

New Zealand Fixed Interest Fund

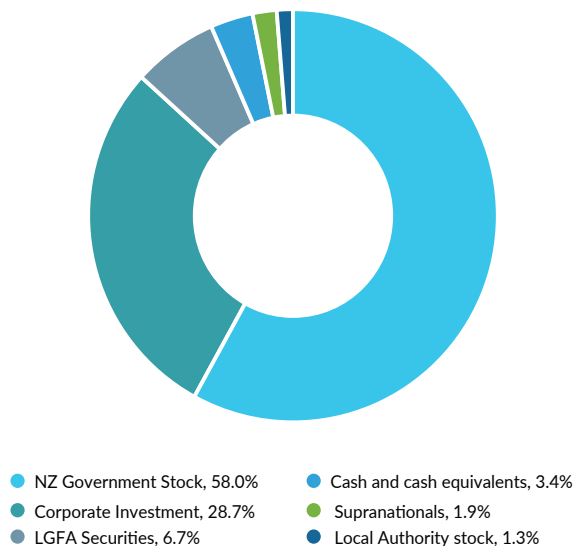
Investor Factsheet for the quarter ended 31 March 2025

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*
Gross Fund Return**	0.74%	6.76%	4.32%	2.43%	5.21%
Bloomberg NZBond Composite 0+ Yr Index***	0.69%	6.15%	3.73%	1.59%	4.95%
Out/under performance	0.05%	0.61%	0.58%	0.84%	0.26%
Tracking error	n/a	0.25%	0.46%	0.51%	0.91%
Information ratio	n/a	2.43	1.26	1.65	0.29
Sharpe ratio	n/a	0.52	-0.08	-0.13	0.75

Key Fund Facts as at 31 March 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)	\$219,204,891	Yield to maturity ¹	4.35%
Unit Price	\$2.0427	Duration (years) ¹	5.00
		Average credit quality ²	AA-

INVESTMENTS BY SECTOR



The fund in its macro context

The March quarter was mixed for investors in the New Zealand Fixed Interest Fund. New Zealand's yield curve continued to steepen; short-term rates followed the Official Cash Rates (OCR) lower while longer-term interest rates rose, albeit slightly.

The 2-year swap (wholesale interest) rate was flat, while New Zealand Government 10-year bond rate rose 6bps over the reporting period.

At the beginning of the quarter, January's consumers price index (CPI) release confirmed that inflation was in-line with broad market expectations at 2.2%, year-on-year.

With inflation 'under control' and well back within the 1-3% target band, the Reserve Bank of New Zealand (RBNZ) prioritised its focus on kick-starting the sluggish New Zealand economy. The RBNZ duly delivered a widely expected 50bp cut to the OCR (to 3.75%) in February.

Both market participants and the regulator are forecasting a terminal OCR of somewhere around 3.00% plus or minus 0.25%.

* 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.

Portfolio attribution

For the quarter to 31 March the New Zealand Fixed Interest Fund delivered a gross return of 0.74%, slightly outperforming the fund's market index return of 0.69%.

On a rolling four quarters to 31 March the Fund delivered a gross return of 6.75%, outperforming the fund's market index return of 6.15%.

Portfolio conviction

Our current thinking is that it's a too simplistic thesis that lower interest rates will mechanically result in a material lift in New Zealand's economic performance.

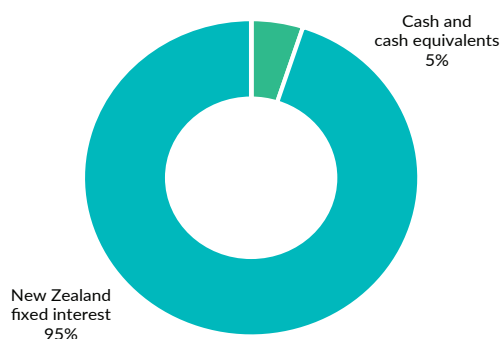
We believe that economic uncertainty remains in many domestic households and that wary consumers will save (or prioritise debt reduction by keeping mortgage payments constant) rather than spend interest rate windfalls. Furthermore, add in global economic and political uncertainty – indeed, the US's Liberation Day announcements on April 2nd rewarded the more conservative investor – and we can see why consumers would prefer to watch, worry and wait.

On this basis, we favour 'hard duration' Government bonds and proxies for better protection against the likelihood of widening credit spreads and manage portfolio liquidity risks. This approach should continue delivering capital gains complementing the fund's gross yield-to-maturity.

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 around 4.35% and the weighted-average portfolio credit quality was AA- (where a security does not have an external credit rating we have assigned 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	1.9%
AA+	67.2%
AA	1.3%
AA- to A-	15.2%
BBB	12.7%
Speculative	1.7%

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
New Zealand Government 1.5% 15/05/2031	7.7%
New Zealand Government 4.50% 15/05/2030	7.3%
New Zealand Government 14/04/2033 3.5%	5.9%
New Zealand Government 15/05/2028 0.25%	5.3%
New Zealand Government 3% 20/04/2029	5.0%
New Zealand Government 4.50% 15/04/2027	4.7%
NZ Government 4.25% 15/05/2034 Green Bond	3.6%
New Zealand Government 15/05/2032 2.00%	3.4%
Westpac New Zealand 1.439% 24/02/2026	2.9%
KiwiBank Subordinated Bonds 2.36% 11/12/2030	2.9%
Major holdings as % of total portfolio	48.8%

Conclusion

Notwithstanding the market ructions associated with the articulation and implementation of the United States' trade policies – indeed, April 2's Liberation announcements resulted in a level of market volatility not seen for many, many years – we expect the fund to continue to deliver positive returns its investors.

Our strategy is to accumulate New Zealand Government bonds while maintaining selected exposure to short-dated or preferred non-Government securities. Corporate bond spreads remain tight, just above long-term averages, despite the obvious current economic risks as expressed in global equity market price action.

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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