

New Zealand Fixed Interest Fund

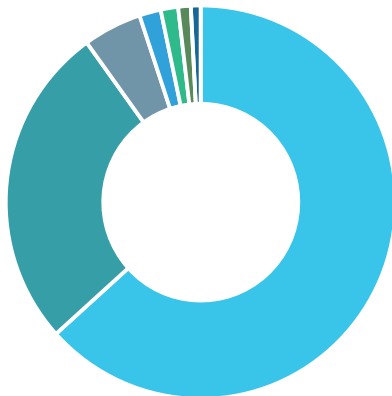
Investor Factsheet for the quarter ended 31 March 2026

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*
Gross Fund Return**	-0.37%	4.34%	5.70%	2.43%	5.16%
Bloomberg NZBond Composite 0+ Yr Index***	-0.45%	3.85%	5.00%	1.92%	4.89%
Out/under performance	0.09%	0.49%	0.70%	0.50%	0.28%
Tracking error	n/a	0.10%	0.31%	0.37%	0.89%
Information ratio	n/a	5.13	2.25	1.37	0.31
Sharpe ratio	n/a	0.36	0.28	-0.27	0.73

Key Fund Facts as at 31 March 2026

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)	\$338,575,755	Yield to maturity ¹	4.37%
Unit Price	2.1152	Duration (years) ¹	4.90
		Average credit quality ²	AA-

INVESTMENTS BY SECTOR



- NZ Government Stock, 63.3%
- Corporate Investment, 26.7%
- LGFA Securities, 4.9%
- Asset Backed Securities, 1.8%
- Supranationals, 1.4%
- Local Authority Stock, 1.0%
- Cash and cash Equivalents, 0.8%

The fund in its macro context

March was a difficult quarter for fixed interest investors, in general. Closing out the month of February with a gross return of 1.59%, we had high expectations of positive return momentum into the end of the March quarter.

However, it was not to be; the announcement of the conflict in the Middle East resulted in an unfavourable deep reset of most financial asset prices.

Indeed, market participants, concerned about the inflationary effects on the price of oil and oil related products, shunted international term interest rates and global bond yields materially higher, delivering losses to investors in the fund.

Portfolio attribution

For the quarter to 31 March the New Zealand Fixed Interest Fund delivered a gross return of -0.37%, slightly outperforming the fund's benchmark of -0.45%.

On a rolling four quarters to 31 March, the Fund delivered a gross return of 4.34%, comfortably outperforming the fund's benchmark return of 3.85%.

* 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.

Positive contributors to performance were our New Zealand Government inflation-linked bonds, targeted and very short maturity non-Government (credit) bonds and yield curve positioning. A minor detractor to performance was a premature increase in the fund's duration.

Portfolio conviction

As we write, consensus around some sort of resolution to the Middle East conflict is fluid and fast-moving; positive and negative sentiment dominoing into financial asset prices as a direct reaction to the continual flow of media announcements.

Given this uncertainty we're very comfortable with the fund's portfolio integrity of a weighted-average credit quality of AA-.

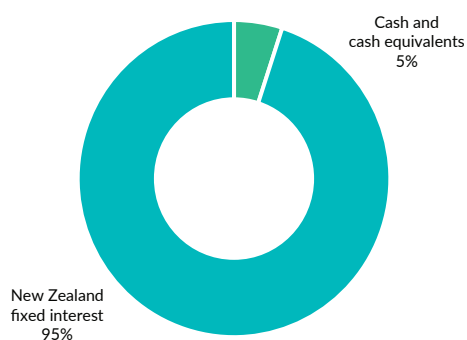
In addition, with around three-quarters of the fund invested in AAA rated and, New Zealand Government and New Zealand Government proxies (New Zealand Local Government Funding Agency and Housing New Zealand bonds), we assess fund liquidity as extremely high. This offers us ample ability to tactically position the fund as opportunities present. Indeed, our current target duration positioning range is +/- 0.5 years around the benchmark, which we will use if we assess interest rate moves as directionally and temporarily overstretched.

At some stage we believe the narrative will turn from inflation to a potential stalling in domestic economic growth. We've positioned the fund in advance of this narrative, extending the fund's duration to 4.90 years, beyond the benchmark duration of 4.52 years.

However, we also acknowledge that domestic inflation is likely to move substantially higher than the Reserve Bank of New Zealand's inflation target of 2.0%. With the regulator operating a sole monetary policy mandate of price stability through inflation targeting, we expect a series of official cash rate (OCR) hikes beginning from the middle of this year. We anticipate the term interest rate and bond yield curve to flatten. Rates and yields should mechanically move higher as the OCR increases: we have positioned the fund accordingly.

We also expect to tactically add to our investments in New Zealand Government inflation-linked bonds. We see second-round inflationary effects, beyond the fuel sticker price shock, as material. We consider it a romantic notion that inflation will average a low 2.0% over the medium-term.

TARGET ASSET ALLOCATION



FUND CREDIT BREAK-DOWN

Credit rating	% exposure
AAA	1.5%
AAA	2.0%
AA+	67.0%
AA+	2.5%
AA	1.0%
AA- to A-	12.0%
BBB+ to BBB-	11.0%
Speculative	3.0%

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
New Zealand Government 1.5% 15/05/2031	9.4%
New Zealand Government 14/04/2033 3.5%	7.2%
New Zealand Government 15/05/2032 2.00%	5.2%
NZ Government 4.25% 15/05/2034 Green Bond	5.0%
New Zealand Government 4.5% 15/05/2035	5.0%
New Zealand Government 4.25% 15/05/2036	4.6%
New Zealand Government 4.50% 15/05/2030	4.2%
New Zealand Government 3% 20/04/2029	4.2%
ANZ Bank New Zealand Limited 17/09/2031 2.99%	3.7%
New Zealand Government 15/05/2028 0.25%	3.6%
Major holdings as % of total portfolio	52.0%

Outlook

We continue to expect the fund's returns to be volatile over the shorter-term (and ultimately positive over the medium term). We have been surprised by the ferocity of the abrupt move higher in term interest rates and bond yields over March given the still low economic growth pre-Iran.

Our core thesis is the Middle East conflict progresses to some sort of resolution, the prospects for fixed interest returns are highly constructive over the remainder of this year. We assess the fund's gross yield to maturity of close to 4.40% as a positive starting point. We have plenty of flex in the portfolio to adapt to abrupt changes in the market narrative. We remain nimble and see rich potential for active tactical positioning.

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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