Australian Equities Fund

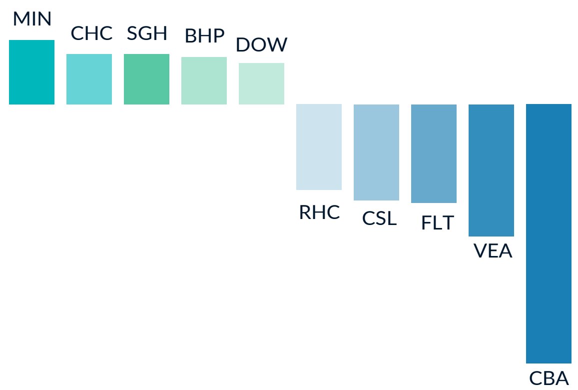
Investor Factsheet for the quarter ended 30 June 2025

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*	Since Nov 2019*
Gross Fund Return**	6.45%	8.71%	12.73%	12.20%	5.40%	9.25%
S&P/ASX Accumulation 200 Index (50% Hedged)***	8.39%	12.98%	13.54%	12.31%	6.35%	8.54%
Out/under performance	**-1.93%**	**-4.27%**	**-0.80%**	**-0.11%**	**-0.96%**	**0.72%**
Tracking error	n/a	1.88%	1.73%	2.22%	5.63%	2.45%
Information ratio	n/a	-2.28	-0.46	-0.05	-0.17	0.29
Sharpe ratio	n/a	0.38	0.68	0.75	0.16	0.42

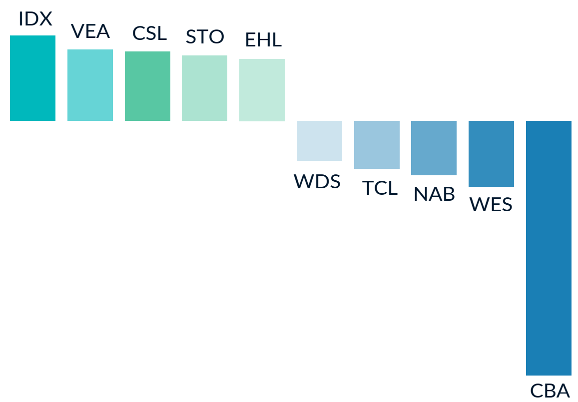
Key Fund Facts as at 30 June 2025

Fund Name	Australian Equities Fund	**Risk Indicator**	1 2 3 4 **5** 6 7
Inception Date	26/06/2008	**Market Index**	S&P/ASX Accumulation 200 Index (50% Hedged)
Fund Value (NZD)	$107,531,246	**Unit Price**	$1.9660

ATTRIBUTION (ROLLING 4QS TO 30 JUNE 2025)



PORTFOLIO CONVICTION (AS AT 30 JUNE 2025)



The fund in its macro context

Australian equities rebounded during the quarter after a rocky start, recording a -6.4% decline in early April after the unveiling of US 'liberation day' tariff proposals. As the tariff package was walked back and global data, particularly U.S. payrolls and corporate earnings, remained firm, risk appetite recovered in May and June.

Domestic momentum slowed with first-quarter GDP missing expectations on softer retail spending and inflation cooling to 2.1%. Interest rate markets now price in four to five Reserve Bank of Australia (RBA) cuts in 2025 in total, which we think is plausible if the trend of disinflation continues.

Portfolio Attribution

For the quarter ended 30 June the Australian Equities Fund delivered a gross return of 6.45%, underperforming the funds' market index return of 8.39% by -1.94%.

On a rolling four quarters to 30 June, the fund delivered a gross return of 8.71%, underperforming the funds' market index return of 12.98%.

Key drivers of underperformance over the prior four quarters to 30 June are unchanged from last quarter's fact sheet, where we discussed our painful underweight in Commonwealth Bank (CBA) and our overweight in Viva Energy (VEA). Both positions hurt relative performance.

* 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 April 2018, the market index/benchmark return used is an unhedged variant of the S&P/ASX Accumulation 200 Index in New Zealand dollars.

Yet again, the main drag on performance was our long-held underweight in CBA. Its share price climbed another 22% in the quarter despite already eye watering valuation multiples. Demand for safe haven assets around liberation day and ongoing passive fund demand appear to have driven the share price higher again, despite no improvement in earnings fundamentals.

This negative headwind was partly offset by VEA's ~27% rally during the quarter. The stock recovered after management provided a positive update on operating synergies from its recent convenience retail acquisition and indicators showed improving refining margins, suggesting upside risk for earnings.

