Australian Equities Fund

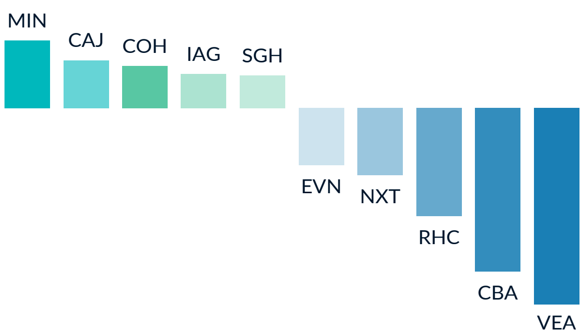
Investor Factsheet for the quarter ended 31 March 2025

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*	Since Nov 2019*
Gross Fund Return**	-3.65%	1.30%	6.84%	14.68%	5.09%	8.43%
S&P/ASX Accumulation 200 Index (50% Hedged)***	-3.04%	3.54%	6.43%	14.36%	5.94%	7.32%
Out/under performance	**-0.60%**	**-2.24%**	**0.41%**	**0.32%**	**-0.85%**	**1.11%**
Tracking error	n/a	1.52%	1.59%	2.10%	5.66%	2.39%
Information ratio	n/a	-1.47	0.26	0.15	-0.15	0.46
Sharpe ratio	n/a	-0.38	0.17	0.92	0.14	0.36

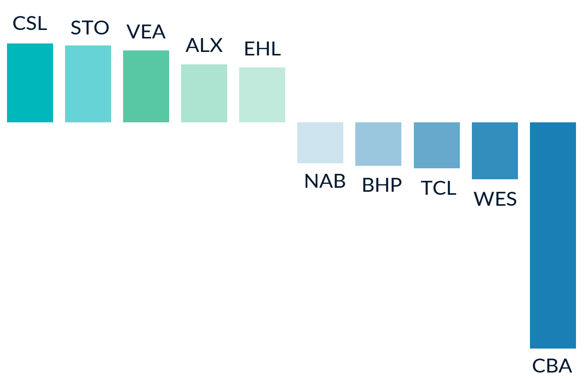
Key Fund Facts as at 31 March 2025

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)	$99,202,885	**Unit Price**	$1.8524

ATTRIBUTION (ROLLING 4QS TO 31 MARCH 2025)



PORTFOLIO CONVICTION (AS AT 31 MARCH 2025)



The fund in its macro context

Australian equities (unhedged) declined by 2.8% in the March quarter, modestly underperforming the MSCI All Countries World Index (ACWI).

Employment growth reversed in February posting a modest decline, though the unemployment rate held steady at 4.1%. February's consumers' price index (CPI) showed the annual rate of inflation running at 2.4%, well inside the Reserve Bank of Australia's (RBA) target range.

A gradual disinflation process remains underway in Australia with declines in the core inflation rate lagging behind those in the headline rate, which is affected by government subsidies and temporary factors. Our assessment is that wholesale interest rates can continue to fall modestly this year with CPI around the RBA's target, with employment remaining strong and growth accelerating toward trend rates. This backdrop is supportive for economically sensitive sectors, particularly those which are domestic facing.

Risk appetite has fallen sharply this year with concerns around global growth, softer AI sentiment, and more recently the US-led trade war. In this environment our strategy remains focused on those stocks which we expect to perform well through the cycle, where valuations do not reflect the quality and growth on offer.

* 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.

Portfolio Attribution

For the quarter ending 31 March, the Australian Equities Fund delivered a gross return of -3.65%, underperforming the fund's market index return of -3.04%.

For the four quarters to 31 March, the fund delivered a gross return of 1.30%, underperforming the fund's market index return of 3.54%.

The Australian Equities fund has endured a tough 12 months. Two positions account for the total underperformance for the year under review.

Viva Energy (VEA) is one of the largest relative positions in the Australian Equities Fund. VEA reported its FY24 result in February and despite delivering a result that was broadly in-line with expectations, VEA's messaging and business outlook was what investors focused on.

VEA provided half year guidance for the non-refining part of the business implying a significant downgrade to Convenience and Mobility expectations driven by weak fuel margins, much slower store conversion to the recently acquired "On the Run" (OTR) brand, and system integration delays. The share price reacted accordingly declining over 30% on the day of the result.

