


Enhanced Cash Fund

Investor Factsheet for the quarter ended 31 December 2024

	Quarter Performance	1 year	Since Inception
Gross Fund Return	1.43%	6.34%	6.35%
S&P/NZX Bank Bills 90-Day Index	1.23%	5.58%	5.66%
Out/under performance	0.20%	0.76%	0.70%

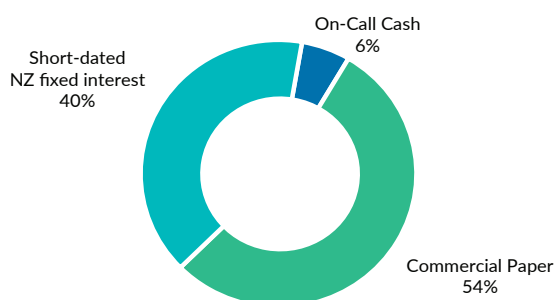
Key Fund Facts as at 31 December 2024

Fund Name	Enhanced Cash Fund	Risk Indicator	
Inception Date	07/06/2023	Market Index	S&P/NZX Bank Bills 90-Day
Fund Value (NZD)	\$45,929,162	Yield to maturity ¹	4.61%
Unit Price	\$1.0954	Duration (years) ²	0.32

TARGET ASSET ALLOCATION



SECURITY TYPES FOR THE QUARTER



The fund in its macro context

The December quarter was mixed for investors with exposure to New Zealand fixed interest securities. The yield curve steepened, with short-term rates falling while longer-term rates moved higher. The New Zealand dollar two year swap rate fell -20bps over the quarter while the 10 year New Zealand Government Bond rate ended the quarter 27bps higher.

As usual, shorter tenor yield curve movements were driven mostly by domestic factors. Shorter term rates moved lower as the Reserve Bank of New Zealand (RBNZ) continued its easing of monetary policy - the Official Cash Rate (OCR) was cut by -100bps over the quarter, in two 50bp increments.

In October we had New Zealand inflation data print within the RBNZ's target band of 1-3%, giving the central bank further confidence to continue easing.

Portfolio attribution

For the quarter to 31 December the Enhanced Cash Fund delivered a gross return of 1.43%, 0.20% above the fund's benchmark return of 1.23%.

For the four quarters to 31 December the Enhanced Cash Fund delivered a gross return of 6.34%, 0.76% above the fund's benchmark return of 5.58%.

The fund's duration began the quarter at around 0.30 years, moved as low as 0.26 years in October, and as high as 0.40 years in November as we positioned the fund around volatile interest rates. At the end of December the fund's duration was back to 0.32 years, with some capital gains provided from the fund's short-dated bond exposures.

* 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.

¹ Portfolio yield to maturity is the weighted average yield to maturity of the securities within the fund.

² Portfolio duration is the weighted average modified duration of the securities within the fund.

The fund's yield of 5.3% at the beginning of the quarter was also a contributor to outperformance, representing a significant premium to the OCR.

Credit spreads on commercial paper widened over the quarter, which all else equal was a small detractor from performance, however it leads to a stronger starting yield for the new quarter as the portfolio rolls into higher starting commercial paper rates. The average spread on A2 rated Commercial paper widened from 15bps in September, to 30bps in December.

Portfolio conviction

We continue to believe that we have seen the peak in interest rates for this cycle and that short-term rates will continue to move lower over the next year. However as discussed last quarter, this will not be a smooth downtrend, with every data release and RBNZ meeting watched eagerly by market participants.

At the end of December the fund's duration was 0.3 years, which we consider to be a relatively 'short' duration position for the fund. This positioning reflects that there is already significant easing priced into interest rates - at the end of December the Overnight Indexed Swap (OIS) market was pricing an OCR of around ~3.8% by February 2025 and an OCR around 3% by the end of 2025. As such, our current preference is to keep duration short and focus on attractive opportunities in the credit sector.

In the fixed interest portion of the portfolio we continue to hold close-to-maturity corporate bonds for the attractive yields on offer. A recent addition has been Wellington International Airport 2025 bonds, which represents good value in our view at a credit spread of ~65bps for six months of credit risk.

Additionally, we have continued to build positions in Floating Rate Notes (FRNs) of high quality corporates. We like FRNs at this stage in the cycle as they have very little exposure to interest rate movements (given the coupon on these bonds resets frequently).

Conclusion

We believe there is substantial opportunity for active management of cash and cash equivalents and short-dated New Zealand fixed interest. The peak in the interest rate cycle has provided strong capital gains returns to the portfolio since inception. As active managers our focus now shifts from maintaining duration to earning a quality premium over the cash rate via credit spreads. However, on any unjustified (in our view) market movements in interest rates we will look to trade duration as we see fit.

FUND CREDIT BREAK-DOWN

Credit profile ³	%
AAA	0.0%
AA (+ to -)	29.7%
A (+ to -)	26.2%
BBB (+ to -)	44.1%

³ Where an issue is not rated we have used the Issuer rating. Where both are unrated we have assigned an internal rating.

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
Powerco CP 17/02/2025	4.3%
SBS CP 04/04/2025	4.3%
Toyota NZ FRN 30/09/2027	4.3%
ANZ transactional bank account	3.5%
CBA FRN 18/10/2027	3.3%
BNZ FRN 19/11/2027	3.3%
Rabobank FRN 16/06/2025	3.3%
Greater Wellington Regional Council CP 21/01/2025	3.3%
Fonterra Co-op Group CP 13/02/2025	3.2%
Mercury NZ Ltd CP 19/02/2025	3.2%
Major holdings as % of total portfolio	36.1

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.

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

This publication does not contain financial advice - for financial advice, please speak to your Investment Adviser. We recommend you review your investments and seek specialist advice on any taxation aspects. Past performance is not a reliable guide to future performance. Forsyth Barr Investment Management Limited is the issuer, and Octagon Asset Management Limited the investment manager, of the Octagon Investment Funds. A copy of the Product Disclosure Statement for the Funds is available from www.octagonasset.co.nz/disclosure-information, by contacting your Investment Adviser, or by calling 0800 628 246.