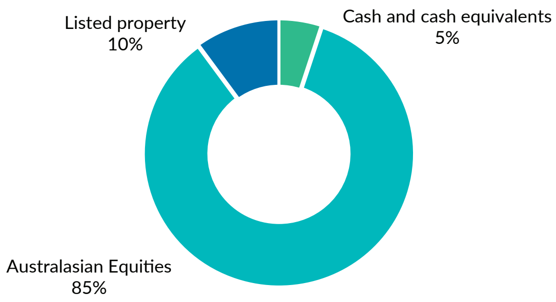
Overweights in Seven Group (SGH) and Charter Hall (CHC) also contributed strongly to performance. SGH has rerated sharply over the last year as management has demonstrated the strength of their portfolio and investment approach. Recently-acquired Boral lifted margins from 3.6% in FY22 to ~14% today, while the Westrac Caterpillar franchise continued to deliver growth in both EBIT and cash flow. Proven capital discipline supports our ongoing overweight.

CHC is another overweight position and has advanced ~70% over the year and ~19 % this quarter. The shares have benefited from stabilising asset values, robust equity inflows and a leaner cost base which drove an upgrade to FY25 guidance earlier this year. Softening interest rate expectations and improving appetite for Australian real estate have further buoyed sentiment.

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
Commonwealth Bank of Australia Limited	7.1%
BHP Group Limited	6.8%
CSL Limited	5.8%
Westpac Banking Corporation	4.3%
National Australia Bank Limited	3.6%
Australia and New Zealand Banking Group Ltd	3.5%
Macquarie Group Limited	2.9%
Telstra Group	2.5%
Wesfarmers Limited	2.5%
Goodman Group	2.2%
Major holdings as % of total portfolio	**41.3%**

TARGET ASSET ALLOCATION



Portfolio Conviction

We continue to tilt the portfolio to businesses with balance sheet resilience, capital allocation discipline and defendable earnings through a range of macro outcomes. We focus our efforts where these companies, and their ability to grow earnings, are underappreciated by the market.

Conviction overweights include Santos, VEA, CSL and Integral Diagnostics. Santos is subject to a takeover offer by a consortium including the Abu Dhabi National Oil company and should benefit from bid tension or, failing that, a self-help restructuring leading to higher earnings. VEA has a clear path to restore margins and improve shareholder returns whilst CSL's plasma-collection economics are improving and its deep product pipeline implies a long runway for earnings to grow.

Integral Diagnostics is a turnaround story. Margins have been crushed by a combination of weaker volumes, low fee indexation (from government) and material labour cost pressures. With inflation easing, volumes recovering, supportive government policy and synergy capture we see material upside for operating margins and earnings in the coming years.

We maintain significant underweights across the major banks, namely CBA and NAB. Their current valuation premium assumes an unlikely blend of cost control, benign credit cycle and limited competition on both the asset and liability side of the balance sheet. The sector is priced for perfection, and we expect a good chunk of the current premium to unwind in the coming quarters.

We are similarly cautious on Transurban, where long-duration cash flows are priced off a cost of capital we consider too low. Increasing bond yields and lower traffic volumes (due to work from home) are medium term risks to earnings not reflected in the share price. Our underweight in Woodside Energy funds our preferred overweight position in Santos as a paired trade.

Conclusion

Markets keep defying early April's 'liberation-day' drawdown. U.S. economic data are still firm, Atlanta Fed's 'GDP Now' model is tracking above 2.5% and oil has surrendered June's spike after the Iran-Israel altercation, easing inflation nerves. That backdrop lifted Australian equities sharply as the quarter progressed. We think the RBA's softer rate outlook should add further support. Our stance is to stay invested but defensive. We are overweight high-quality healthcare, selected industrials and have added to our exposure in the capital light IT sector. This tilting should capture upside, yet cushion the portfolio if momentum in growth begins to stall.

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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 and a good management team to deliver long term, measurable alpha.

The most common and persistent market inefficiencies we find are:

- thin research coverage
- excessive focus on near term earnings
- market dislocations and liquidity events
- temporary governance failures
- irrational investor behaviour

For Octagon, “value” means not overpaying for the promise of future growth by developing a fundamental understanding of a business, its financial metrics, return on invested capital and then scenario testing the investment model under different macro conditions.

Portfolio Manager

Jason Lindsay, CA
Head of Equities