

Enhanced Cash Fund

Investor Factsheet for the quarter ended 31 March 2025

	Quarter Performance	1 year	Since Inception
Gross Fund Return	1.13%	5.99%	6.12%
S&P/NZX Bank Bills 90-Day Index	1.05%	5.22%	5.48%
Out/under performance	0.08%	0.77%	0.65%

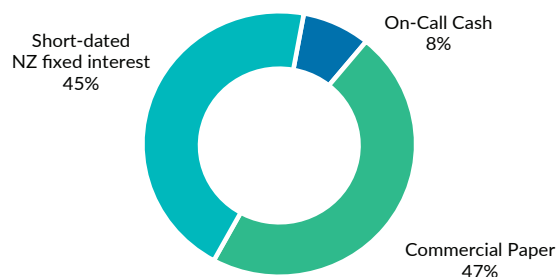
Key Fund Facts as at 31 March 2025

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)	\$66,718,980	Yield to maturity ¹	4.14%
Unit Price	1.1068	Duration (years) ²	0.38

TARGET ASSET ALLOCATION



SECURITY TYPES FOR THE QUARTER



The fund in its macro context

The March quarter was mixed for investors with exposure to New Zealand fixed interest securities. The New Zealand dollar yield curve continued to steepen; short-term rates followed the Official Cash Rates (OCR) lower while longer-term interest rates rose somewhat. The New Zealand dollar one year swap rate fell -22bps over the quarter, while the two year swap rate was flat. The New Zealand Government 10 year bond rate rose 6bps over the quarter.

In January we had fourth quarter Consumer Price Index inflation data in-line with expectations at 2.2% year-on-year, comfortably within the Reserve Bank of New Zealand's (RBNZ) target band of 1-3%. With inflation 'under control' the RBNZ could focus on continuing to ease monetary policy to kick-start the sluggish New Zealand economy. The RBNZ duly did so, with a 50bp cut to the OCR (to 3.75%) in February and a forecast for a terminal level of the OCR of 3.1%.

In March consumer confidence data came in very weak and the Performance of Services Index dipped into contraction territory, providing further evidence that a quick economic rebound is unlikely to occur.

Portfolio attribution

For the quarter to 31 March the Enhanced Cash Fund delivered a gross return of 1.13%, slightly above the fund's benchmark return of 1.05%.

Over the 12 months to 31 March the Enhanced Cash Fund delivered a gross return of 5.99%, outperforming the fund's benchmark return of 5.22%.

* 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.

The fund's duration began the quarter at around 0.32 years and ended the quarter at around 0.38 years. The fund's yield of 4.61% at the beginning of the quarter was also a contributor to outperformance, representing a significant premium to the OCR over the period.

Credit spreads on commercial paper (which makes up between 44% to 48% of the portfolio) tightened over the quarter, which all else being equal was a small positive to performance. The average spread on newly issued A2 rated commercial paper tightened from 30bps in December to 20bps at the end of March.

Portfolio conviction

At the end of March market pricing, as observed via the Overnight Indexed Swap (OIS) market for the terminal OCR sat at around 3.00% - subsequent to quarter-end this fell to around 2.75%. This suggests to us that the easing cycle is likely fully priced-in. However, we acknowledge that recent geopolitical and global trade ructions could impact this view so remain cautiously positioned.

The fund's duration remains relatively short, to avoid volatility from interest rates, and the fund's yield remains comfortably higher than the OCR.

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 credit position has been in Ryman Healthcare 2026 bonds, which we have been purchasing at credit spreads of around 200bps. We started building this position after Ryman's \$1 billion balance sheet reset which will crucially reduce Ryman's gearing down towards 20% (from 37%).

Additionally, we have continued to build positions in Floating Rate Notes (FRNs) of high quality corporates. We like FRNs at this stage in the cycle as they have very little exposure to interest rate movements (given the coupon on these bonds resets frequently).

Conclusion

We believe there is substantial opportunity for active management of cash and cash equivalents and short-dated New Zealand fixed interest. The peak in the interest rate cycle has provided strong capital gains returns 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, on any unjustified (in our view) 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	0.0%
AA (+ to -)	29.7%
A (+ to -)	26.3%
BBB (+ to -)	44.0%

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

This publication does not contain financial advice - for financial advice, please speak to your Investment Adviser. We recommend you review your investments and seek specialist advice on any taxation aspects. Past performance is not a reliable guide to future performance. Forsyth Barr Investment Management Limited is the issuer, and Octagon Asset Management Limited the investment manager, of the Octagon Investment Funds. A copy of the Product Disclosure Statement for the Funds is available from www.octagonasset.co.nz/disclosure-information, by contacting your Investment Adviser, or by calling 0800 628 246.

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
CBA FRN 18/10/2027	5.1%
ANZ transactional bank account	4.8%
Westpac New Zealand 3.696% 16/02/2027	4.5%
Meridian Energy Limited CP 12/06/2025	3.7%
Tax Management NZ Tributum Trust CP 28/05/2025	3.3%
SBS CP 04/04/2025	3.0%
Port of Tauranga CP 24/04/2025	3.0%
Auckland Intl Airport Ltd CP 15/05/2025	3.0%
Powerco CP 15/05/2025	3.0%
Kiwi Property Group Limited 11/12/2025 4.06%	3.0%
Major holdings as % of total portfolio	36.3%

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