

New Zealand Fixed Interest Fund

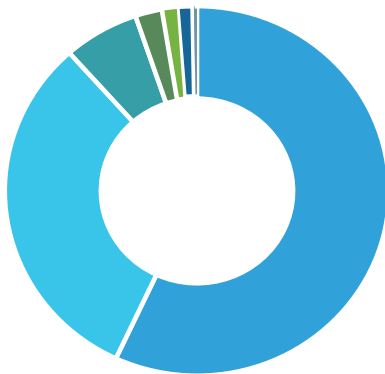
Investor Factsheet for the quarter ended 30 June 2024

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*
Gross Fund Return**	0.94%	6.74%	0.58%	1.50%	5.09%
Bloomberg NZBond Composite 0+ Yr Index***	0.80%	5.39%	0.09%	1.00%	4.85%
Out/under performance	0.14%	1.35%	0.50%	0.50%	0.25%
Tracking error	n/a	0.39%	0.45%	0.90%	0.93%
Information ratio	n/a	3.51	1.10	0.55	0.26
Sharpe ratio	n/a	0.19	-0.64	-0.22	0.74

Key Fund Facts as at 30 June 2024

Fund Name	New Zealand Fixed Interest Fund	Risk Indicator	1 2 3 4 5 6 7
Inception Date	26/06/2008	Market Index	Bloomberg NZBond Composite 0+Yr
Fund Value (NZD)	\$153,922,109	Yield to maturity ¹	5.10%
Unit Price	\$1.9425	Duration (years) ¹	4.90
Annual Fund Charge (ex-GST)	0.75%	Average credit quality ²	AA

INVESTMENTS BY SECTOR



NZ Government Stock, 59.93%	Local Authority Stock, 1.45%
Corporate Investment, 31.51%	NZ State Owned Enterprises, 0.88%
LGFA Securities, 6.37%	Cash and cash equivalents, 0.25%
Supranationals, 2.61%	

The fund in its macro context

The June quarter was an encouraging month, in general, for New Zealand fixed interest investors.

It was a game of two halves over the June quarter as the Reserve Bank of New Zealand (RBNZ) continually challenged market expectations about the start of its easing of domestic monetary policy. Indeed, the regulator's May 2024 monetary policy statement forecast the first cut to its Official Cash Rate (OCR) sometime towards the end of 2025 is completely at odds with the market predicting an OCR cut as early as September.

Ultimately market participants won out over the quarter, pushing down term interest rates and bond yields.

In our view, the numbers don't lie; domestic inflation is falling and against the backdrop of an economy running well below potential we see New Zealand term interest rates falling, and sooner than most expect.

Portfolio Attribution

For the quarter to 30 June the New Zealand Fixed Interest Fund delivered a gross return of 0.99% in-line with the fund's market index return of 0.98%.

On a rolling four-quarter basis to 30 June, the fund delivered a gross return of 6.74%, well ahead of the fund's market index return of 5.39%.

* 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 July 2023 the market index/benchmark return is the S&P/NZX Investment Grade Corporate Bond Index.

¹ 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.

² Average credit quality is the weighted average credit rating of the securities held within the fund. Where an issue is not rated, we have used the issuer rating. Where both are unrated, we have assigned an internal rating.

The strategy of rotating into New Zealand Government bonds – by selling non-Government securities – to increase portfolio duration has delivered capital gains to investors over the past year, complementing the return associated with the fund’s gross yield to maturity which was around 5.30% at the beginning of the quarter.

Portfolio position and conviction

The New Zealand Fixed Interest Fund is very well positioned, in our view, to navigate through the rest of the calendar year, and beyond.

We will continue to accumulate New Zealand Government bonds while rationing capital to non-Government securities. In general, corporate bond spreads don’t currently reflect the risks of the next economic cycle, in our opinion.

The portfolio duration was around 4.90 years at the end of June with a gross yield to maturity just over 5.00% and a weighted-average portfolio credit quality of “AA”.

We’re opting for plenty of “hard duration” in the form of Government bonds on the expectation of delivering further capital gains to our investors.

FUND CREDIT BREAK-DOWN

Credit rating	% exposure
AAA	67%
AA	15%
A	4%
BBB	13%
Sub Investment Grade	2%

Conclusion

We make active decisions around the construct of the portfolio. Against the on-going volatility in term interest rates and bond yields we’ve been highly active traders – both in the secondary over-the-counter (OTC) market and on the NZX (debt market).

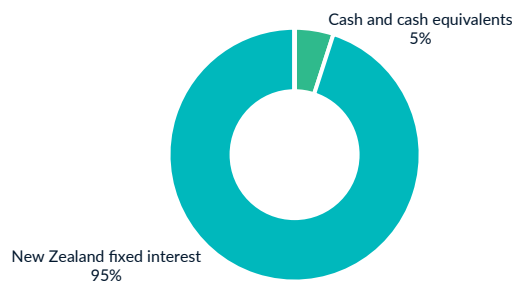
We have also pruned investment exposures to constituents in the fund’s market index that we think may struggle to deliver compelling risk-adjusted returns. We’re currently underweight New Zealand Local Government Funding Agency (LGFA) bonds given the significant increase in debt funding forecast for New Zealand’s local authority sector.

We would not be surprised if once the RBNZ instigates its long-awaited easing in monetary policy that the market will overreact. If that happens, we’ll assess accordingly and then use our judgement as how to position our clients appropriately.

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
New Zealand Government 3% 20/04/2029	7.8%
New Zealand Government 4.50% 15/04/2027	6.5%
New Zealand Government 15/05/2028 0.25%	6.1%
New Zealand Government 14/04/2033 3.5%	6.0%
New Zealand Government 4.50% 15/05/2030	5.9%
New Zealand Government 1.5% 15/05/2031	4.3%
Westpac New Zealand 1.439% 24/02/2026	4.0%
New Zealand Government 4.25% 15/05/2034 Green Bond	3.8%
New Zealand Government 15/05/2032 2.00%	3.8%
New Zealand Government 0.5% 15/05/2026	2.7%
Major holdings as % of total portfolio	50.8%

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.

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