New Zealand Equities Fund

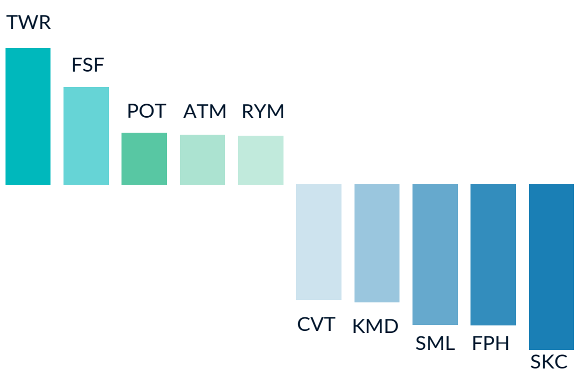
Investor Factsheet for the quarter ended 30 June 2024

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*	Since Nov 2019*
Gross Fund Return**	-5.26%	-2.15%	-0.05%	4.52%	10.66%	4.16%
S&P/NZX 50 Gross with Imputation Index***	-3.13%	-0.83%	-1.74%	2.99%	8.58%	2.23%
Out/under performance	**-2.13%**	**-1.32%**	**1.69%**	**1.53%**	**2.07%**	**1.93%**
Tracking error	n/a	3.25%	2.46%	2.68%	3.67%	2.68%
Information ratio	n/a	-0.41	0.69	0.57	0.57	0.72
Sharpe ratio	n/a	-0.84	-0.35	0.17	0.74	0.34

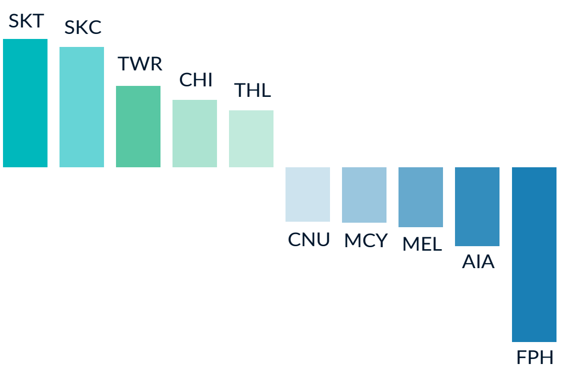
Key Fund Facts as at 30 June 2024

Fund Name	New Zealand Equities Fund	**Risk Indicator**	1 2 3 4 **5** 6 7
Inception Date	26/06/2008	**Market Index**	S&P/NZX 50 Gross with Imputation
Fund Value (NZD)	$89,422,790	**Unit Price**	$3.8325
		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

Economic weakness across the New Zealand economy has intensified over the last quarter. Business confidence has fallen on the back of weak demand and restructuring in the public sector – both job cuts and deferred investment projects – feed on each other. When people have less job security, they pre-emptively build savings and reduce spending. A nasty feedback loop can, and has, occurred and we see this in broad swathes across the retail sector.

There are some areas of stability; the Dairy industry is steady, and the electricity sector has attractive growth prospects but other sectors, like inbound tourism, still hasn't recovered to pre-Covid levels.

The June quarter saw the New Zealand equity market fall 3.13% with share price declines across all sectors.

Portfolio attribution

For the quarter to 30 June the New Zealand Equities Fund delivered a gross return of -5.26%, underperforming the fund's market index return of -3.13%.

On a rolling four-quarter basis to 30 June, the Fund delivered a gross return of -2.15%, underperforming the fund's market index return of -0.83%.

The June quarter was a tough one for the portfolio relative to its market index, undoing the solid performance of the prior three quarters. Looking at the four-quarter performance numbers, on the positive side were returns from our investments in Tower Insurance, A2 Milk and

* 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 S&P/NZX50 Gross index.

Fonterra. Underweight positions in Auckland Airport and Ryman Healthcare also added relative value.

These returns were outweighed by a surprising (to us) outperformance from F&P Healthcare (FPH) and exposure to several companies that had significant earnings downgrades. Over the last 12 months FPH has had earning upgrades of circa 2% yet the stock delivered a near 23% return and trades at 54 times next year's earnings. Our valuation is materially below this level.

Regarding earnings downgrades, Tourism Holdings, Sky City Entertainment, Comvita, Michael Hill and Synlait are positions the portfolio holds where share price reactions were dramatic. Other than Synlait, we continue to believe these stocks have credible pathways to restore earnings as the economic cycle improves.

Portfolio position and conviction

There is a rhetorical question for times like these in economic circles. "What's the cure for high interest rates?" The answer is "High Interest Rates."

Once interest rates are high enough, they force the economy to slow. The economy needs to slow to remove inflation. Eventually the high interest rates slow the economy enough to remove excess inflation.

We have kept our exposure to domestic cyclicals throughout the year. Not because we think the economy is about to head off to the races, but because share prices reflect outcomes that in some cases are worse than predicted during the depths of the GFC or the early days of Covid when the market fell precipitously.

We have funded these overweight positions by being underweight expensive growth stocks, expensive stocks with defensive earnings and the property sector. We see attractive, risk-adjusted returns in low growth but more stable earnings companies like Channel Infrastructure, Contact Energy and the NZX.

Conclusion

Expecting earnings weakness and dealing with the inevitable share price action when it arrives can be uncomfortable. It requires trust in our analysis and patience in our conviction.

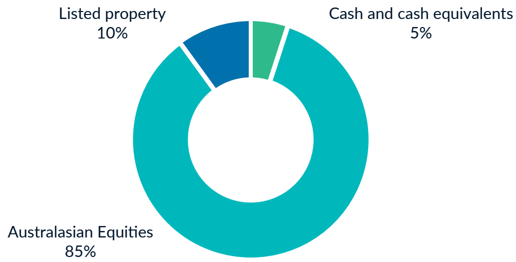
Management's history of execution is one of the key things we look for in our investments, both when stocks get excited by the future (yet prior delivery has been poor) and when prices reflect a permanent step down in earnings, yet management has seen worse backdrops and delivered good outcomes.

Our processes ask us to test and learn with our investments. Synlait has tested us with poor balance sheet management, amplifying their earnings volatility. Our view of management capability is less favourable, with the remaining portfolio position based on underlying asset value in a breakup scenario.

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
Fisher & Paykel Healthcare Corporation Ltd	10.9%
Infratil Limited	8.1%
Contact Energy Limited	7.4%
Auckland International Airport Limited	6.7%
Spark New Zealand Limited	6.6%
Meridian Energy Limited	5.3%
Mainfreight Limited	4.4%
Ebos Group Limited	4.0%
SKYCITY Entertainment Group Limited	3.9%
Sky Network Television Limited	3.4%
Major holdings as % of total portfolio	**60.8%**

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, especially in the New Zealand market
- 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

Paul Robertshawe, CA
Director, Chief Investment Officer

OCT7166-02-(NZEF)-August 2024