Australian Equities Fund

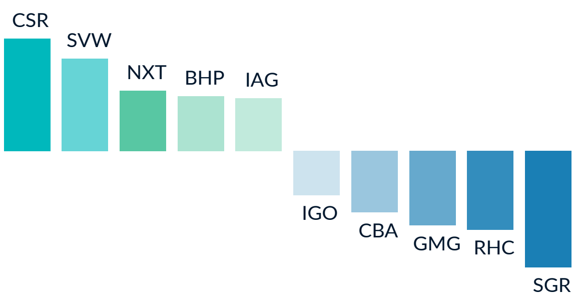
Investor Factsheet for the quarter ended 31 March 2024

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*	Since Nov 2019*
Gross Fund Return**	7.79%	18.28%	11.87%	10.55%	5.33%	10.14%
S&P/ASX Accumulation 200 Index (50% Hedged)***	6.12%	16.28%	10.16%	10.03%	6.09%	8.21%
Out/under performance	**1.67%**	**2.00%**	**1.71%**	**0.52%**	**-0.76%**	**1.93%**
Tracking error	n/a	1.29%	2.12%	2.72%	5.83%	2.52%
Information ratio	n/a	1.55	0.81	0.19	-0.13	0.77
Sharpe ratio	n/a	1.15	0.70	0.53	0.16	0.61

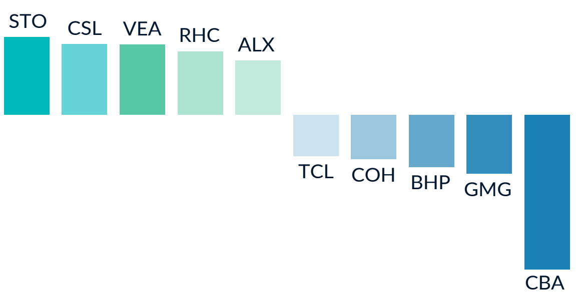
Key Fund Facts as at 31 March 2024

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)	$91,036,182	**Unit Price**	$1.8510
		Annual Fund Charge (ex-GST)	1.15%

ATTRIBUTION (ROLLING 4QS TO 31 MARCH 2024)



PORTFOLIO CONVICTION (AS AT 31 MARCH 2024)



The fund in its macro context

The March quarter saw the Australian equity market gain over 5% continuing its recent strong run.

The National accounts, released in early March, showed the Australian economy expanded by a relatively weak 0.2% in the final quarter of 2023, with private consumption contracting on a per capita basis. Per capita spending has now declined by 2.8% since the September quarter of 2022.

In terms of inflation, the monthly CPI indicator in Australia has held at 3.4% year over year for three consecutive months suggesting a slower, and more difficult to achieve, 'last mile' of reducing inflation to get to the midpoint of the RBA's 2-3% target.

Business survey indicators of profitability have been undeniably flat over the last quarter, with higher interest rates being at least partly offset by easing cost pressures and better labour availability. This was visible during the February reporting season where company margins held up better than most analysts' expectations.

Portfolio attribution

For the quarter to 31 March the Australian Equities Fund delivered a gross return of 7.79%, outperforming the funds' market index return of 6.12%.

On a rolling four quarters basis to 31 March, the fund delivered a gross return of 18.28%, comfortably outperforming the funds' market index return of 16.28%.

Our key industrials sector overweights worked well over the year to 31 March, with building materials firm, CSR, and conglomerate, Seven Group performing strongly. Our positive thesis on CSR centred around

* 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.

it's (underestimated) ability to raise prices and strong cost control delivering higher margins over time. These attributes were not lost on French building materials giant, Saint Gobain, which launched a takeover offer for CSR at AU$9.00/share in mid-February, a 33% premium to the undisturbed share price.

The biggest detractor from performance in the year to 31 March was our holding in Star Entertainment Group. A series of regulator reviews into the casino operator have found serious deficiencies in its anti-money laundering and counter terrorism financing programs with consequential fines. The company's suitability to hold the Sydney casino license has also been called into question. This combination of fines handed down by the regulator and weaker trading profitability have driven balance sheet issues, which are further weighing on the stock.

Portfolio position and conviction

Despite a negative earnings trajectory, we have seen a strong outperformance from major banks in recent months. We are sceptical the disconnect between fundamentals and share prices can continue and have lightened our exposure to the sector into recent strength. Our largest underweight position in the portfolio is in the highest quality (but most expensive) of these names, Commonwealth Bank. The stock is trading at a multiple of book more than double that of Westpac with a forecast ROE track only modestly higher.

With the recent surge in oil stocks, we have lightened some of the fund's exposure in this space but remain overweight, with our top pick in the sector (and highest conviction portfolio position) being Santos. Santos trades at the lowest implied oil price in the sector (around US$65/bbl vs spot currently at ~US$90/bbl) with a superior production and free cash flow outlook. We see a longer term thematic playing out where access to capital (and it's cost), environmental or political concerns and limited appetite to invest amongst corporates all contribute to falling investment (and supply growth) in the sector, while demand falls only slowly.

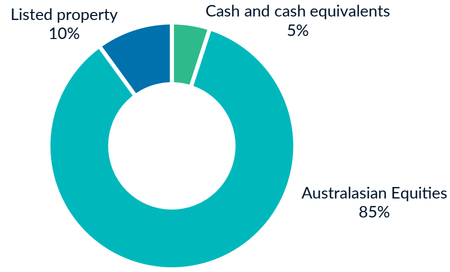
We continue to build our positions across the best quality mining stocks given recent weakness. We are encouraged by the medium term returns on offer from these global leaders, many of their projects provide the lowest cost production in the world and simply cannot be replaced.

Conclusion

The portfolio performed well in the March quarter, with the best performers being what we would describe as 'under-appreciated growth'. We are not growth investors per se, but our focus on earnings quality, cash flow and growth outlook attracted us to both CSR and Seven Group in the Industrials space.

As earnings were delivered, these stocks have experienced gains from a combination of earnings improvement and a re-rate in their valuation, with the latter being driven by either increased confidence from the listed market or interest by external acquirers.

TARGET ASSET ALLOCATION



TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
BHP Group Limited	8.4%
CSL Limited	7.3%
Commonwealth Bank of Australia Limited	5.3%
Westpac Banking Corporation	4.3%
National Australia Bank Limited	3.7%
Australia and New Zealand Banking Group Ltd	3.5%
Macquarie Group Limited	3.0%
Santos Limited	2.7%
Telstra Group	2.6%
Wesfarmers Limited	2.6%
Major holdings as % of total portfolio	**43.4%**

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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