Whilst 6.5% of the Australian Equities fund is invested in Commonwealth Bank of Australia (CBA) this is well short of its index weight of 10.5%. CBA has returned over 30% in the last four quarters. The banking sector is currently trading at generational-high multiples driven by CBA. We have reviewed why banks have materially outperformed the benchmark (CBA in particular);

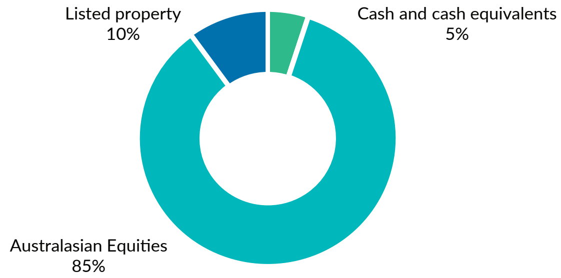
- There has been a global rally in banks (where AU banks have actually underperformed)
- An earnings upgrade cycle, albeit modest, playing through the banks with investors valuation agnostic and momentum driving returns
- The very large Australian Superannuation funds that enjoyed material outperformance from global equities in the last year have rebalanced these gains back into domestic Australian equities
- The continued rise on valuation-unaware passive funds has seen meant continued support for CBA, the largest stock in the ASX200
- Offshore investors allocating into Australia have shunned the Materials (commodities) sector and Healthcare, with Banks being the most preferred alternative
- More recently, banks are seen as a safe haven in the US-led trade war

On the positive side, relative performance came from not owning Mineral Resources (MIN) and Capitol Health (CAJ). MIN has suffered from declining lithium prices, operational setbacks including increased capital expenditure, balance sheet concerns, and governance and legal issues which have all negatively affected its share price. CAJ was another strong contributor to fund performance with the company acquired by Integral Diagnostics in December 2024. The Australian Equities fund held a decent sized out of index position in CAJ and benefited from the takeover premium.

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
BHP Group Limited	7.4%
CSL Limited	6.6%
Commonwealth Bank of Australia Limited	6.5%
Westpac Banking Corporation	4.6%
National Australia Bank Limited	3.7%
Australia and New Zealand Banking Group Ltd	3.4%
Macquarie Group Limited	2.7%
Telstra Group	2.6%
Rio Tinto Limited	2.5%
Wesfarmers Limited	2.4%
Major holdings as % of total portfolio	**42.3%**

TARGET ASSET ALLOCATION



Portfolio Conviction

We have continued to add to our position in VEA believing the company's strategy remains intact albeit delayed. Completing systems integration and initial 40 OTR store roll-out in mid-2025 should be the inflection point to turn performance around. Meanwhile, retail fuel margins have recovered strongly meaning there is a decent chance an earnings upgrade is required only months after the recent disappointment.

The performance of the Australian banks in 2025 is intricately linked to the inflation fight, and direction of short-term rates. The generational high PEs are now combined with potential downside risks to earnings, seemingly regardless of the various inflation and rates scenarios. For example, if Australia endures a sticky inflation and rate environment, this environment raises the probability of an acceleration of higher bad and doubtful debts and will extend the negative revenue-cost jaws. History suggests this scenario is much more detrimental for a sector PE re-rate. If, on the other hand, inflation is defeated and rates are cut, the banks will have to navigate lower NIMs driven by sticky deposit and funding costs. During the market turmoil of the US driven trade war the banks have initially outperformed on a 'safe haven' or 'least worst' thematic, however a second order effect growth shock will prompt a careful examination of both valuation and earnings risk. We would argue that there is still considerable valuation risk relative to history.

Conclusion

We continue to expect the trade war to calm down as deals are done between nations and exemptions increased to try and limit damage to economic growth. A global recession would be bad for equity markets and the prospects of re-election for many US politicians.

What is more interesting – and fluid – is the level of earnings risk, particularly with a broad range of economic outcomes on the table with regards to where tariffs land, how China responds, and how the Australian economy will respond to that in time.

We expect market volatility to remain high and will continue to add to positions we favour that we believe have valuation support.

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

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