement that the multi-year easing in domestic monetary policy is over. However, mixed messaging from the Reserve Bank of New Zealand (RBNZ) following its November Monetary Policy Statement has left the market uncertain as to when the regulator will actually begin to increase its Official Cash Rate (OCR), from the current cycle-low of 2.25%.

Our view is that market participants will be nimble, lack conviction and generally over-react to each key data release. Typically, this a tough trading environment for fixed interest funds.

Portfolio attribution

For the quarter to 31 December the New Zealand Fixed Interest Fund delivered a gross return of -0.04%, slightly outperforming the fund's benchmark of -0.15%.

On a rolling four quarters to 31 December, the Fund delivered a gross return of 5.50%, comfortably outperforming the fund's benchmark return of 5.04%.

* Annualised

** Gross Fund Returns are calculated before deduction of taxes and fund charges but after deduction of trading expenses and including imputation credits where applicable. Market index returns do not have any deductions for fund charges, trading expenses or tax.

*** For periods prior to July 2023 the market index/benchmark return is the S&P/NZX Investment Grade Corporate Bond Index.

¹ Portfolio yield to maturity is the weighted average yield to maturity of the securities within the fund. Portfolio duration is the weighted average modified duration of the securities within the fund.

² Average credit quality is the weighted average credit rating of the securities held within the fund. Where an issue is not rated, we have used the issuer rating. Where both are unrated, we have assigned an internal rating.

Portfolio conviction

The fund's duration was 4.95 years (portfolio interest rate sensitivity), a combination of nominal duration (4.75 years) and inflation-linked duration (0.20 years), compared to the benchmark duration of close to 4.75 years (nominal duration only)

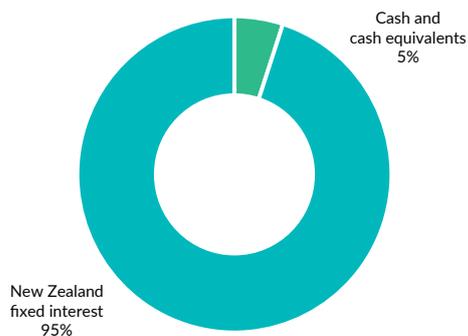
The fund's gross yield to maturity, calculated as the weighted-average gross yield of all securities in the portfolio, was 4.00%. In addition to the gross yield, the fund may also earn a 'roll-down return'. A roll-down return is a capital gain. It happens because a bond's market value usually rises as it gets closer to its maturity date, however because the yield curve is upward-sloping, meaning longer-term bonds have higher yields than shorter-term bonds, the yield falls as the bond gets closer to maturity and 'rolls-down' the yield curve.

A simple way to understand roll-down is to look at a New Zealand Government bond. At the end of the year, a 5-year government bond had a yield of 3.92%. Assuming interest rates do not change, that same bond will become a 4-year bond one year later. At the end of 2026, a 4-year bond is expected assumed to have a lower yield of 3.77%. As the yield falls while the bond 'rolls down' the yield curve, the bond's market value increases. That increase is known as the 'roll-down return'.

Based on current market conditions, we believe the fund could earn an extra ~1% per year from this roll-down effect.

The fund's weighted-average credit quality was AA-. Where a security does not have an external credit rating, we assign an internal credit rating based on our assessment. We use the lowest available credit rating for New Zealand Government bonds, Fitch's AA+.

TARGET ASSET ALLOCATION



FUND CREDIT BREAK-DOWN

Credit rating	% exposure
AAA	2%
AAA	2%
AA+	67%
AA+	3%
AA	1%
AA- to A-	13%
BBB+ to BBB-	11%
Speculative	2%

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
New Zealand Government 1.5% 15/05/2031	7.3%
New Zealand Government 14/04/2033 3.5%	6.9%
New Zealand Government 15/05/2032 2.00%	5.7%
NZ Government 4.25% 15/05/2034 Green Bond	5.4%
New Zealand Government 4.5% 15/05/2035	5.4%
New Zealand Government 4.25% 15/05/2036	5.0%
New Zealand Government 4.50% 15/05/2030	4.6%
New Zealand Government 3% 20/04/2029	4.5%
New Zealand Government 15/05/2028 0.25%	3.9%
New Zealand Government 4.50% 15/04/2027	3.3%
Major holdings as % of total portfolio	52.1%

Conclusion

We expect the fund's returns to be volatile over the next few months, as improving economic data better guides market participants as to when monetary policy should move to a more neutral setting.

Overall, we're constructive about fixed interest returns over the full calendar year. Along with the fund's yield-to-maturity and 'roll-down' return potential, we see several other income opportunities.

Inflation-linked bonds look too cheap in our view. We doubt that current inflation of ~3% per annum will return to RBNZ's mid-band 2% target anytime soon. We also like short-maturity credit (non-government bonds) yielding more than 4.50%. An improving domestic economy and better financial performances from those issuers linked to discretionary consumer spending and/or the residential property market should support returns in these bonds.

We also see several opportunities developing from the RBNZ's 2025 Review of Key Capital Settings, applicable to the local banking sector; various subordinated bank bonds now look attractive to us. We also see earlier government announcements around supporting renewable generation developments improving the perceived credit standing of capital bonds issued by Genesis Energy, Mercury Energy, and Meridian Energy.

Investment Philosophy and Thesis

Octagon is an active investment manager. Our investment philosophy focuses on developing a repeatable process that systematically looks for short-to-medium term inefficiencies in market pricing of securities with a solid economic basis.

Octagon builds its fixed interest and cash portfolios based on several investment philosophies, namely:

- That the risk free rate oscillates around the neutral cash rate as the regulator implements monetary policy.
- New Zealand fixed interest and cash investors have historically been rewarded for credit more than duration.
- Successful research can identify attractive investment opportunities within the credit sector.
- New Zealand fixed interest and cash markets provide multiple sources for alpha generation from; duration, yield curve positioning, sector and security selection and secondary market trading.
- New Zealand Fixed Interest and Enhanced Cash funds are both core strategies not unreasonably constrained by benchmarks.

Portfolio Manager



Craig Alexander

Head of Fixed Interest and ESG

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