

New Zealand Fixed Interest Fund

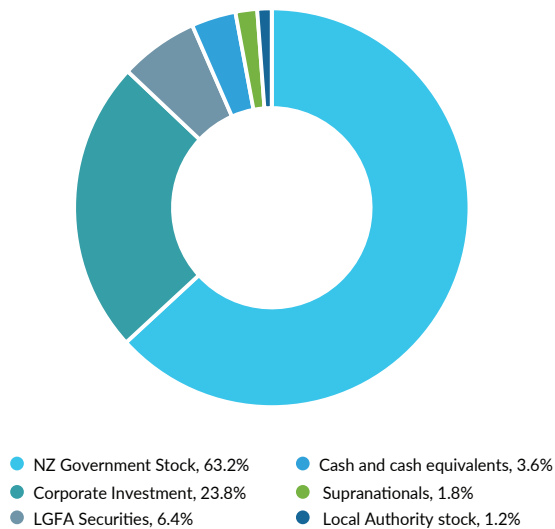
Investor Factsheet for the quarter ended 30 June 2025

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*
Gross Fund Return**	1.55%	7.41%	5.39%	1.80%	5.23%
Bloomberg NZBond Composite 0+ Yr Index***	1.43%	6.82%	4.73%	1.19%	4.96%
Out/under performance	0.12%	0.59%	0.66%	0.61%	0.27%
Tracking error	n/a	0.26%	0.43%	0.40%	0.91%
Information ratio	n/a	2.25	1.54	1.51	0.29
Sharpe ratio	n/a	0.99	0.12	-0.34	0.76

Key Fund Facts as at 30 June 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)	\$236,623,524	Yield to maturity ¹	4.35%
Unit Price	\$2.0704	Duration (years) ¹	5.00
		Average credit quality ²	AA-

INVESTMENTS BY SECTOR



The fund in its macro context

The June quarter was generally positive month for New Zealand fixed interest investors. Market participants continued to expect capital gains – along with healthy portfolio yield-to-maturities – in the belief that the Official Cash Rate (OCR) will be reduced further, to a terminal rate of somewhere between 2.75% and 3.00%.

Portfolio attribution

For the quarter to 30 June the New Zealand Fixed Interest Fund delivered a gross return of 1.55%, marginally outperforming the fund's market index return of 1.43%.

On a rolling four quarters to 30 June, the Fund delivered a gross return of 7.41%, modestly outperforming the fund's market index return of 6.82%.

Portfolio conviction

There is no change to our current thinking; we continue to believe that it is too simplistic a thesis that lower interest rates will mechanically result in a material lift in New Zealand's economic performance. Unfortunately, it has proven to be the case.

* 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.

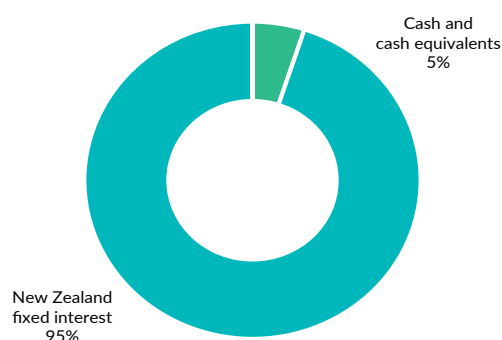
² Average credit quality is the weighted average credit rating of the securities held within the fund. Where an issue is not rated, we have used the issuer rating. Where both are unrated, we have assigned an internal rating.

We believe that economic uncertainty remains in many domestic households and that wary consumers will save (or prioritise debt reduction by keeping mortgage payments constant) rather than spend interest rate and income tax windfalls. Furthermore, add in global economic and political uncertainty from the US and in the Middle East and Ukraine and we can see why consumers would prefer to watch, worry, and wait.

On this basis, we intend to remain fully invested. The fund's duration, a measure of how sensitive the portfolio is to a given change in New Zealand wholesale interest rates, was around 5.0 years, broadly matching that of the fund's benchmark.

The fund's gross yield to maturity, calculated as the weighted-average gross yield of all securities in the portfolio, was ~4.35% and the weighted-average portfolio 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	1.7%
AA+	72.4%
AA	1.2%
AA- to A-	10.3%
BBB	12.8%
Speculative	1.7%

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
New Zealand Government 1.5% 15/05/2031	7.9%
New Zealand Government 4.50% 15/05/2030	6.8%
New Zealand Government 15/05/2032 2.00%	6.6%
New Zealand Government 15/05/2028 0.25%	6.5%
New Zealand Government 14/04/2033 3.5%	6.2%
New Zealand Government 3% 20/04/2029	5.9%
New Zealand Government 4.50% 15/04/2027	4.8%
NZ Government 4.25% 15/05/2034 Green Bond	3.8%
New Zealand Government 4.5% 15/05/2035	3.4%
Kiwibank Subordinated Bonds 2.36% 11/12/2030	3.0%
Major holdings as % of total portfolio	55.0%

Conclusion

The twin themes of stable and low domestic inflation and faltering local economic performance continue, in our view. Against this backdrop, the market widely expects the Reserve Bank of New Zealand (RBNZ) to maintain its OCR at 3.25% for the time being, before delivering an additional one or two OCR cuts by year-end.

Surprisingly, the international backdrop of Middle East conflicts and US trade policy negotiations were minimal disruptors to the overall level of global interest rates and bond yields during the month. Indeed, market chatter is that peak disruption was back in April. We're not so sure, and believe that fixed interest investors, in our view, are still anxious and deeply uncertain of 'what's-next?' and 'where-to-from-here?'.

Our strategy is to accumulate New Zealand Government bonds while maintaining some targeted exposure to short-dated and preferred non-Government securities. In our opinion corporate bond spreads remain tight, near long-term averages, despite the obvious current economic and political risks. We favour 'hard duration' Government bonds and proxies for better protection against the potential for market dysfunction. This approach should continue delivering capital gains, complementing the fund's gross yield-to-maturity.

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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