

# Enhanced Cash Fund

Investor Factsheet for the quarter ended 31 December 2025

	Quarter Performance	1 year	Since Inception
Gross Fund Return	0.80%	4.16%	5.49%
S&P/NZX Bank Bills 90-Day Index	0.69%	3.55%	4.83%
<b>Out/under performance</b>	<b>0.11%</b>	<b>0.60%</b>	<b>0.66%</b>

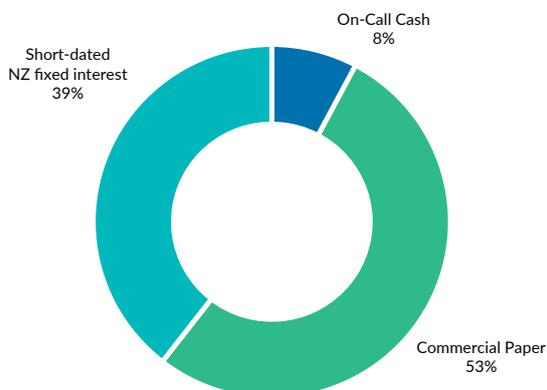
## Key Fund Facts as at 31 December 2025

Fund Name	Enhanced Cash Fund	Risk Indicator	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">1</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">2</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">3</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">4</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">5</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">6</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">7</span>
Inception Date	07/06/2023	Market Index	S&P/NZX Bank Bills 90-Day
Fund Value (NZD)	\$117,085,825	Yield to maturity <sup>1</sup>	2.90%
Unit Price	1.1369	Duration (years) <sup>2</sup>	0.25

## TARGET ASSET ALLOCATION



## SECURITY TYPES FOR THE QUARTER



## The fund in its macro context

The December quarter was mixed for investors with exposure to short-dated fixed interest investments. One- and two-year New Zealand dollar swap rates rose by 0.05% and 0.30% respectively over the quarter, leading to some capital losses for bonds. On the other hand, the move higher in rates means the yields available on investments going forward are stronger.

The December quarter marked a turning point in New Zealand's monetary policy outlook, with markets responding to a shift in tone from the Reserve Bank of New Zealand (RBNZ). After a larger-than-expected 50bps Official Cash Rate (OCR) cut in October, which saw markets price-in further easing, the November Monetary Policy Statement signalled a clear end to the easing cycle. Despite delivering a final 25bps cut, the RBNZ's forward guidance indicated little appetite for further cuts, prompting a sharp rise in short-term interest rates. Comments from Reserve Bank Governor Dr Anna Breman in December helped temper rate expectations slightly.

Economic data improved modestly over the quarter, with Q3 GDP (released in December) rebounding 1.1% after a sharp contraction in Q2. Forward indicators were mixed: the manufacturing sector showed signs of expansion, while services remained weak. Nonetheless, sentiment lifted, with the ANZ Business Outlook survey recording business confidence at a 30-year high, suggesting increased optimism for the year ahead.

## Portfolio attribution

For the quarter ended 31 December, the Enhanced Cash Fund delivered a gross return of 0.80%, slightly outperforming the fund's benchmark return of 0.69%.

\* 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.

<sup>1</sup> Portfolio yield to maturity is the weighted average yield to maturity of the securities within the fund.

<sup>2</sup> Portfolio duration is the weighted average modified duration of the securities within the fund.

Over the rolling four quarters to 31 December, the fund delivered a gross return of 4.16%, comfortably outperforming the Fund's benchmark return of 3.55%.

The fund's duration began the quarter at a relatively short 0.18 years and ended at around 0.25 years, reflecting the fund adding slightly to duration as interest rates rose in late November/early December. The fund's yield of 3.40% at the beginning of the quarter also contributed to outperformance, representing a significant premium to the OCR over the period.

Credit spreads on commercial paper (which makes up approximately 50% of the portfolio) were mixed over the quarter, with the spreads on the highest quality A1+ rated paper moving 1bp tighter while spreads on A2 rated paper moved about 4bps wider.

### Portfolio conviction

Upbeat economic data has seen expectations for the future level of the OCR (measured by the overnight index swap market) move higher, now pricing an OCR almost 50bps higher by the end of 2026. While this reflects more tightening than most New Zealand economists expect, we are conscious that inflation may remain at the top of the RBNZ's target band, which represents risk that tightening may be required. We added slightly to duration in December as interest rates rose aggressively, and will look to return to lower levels on any rallies in short-term rates.

In the fixed interest portion of the portfolio, we have kept the fund's holdings relatively steady, allowing our corporate bonds (floating and fixed rate) to earn their generous premiums above the OCR. When we added slightly to duration over the quarter, we did so using New Zealand Government Bonds. We favour government bond's strong liquidity, low transaction costs and believe they represent good value at the moment, with the spread to swap rates at historically tight levels (meaning government bonds look cheap compared to same-tenor swap rates currently).

### Conclusion

We believe there is substantial opportunity for active management in cash, cash equivalents, and short-dated New Zealand fixed interest. The peak, and subsequent fall, in the interest rate cycle has delivered strong capital gains to the portfolio since inception.

As active managers, our focus now shifts from maintaining duration to earning a quality premium over the cash rate via credit spreads. However, in response to what we consider unjustified market movements in interest rates, we will look to trade duration, within defined risk limits, as we see fit.

### FUND CREDIT BREAK-DOWN

Credit profile <sup>3</sup>	%
AA (+ to -)	38%
A (+ to -)	30%
BBB (+ to -)	33%

<sup>3</sup> Where an issue is not rated we have used the Issuer rating. Where both are unrated we have assigned an internal rating.

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### TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
Bank of China Call Account	5.1%
Kiwibank FRN 13/06/2028	4.6%
WATERC CP 14/01/2026	4.3%
Fonterra Co-op Group CP 22/01/2026	4.3%
Tax Management NZ Tributum Trust CP 28/01/2026	4.3%
New Zealand Government 15/05/2028 0.25%	4.0%
Meridian Energy Limited CP 13/01/2026	3.2%
ANZ transactional bank account	2.9%
Investore Property Limited 2.40 %31/08/2027	2.7%
Argosy Property Ltd Green Bonds 27/03/2026 4.00%	2.7%
<b>Major holdings as % of total portfolio</b>	<b>38.0%</b>

### 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 Managers



**Craig Alexander**  
Head of Fixed Interest and ESG



**Liam Donnelly, CFA**  
Fixed Interest and ESG, Analyst