

Responsible Investment

New Zealand Equities Fund (as at 30 June 2025)

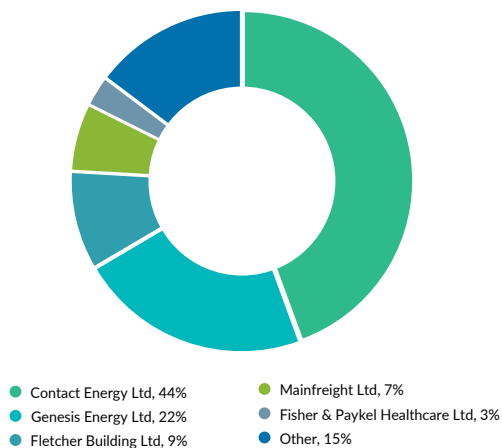
	Fund	Benchmark
% of Portfolio reporting Scope 1 and 2 emissions (by market value)	99%	100%
Weighted Average Carbon Intensity (WACI), tCO ₂ e	47	46
Portfolio Emissions (Scopes 1+2), tCO₂e per \$1m invested	24	25

Listed Property Fund (as at 30 June 2025)

	Fund	Benchmark
% of Portfolio reporting Scope 1 and 2 emissions (by market value)	99%	100%
Weighted Average Carbon Intensity (WACI), tCO ₂ e	10	6
Portfolio Emissions (Scopes 1+2), tCO₂e per \$1m invested	1	0

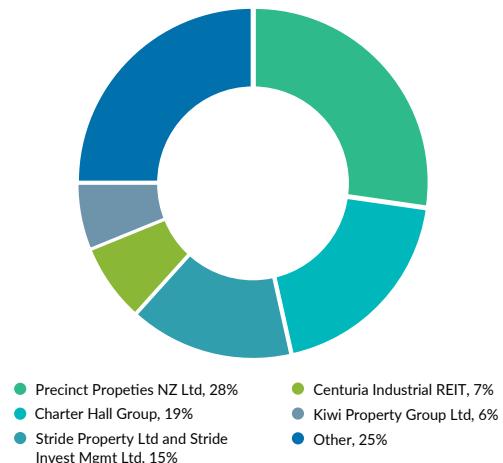
New Zealand Equities Fund

LARGEST CONTRIBUTORS TO PORTFOLIO
WEIGHTED AVERAGE CARBON INTENSITY



Listed Property Fund

LARGEST CONTRIBUTORS TO PORTFOLIO
WEIGHTED AVERAGE CARBON INTENSITY



Green, Social and Sustainability bonds 101 - affecting change as a bondholder?

As bondholders, we are lenders to investee companies. Since we hold no equity stake, we do not have voting rights at company Annual General Meetings, which can make it seem as though we have limited influence over company behaviour. However, this is not entirely true. There are several avenues through which bondholders can exert influence, one of which is through investment in securities that target Environmental, Social, and Governance (ESG) characteristics, known as Green, Social, and Sustainability (GSS) Bonds.

Broadly speaking, GSS bonds come in two forms:

1. Use-of-Proceeds Bonds, where borrowed funds must be used for specific projects with social or environmental benefits.
2. Sustainability-Linked Bonds (SLBs), where funds can be used for general corporate purposes, but the interest rate (cost of borrowing) is linked to predefined sustainability performance targets.

Use-of-Proceeds GSS bonds have become relatively common in New Zealand over the past five years. Fourteen well-known New Zealand issuers currently have such bonds listed on the New Zealand Debt Exchange (NZDX), with approximately \$16 billion outstanding out of a \$54 billion total on the NZDX. In addition, the New Zealand Government has a Sovereign Green Bond Programme, with a single bond currently on issue totalling over \$9 billion.

Typical projects backed by GSS bonds include hydroelectric power, green buildings, flood defences, and clean transport. Aside from the nature of the projects they finance, these bonds are structurally similar to conventional, non-GSS bonds. A key point to note is that if a funded project ceases to be eligible, for example if a clean transport initiative is replaced with a fossil-fuel-based one, there is no event of default. Some investors see this as a potential weakness, as it may reduce the issuer's incentive to meet sustainability goals. There is also no clear pricing difference, or "greenium", in the New Zealand market for GSS bonds. Nonetheless, in theory, demand for GSS bonds could grow as ESG-conscious investors seek to allocate capital toward this limited subset of the market.

Sustainability-Linked Bonds (SLBs) are more novel and interesting in our view. These instruments link the issuer's cost of borrowing directly to their success in meeting predefined sustainability targets. In New Zealand, there are only a few examples of SLBs, all of which are available only to wholesale investors and are not listed on the NZDX.

The first example was a 6.5-year SLB issued by Spark Finance Limited in 2022. The bond included a performance target to reduce Spark's Scope 1 and Scope 2 emissions by at least 33.6% by 2026. If Spark fails to meet this target, the bond's interest rate will increase by 0.125% or 0.25%, depending on the shortfall. Some investors may view this step-up as too modest to strongly incentivise decarbonisation. As at FY24, Spark had not yet achieved its target, so the outcome in 2026 will be worth watching.

The most recent SLB was issued by Auckland Council in June 2025. Its target is to plant at least one million native trees in Auckland regional parks by December 2027. Rather than a step-up in interest, failure to meet the target would require the Council to make a donation equal to 0.25% of the bond issue amount to organisations supporting native tree planting in Auckland. Market commentary suggests that this alternative structure may stem from the difficulty investors had in pricing Spark's SLB in the secondary market, where the price should theoretically reflect the likelihood of the issuer meeting its target.

Given the scarcity of SLBs in New Zealand, their effectiveness in driving behavioural change remains to be seen. Their complexity may deter some investors, but for institutional investors focused on ESG or sustainability outcomes, SLBs and GSS bonds more broadly offer valuable tools. When structured with robust conditions and accountability, these instruments allow bondholders to meaningfully influence corporate behaviour.

Octagon's New Zealand Fixed Interest holds no SLBs but does have substantial exposure to use-of-proceeds GSS bonds - as at 30 June 2025 just over 10% of the fund's value was invested in GSS bonds.

ESG Team



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