

# Enhanced Cash Fund

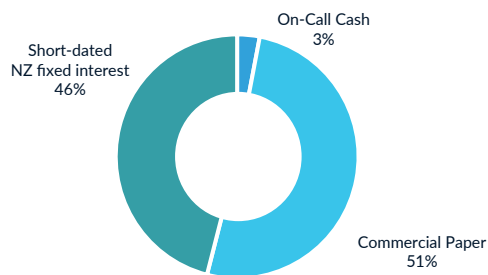
Investor Factsheet for the quarter ended 30 June 2024

	Quarter Performance	1 year	Since Inception
Gross Fund Return*	1.44%	6.24%	6.19%
S&P/NZX Bank Bills 90-Day Index	1.41%	5.80%	5.78%
<b>Out/under performance</b>	<b>0.03%</b>	<b>0.44%</b>	<b>0.41%</b>

## Key Fund Facts as at 30 June 2024

Fund Name	Enhanced Cash Fund	Risk Indicator	<span style="border: 1px solid black; border-radius: 50%; padding: 2px;">1</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">2</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">3</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">4</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">5</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">6</span> <span style="border: 1px solid black; border-radius: 50%; padding: 2px;">7</span>
Inception Date	07/06/2023	Market Index	S&P/NZX Bank Bills 90-Day
Fund Value (NZD)	\$39,026,819	Unit Price	\$1.0621
Yield to maturity <sup>1</sup>	6.00%	Annual Fund Charge (ex-GST)	0.35%
Duration (years) <sup>2</sup>	0.50		

## SECURITY TYPES FOR THE QUARTER



## TARGET ASSET ALLOCATION



## The fund in its macro context

The June quarter was generally positive for investors with exposure to New Zealand fixed interest securities, despite interest rates moving modestly higher. The New Zealand dollar two-year swap rate rose 0.17% over the quarter, while the yield on the 10-year New Zealand Government Bond (NZGB) rose 0.08%.

Economic data releases throughout the quarter reinforced what has been clear to New Zealand investors for quite some time; the New Zealand economy is weak. All else equal, this leads us to believe that the Reserve Bank of New Zealand (RBNZ) will need to begin cutting the Official Cash Rate (OCR) towards the end of this year.

## Portfolio Attribution

For the quarter to 30 June the Enhanced Cash Fund delivered a gross return of 1.44%, in-line with the fund's market index return of 1.41%.

On a rolling four quarters basis to 30 June, the fund delivered a gross return of 6.24%, comfortably ahead of the fund's market index return of 5.80% by 0.44%.

The fund began the quarter with a duration of around 0.4 years and as short-term rates sold-off through April we took the opportunity to increase duration closer to 0.5 years. While the modest rise in interest rates was a headwind to fund returns over the quarter, the fund's portfolio yield remains well-above the OCR (6.0% at the beginning of the quarter). This allowed the Fund to stay ahead of the fund's market index.

Credit spreads have generally tightened on both short-term and long-term paper in New Zealand, which has benefited the fund over the quarter (as this should lead to lower yields). The average credit spread on new issues of A2 rated Commercial Paper tightened from 35bp in April to 29bp in June.

\* 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.

<sup>1</sup> Portfolio yield to maturity is the weighted average yield to maturity of the securities within the fund.

<sup>2</sup> Portfolio duration is the weighted average modified duration of the securities within the fund.

## Portfolio position and conviction

We continue to believe that we have seen the peak in interest rates for this cycle and that rates will start to move lower by the end of the year and continue moving lower next year. However, this will not be a smooth step down, with every data release and RBNZ meeting watched eagerly by market participants. At the end of June the fund's duration was 0.5 years - a level which will provide capital gains as interest rates decrease. On any substantial selloffs in interest rates we will look to lengthen duration.

In the fixed interest part of the portfolio we continue to emphasise close-to-maturity corporate bonds for the attractive yields on offer. Many of these bonds mature in the next six months, meaning minimal exposure to changes in credit spreads.

One recent addition to the portfolio has been a small position in Channel Infrastructure's 2027 senior bond (CHI020) which the fund bought at a credit margin of around 180bps. Channel Infrastructure has stable and visible revenues thanks to long-term contracts with its customers (well in excess of the tenor of this bond), so it is a company we are comfortable to have exposure to.

## Conclusion

We believe there is substantial opportunity for active management of cash and cash equivalents and short-dated New Zealand fixed interest. With the interest rate cycle peaking there is opportunity to lock in higher yields in fixed interest securities while utilising commercial paper markets to maintain strong liquidity - allowing investors in the fund the 'best of both worlds' of a return potentially higher than cash held on-call while having the ability to redeem units and put cash to use at short notice.

## FUND CREDIT BREAK-DOWN

Credit profile	%
A-	1%
A1	3%
A1+	23%
A2	25%
AA	4%
AA-	11%
AAA	3%
BBB	9%
BBB+	9%
F3	4%
Sub-Investment Grade	8%

## TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
Westpac New Zealand 1.439% 24/02/2026	6.0%
Wellington International Airport Ltd 4% 05/08/2024	5.5%
Contact Energy Limited RCD 0% 05/08/2024	5.1%
Auckland City Council 0% 06/09/2024	5.1%
Z Energy Limited Limited 4.00% 03/09/2024	4.6%
Powerco Ltd 4.67% 15/11/2024	4.4%
Kiwibank Limited 2.155% 20/09/2024	4.1%
Genesis Energy Limited 5.0% 03/04/2025	3.9%
Bank of New Zealand 1.884% 08/06/2026	3.6%
Spark Finance Limited RCD 24/07/2024	3.6%
<b>Major holdings as % of total portfolio</b>	<b>45.8%</b>

## 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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