Australian Equities Fund

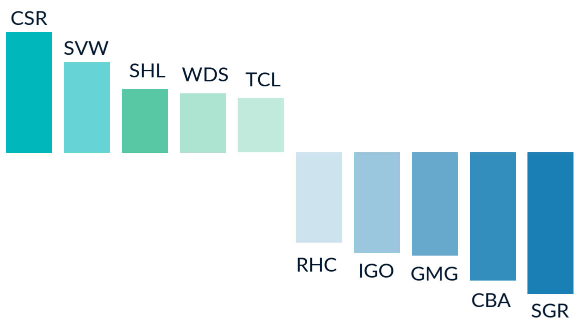
Investor Factsheet for the quarter ended 30 June 2024

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*	Since Nov 2019*
Gross Fund Return**	-0.81%	13.85%	9.13%	9.37%	5.19%	9.37%
S&P/ASX Accumulation 200 Index (50% Hedged)***	-0.68%	13.28%	7.24%	8.17%	5.95%	7.59%
Out/under performance	**-0.13%**	**0.58%**	**1.89%**	**1.20%**	**-0.76%**	**1.78%**
Tracking error	n/a	1.47%	2.15%	2.55%	5.79%	2.48%
Information ratio	n/a	0.39	0.88	0.47	-0.13	0.72
Sharpe ratio	n/a	0.72	0.44	0.45	0.15	0.58

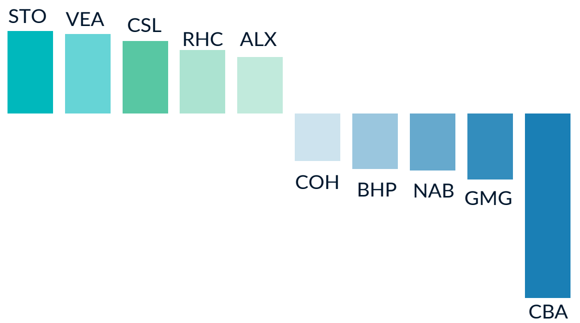
Key Fund Facts as at 30 June 2024

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)	$89,783,037	**Unit Price**	$1.8306
		Annual Fund Charge (ex-GST)	1.15%

ATTRIBUTION (ROLLING 4QS TO 30 JUNE 2024)



PORTFOLIO CONVICTION (AS AT 30 JUNE 2024)



The fund in its macro context

The June quarter saw the Australian Equity Market fall -1.05%, continuing its run of outperformance versus its trans-Tasman neighbour the NZX. However, both markets have lagged the rally in global equities which has been confined to a small number of large cap technology companies exposed to the Artificial Intelligence (AI) theme. In the Australian market, both the Materials and Energy sectors have been a drag on performance, with oil prices falling and a softer outlook for Chinese-related demand flowing through to lower iron ore prices.

The domestic economy has maintained low growth with domestic demand being supported by a still tight labour market; wages are rising and the unemployment rate is essentially flat at 4.0%. House prices have continued to rise on a national basis, boosting household wealth and credit growth.

With this backdrop it's not all that surprising the CPI (Consumer Price Index) indicator for May showed inflation reaccelerating from 3.6% YoY in April to 4.0% YoY in May. To date the Reserve Bank of Australia (RBA) has been amongst the most dovish of central banks with a peak cash rate of 4.35% versus the US, UK, Canada and New Zealand in the 5.00% to 5.50% range. The CPI surprise has seen traders challenge this position, increasing bets the RBA will raise the cash rate before year end.

* 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.

Portfolio attribution

For the quarter to 30 June, the Australian Equities Fund delivered a gross return of -0.81%, modestly underperforming the fund's market index return of -0.68%.

On a rolling four-quarter basis to 30 June, the fund delivered a gross return of 13.85%, outperforming the fund's market index return of 13.28%.

Once again, our industrial sector overweights in the portfolio worked well in the year to 30 June. The CSR takeover was approved by shareholders in June, with cash received in July. CSR was a conviction position for us as we believed the market was underestimating its pricing power and ability to lift margins, features not lost on the ultimate acquirer, Saint Gobain. Seven Group has surprised the market over the last 12 months with its steady earnings growth, impressive capital allocation (Boral acquisition) and strengthened balance sheet. We trimmed our position into its March quarter rally but have added to our holdings in June as the stock has pulled back sharply.

Key drags on performance in the year to 30 June were our overweight in Star Entertainment, which we discussed last quarter and have now largely exited, and our underweight in Commonwealth Bank of Australia (CBA).

The CBA underweight has been painful, with a resilient domestic economy and the flow through to higher credit growth and lower credit losses supporting the earnings outlook. Given elevated loan loss provisioning, the prospect of share buybacks and special dividends is also quite high. We view CBA as a high quality business, and see these tailwinds as meaningful, but think the share price has run too far.

Portfolio position and conviction

The combination of a tight labour market, tax cuts and modestly high rates suggests a challenging outlook for highly leveraged firms, like most of the real estate sector, but creates a supportive earnings backdrop for lenders and certain stocks exposed to the domestic consumer.

In this context, the portfolio continues to be defensively positioned, overweight stocks that should continue to outperform with stubborn inflation and higher for longer interest rates, but equally, well positioned for tougher economic times.

Conclusion

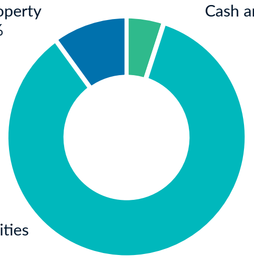
The portfolio underperformed slightly in the June quarter with our underweight in the banks, specifically CBA, a major culprit. Although credit growth and arrears trends are constructive for sector earnings, we think investors have bid the shares up too enthusiastically.

Indeed, CBA is now trading two to three standard deviations above its long-run average multiple, depending on the measure, despite a flat medium-term outlook for returns on equity. This as an example where we see the risks as mispriced, with positive short-term earnings tailwinds being capitalised into perpetuity, the fund remains underweight.

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
BHP Group Limited	8.3%
CSL Limited	7.5%
Commonwealth Bank of Australia Limited	5.5%
Westpac Banking Corporation	4.4%
National Australia Bank Limited	3.7%
Australia and New Zealand Banking Group Ltd	3.4%
Macquarie Group Limited	3.1%
Santos Limited	2.7%
Rio Tinto Limited	2.6%
Telstra Group	2.6%
Major holdings as % of total portfolio	**43.8%**

TARGET ASSET ALLOCATION



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

OCT7166-02-(AEF)-August 2024