

Enhanced Cash Fund

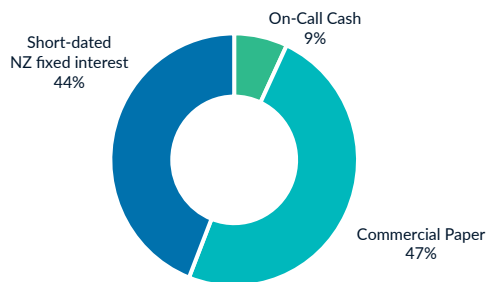
Investor Factsheet for the quarter ended 31 March 2024

	Quarter Performance	1 year	Since Inception
Gross Fund Return*	1.47%	n/a	5.11%
S&P/NZX Bank Bills 90-Day Index	1.40%	n/a	4.70%
Out/under performance	0.07%	n/a	0.40%

Key Fund Facts as at 31 March 2024

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)	\$35,385,780	Unit Price	\$1.0480
Yield to maturity**	6.00%	Annual Fund Charge (ex-GST)	0.35%
Duration (years)***	0.40		

SECURITY TYPES FOR THE QUARTER



The fund in its macro context

The March 2024 quarter was generally slightly positive for investors with exposure to fixed interest securities, despite interest rates rising modestly over the quarter. The New Zealand two-year swap rate rose 0.16% over the quarter, while the 10-year New Zealand Government bond (NZGB) rate rose 0.23%.

Driving New Zealand interest rates over the quarter were some important economic data releases, which confirmed general trends of a weakening New Zealand economy and slowing inflation, but not necessarily a weak-enough economy for the Reserve Bank of New Zealand (RBNZ) to begin lowering the Official Cash Rate (OCR). As a result, the Bloomberg NZBond Composite 0+ Yr Index (our preferred measure of the performance of the New Zealand bond market) lifted a mere 0.25% over the quarter.

Investors in cash and cash equivalent investments continued to benefit from the current elevated level of

short-term interest rates, the RBNZ held the OCR at the 5.50% level throughout the quarter, the same level it has been since May 2023. The S&P/NZX Bank Bills 90-Day Index (our preferred measure of the performance of New Zealand cash investments) rose 1.40% over the quarter.

Portfolio performance

Over the quarter the Enhanced Cash Fund provided a gross return of 1.47%, 0.07% ahead of the return of the S&P/NZX Bank Bills 90-Day Index, and 0.09% ahead of the OCR return (represented by the S&P/NZX Call Rate Deposit Index).

The fund benefited from its higher (than the cash rate) yield to maturity of ~6.0% at the start of the quarter. This was thanks to the credit exposures within the fund. An example of this was our holding in CHI010 - Channel Infrastructure's subordinated bond which was redeemed in early March. We were able to purchase this security in late 2023 at >150bps even though the security effectively had three months to maturity.

Spreads on Commercial Paper (CP) securities continued to widen over the quarter, with the average spreads on newly issued A-1+ and A-2 rated securities increasing from 3bps and 20bps respectively in December 2023 to 8bps and 34bps in March. This was at least partially a result of increased supply. The result of this was stronger yields on the CP portion of the portfolio. While widening credit spreads lead to capital losses on securities (all else equal), this impact is muted given the very short duration of the paper (generally three months or less).

* 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.

** 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.

The increase in short-rates (such as the two year swap rate) over the quarter was a small drag on performance. We took the opportunity as rates increased to lengthen the fund's duration by selling out of floating rate notes and buying high quality fixed rate securities, such as Bank of New Zealand June 2026 and Local Government Fund Agency April 2026 bonds. Through this strategy we have lifted portfolio duration from approximately 0.3 years in December 2023 to 0.4 years at the end of March.

Portfolio position and conviction

We continue with our strategy of buying higher-yielding corporate securities that are close to maturity and gradually lengthening duration on any sell-offs in short rates. We believe the RBNZ is in no rush to begin cutting the OCR and will not consider doing so until CPI inflation is safely below the upper limit of its 1-3% target range.

As at 31 March 2024 the fund's gross yield-to-maturity was 6.0%, this represents a significant premium over the OCR (~50bps). Additionally, the fund is positioned for capital gains as short-term interest rates trend lower. We acknowledge that the path from here is certainly not a straight-line to lower rates, but any capital losses from temporary rate increases will be insulated by the fund's strong yield.

These activities align with our beliefs that there are opportunities within cash equivalents and short-dated fixed interest markets for active management to add value for our investors, through both credit and duration positioning.

TARGET ASSET ALLOCATION



TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
ANZ transactional bank account	8.9%
New Zealand Local Government Funding Agency Ltd 15/04/2026 1.50%	7.2%
Kiwibank Limited 20/09/2024 2.155%	4.4%
Auckland City Council 0% 18/04/2024	4.2%
Genesis Energy Limited 5.0% 03/04/2025	4.2%
Fonterra Co-op Group RCD 06/06/2024	4.2%
Christchurch International Airport Limited 24/05/2024 4.13%	4.2%
SBS RCD 05/04/2024	4.0%
Spark Finance Limited RCD 24/04/2024	3.9%
Mercury NZ Ltd 0% 13/06/2024	3.9%
Major holdings as % of total portfolio	49.1%

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.

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.
- Historically investors in New Zealand fixed interest and cash have been rewarded for credit better 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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