

Enhanced Cash Fund

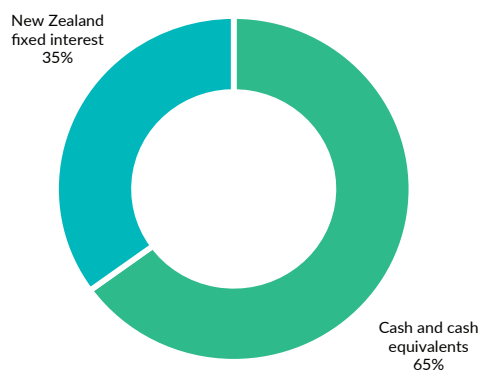
Investor Factsheet for the quarter ended 30 June 2025

	Quarter Performance	1 year	Since Inception
Gross Fund Return	1.06%	5.60%	5.90%
S&P/NZX Bank Bills 90-Day Index	0.91%	4.71%	5.26%
Out/under performance	0.15%	0.89%	0.64%

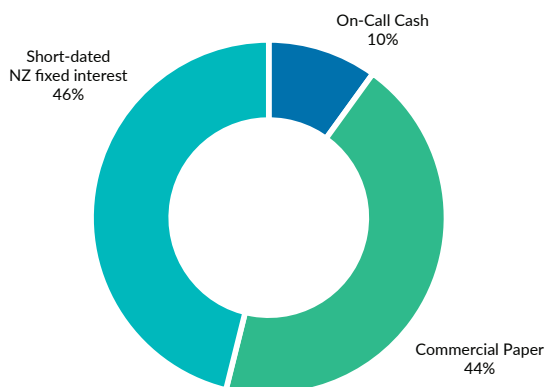
Key Fund Facts as at 30 June 2025

Fund Name	Enhanced Cash Fund	Risk Indicator	1 2 3 4 5 6 7
Inception Date	07/06/2023	Market Index	S&P/NZX Bank Bills 90-Day
Fund Value (NZD)	\$69,011,782	Yield to maturity ¹	3.80%
Unit Price	\$1.1176	Duration (years) ²	0.39

TARGET ASSET ALLOCATION



SECURITY TYPES FOR THE QUARTER



The fund in its macro context

The June quarter was generally strong for investors with exposure to short-dated fixed interest investments. One- and two-year New Zealand dollar swap rates fell by 0.18% and 0.20% respectively over the quarter, providing capital gains to bondholders.

Economic data for the June quarter painted a mixed picture of the New Zealand economy. While backward-looking indicators, such as GDP growth for Q4 2024 and Q1 2025 surprised to the upside, more recent and timely data, including consumer confidence, business sentiment, and the BNZ-BusinessNZ Performance of Manufacturing and Services indices, pointed to ongoing economic weakness or contraction.

The Reserve Bank of New Zealand (RBNZ) lowered the Official Cash Rate (OCR) by 25 basis points to 3.25% at its May Monetary Policy Statement (MPS), with its updated forward guidance broadly in line with market expectations. However, the accompanying commentary was interpreted as relatively hawkish, prompting markets to price in a slightly higher trough OCR and potential rate hikes beginning earlier, in mid-2026.

Portfolio attribution

For the quarter ended 30 June, the Enhanced Cash Fund delivered a gross return of 1.06%, outperforming the fund's benchmark return of 0.91% by 0.15%.

For the four quarters to 30 June, the fund delivered a gross return of 5.60%, considerably outperforming the fund's benchmark return of 4.71% by 0.89%.

The fund's duration began the quarter at approximately 0.40 years and ended at around 0.38 years.

The fund's yield of 4.14% at the beginning of the quarter also contributed to outperformance, representing a significant premium to the OCR over the period.

* 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.

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

² Portfolio duration is the weighted average modified duration of the securities within the fund.

Credit spreads on commercial paper (which makes up approximately 45% of the portfolio) tightened significantly over the quarter, which all else equal, was a small positive for performance. The average spread on newly issued A2-rated commercial paper tightened from 20 basis points in March to 11 basis points at the end of June.

Portfolio conviction

Around US trade 'Liberation Day' on 2 April, market pricing (as observed via the Overnight Indexed Swap market) for the terminal OCR fell to around 2.75%, suggesting to us that a full easing cycle was priced in. Pricing has since risen back to 2.87% by the end of the quarter. This indicates to us that there could still be some capital gains in short-term bonds if the OCR eventually troughs at 2.75% or even 2.50%. However, we are also cautious about the impact of mortgage refixing—as more households transition from floating to fixed-rate mortgages, this could put upward pressure on the two-year swap rate.

In the fixed interest portion of the portfolio, we continue to hold close-to-maturity corporate bonds for the attractive yields on offer. A recent conviction position has been in Manawa Energy 2027 bonds, which are highly likely to be called in July as a result of Manawa's acquisition by Contact Energy. The fund was able to purchase these bonds at yields around 4.10%, a significant premium to the average OCR over the quarter (which was around 3.33%), for very short-term risk.

Additionally, we have continued to build positions in Floating Rate Notes (FRNs) issued by high-quality corporates, most recently in Kiwibank's new issue, which priced at a margin of 0.77% over the bank bill rate. We favour FRNs at this stage in the cycle, as they have minimal exposure to interest rate movements (given that the coupons reset frequently).

Conclusion

We believe there is substantial opportunity for active management in cash, cash equivalents, and short-dated New Zealand fixed interest. The peak 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 ³	%
AAA	0%
AA (+ to -)	48%
A (+ to -)	17%
BBB (+ to -)	36%

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

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
Bank of China Call Account	5.8%
NZ Government Treasury Bill 02/07/2025	4.3%
ANZ transactional bank account	4.3%
CBA FRN 18/10/2027	4.2%
Tax Management NZ Tributum Trust CP 28/08/2025	3.6%
Kiwibank FRN 13/06/2028	3.5%
Kiwi Property Group Ltd 11/12/2025 4.06%	3.3%
Summerset Group Holdings Ltd 4.20% 24/09/2025	3.3%
Property for Industry Limited 4.25% 01/10/2025	3.3%
NZ Local Govt Funding Agency Ltd 15/04/2027 4.50%	3.2%
Major holdings as % of total portfolio	38.9%

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