New Zealand Equities Fund

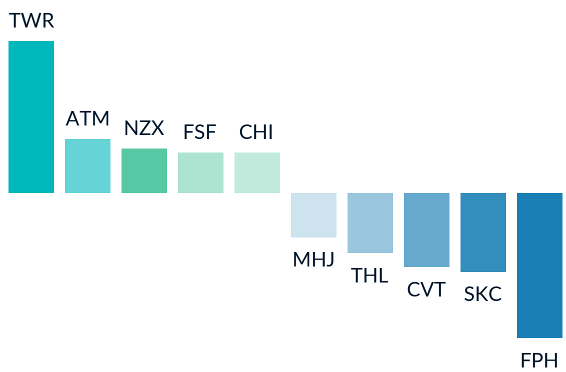
Investor Factsheet for the quarter ended 31 December 2024

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*	Since Sep 2019*
Gross Fund Return**	5.63%	11.43%	2.12%	5.74%	11.15%	6.26%
S&P/NZX 50 Gross with Imputation Index***	5.62%	12.24%	1.03%	3.44%	9.08%	4.30%
Out/under performance	**0.02%**	**-0.80%**	**1.09%**	**2.31%**	**2.08%**	**1.95%**
Tracking error	n/a	2.30%	2.34%	2.60%	3.62%	2.58%
Information ratio	n/a	-0.35	0.47	0.89	0.57	0.76
Sharpe ratio	n/a	0.69	-0.22	0.24	0.78	0.29

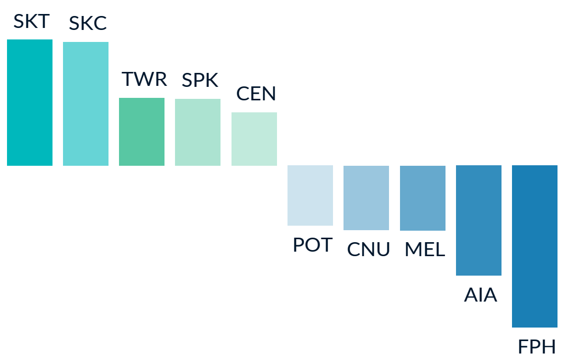
Key Fund Facts as at 31 December 2024

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)	$120,699,632	**Unit Price**	$4.2972

ATTRIBUTION (ROLLING 4QS TO 31 DECEMBER 2024)



PORTFOLIO CONVICTION (AS AT 31 DECEMBER 2024)



The fund in its macro context

The New Zealand equity market posted another strong quarter, returning 5.62%.

The NZX50 concluded 2024 with its strongest 12-month performance since 2020, bolstered by the Reserve Bank of New Zealand's (RBNZ) easing monetary policy and a steady decline in inflation. These factors created a more favourable outlook for equities, with the positive momentum expected to extend over 2025.

Expectations of a subdued Christmas trading period domestically were realised, as evidenced by Briscoes revising its guidance down by 10% following weaker-than-anticipated December sales. Despite this, investor sentiment is increasingly optimistic as the market looks through near-term to further recovery. Updates from November's mini reporting season and Annual Shareholder Meetings (ASMs) were broadly well received, further boosting confidence. Market earnings for 2025 are forecast to grow by 15%, which we consider to be a reasonable projection given the low base established in 2024.

The December quarter, like September, continued to witness an uplift in capital market activity, highlighting strong investor support. Channel Infrastructure (CHI) successfully executed a capital raise for a new storage facility, while the Auckland Council's sell-down of its remaining 9.71% stake in Auckland Airport (AIA) attracted substantial market interest.

* 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. For periods prior to April 2018 the Gross Funds Returns do not include imputation credits.

*** For periods prior to April 2018, the market index/benchmark return used is S&P/NZX50 Gross index. Market index returns do not have any deductions for fund charges, trading expenses or tax.

Overall, with an improving economic backdrop, strengthening investor confidence, and expectations of solid earnings growth, the outlook for 2025 remains optimistic.

Portfolio attribution

For the quarter to 31 December the New Zealand Equities Fund delivered a gross return of 5.63%, in line with the fund's market index return of 5.62%.

For the four quarters to 31 December the Fund delivered a gross return of 11.44%, marginally underperforming the fund's market index return of 12.24%.

Looking at the four-quarter rolling performance, the funds top contributors were from our overweight investments in Tower Insurance (TWR) and A2 Milk (ATM). ATM has been a tale of two halves. Strong China birth rates, earnings growth, and market share gains drove a 70% return by August, supporting our overweight position. Mid-year we shifted to underweight as the price exceeded fair value. FY24 results in August missed expectations, and the share price has since been volatile, bouncing around on mixed China stimulus news. November's dividend policy announcement was a positive signal on progress on their supply chain ownership challenges. Since Q4, we have been reducing our underweight position but remain cautious on near-term birth rate data.

Our conviction position in TWR continued to pay dividends through the December quarter with the share price strengthening on the back on its inclusion to the NZX50 in October and an FY25 upgrade of 10% at its full year result in November.

In a continuing trend from last quarter, our underweight position in Fisher and Paykel Healthcare (FPH) and overweight position in SkyCity (SKC) have been our largest negative contributors to fund performance for the rolling four quarters. Despite FPH's strong November result and a robust flu season outlook for the second half we continue to see valuation as priced to perfection. SKC has continued to resolve several regulatory issues over the year we but see successful implementation of carded playing the second half of 2025 as key to value realisation.

Portfolio conviction

Government spending forecasts for next year have been modestly increased, and we anticipate further rate cuts ahead. Many companies have adapted well to reduced demand and are positioned to capitalise on recovering confidence and growth, as reflected in the 2025 earnings growth forecasts.

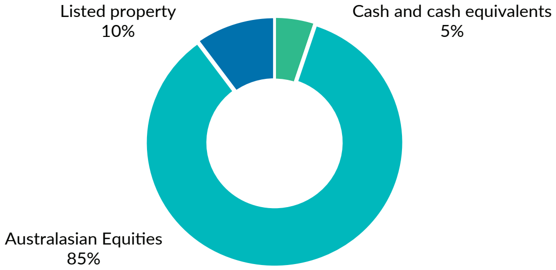
The portfolio continues to favour names with positive near-term catalysts, such as Sky Television with their potential New Zealand rugby rights renegotiation and SkyCity with the introduction of carded play in June. These cyclical names are complemented by high-quality defensives offering more attractive valuations compared to their peers, including CHI and Contact Energy.

To fund these conviction overweight positions, we continue to have reduced exposure to high-quality but expensive defensives and growth names like AIA and FPH, despite their strong operating performance. We continue to maintain a balanced mix of cyclicals and defensives within the portfolio where we think the valuations offer attractive future returns.

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
Fisher & Paykel Healthcare Corp Limited	13.0%
Auckland International Airport Limited	8.3%
Infratil Limited	8.1%
Contact Energy Limited	7.0%
Spark New Zealand Limited	5.7%
Mainfreight Limited	4.2%
Meridian Energy Limited	4.1%
SKYCITY Entertainment Group Limited	3.8%
Sky Network Television Limited	3.3%
Ebos Group Limited	3.3%
Major holdings as % of total portfolio	**60.8%**

TARGET ASSET ALLOCATION



Conclusion

The New Zealand equity market concluded 2024 with strong momentum, supported by improving macroeconomic conditions and positive investor sentiment for the year to come. Looking ahead, the portfolio remains well-positioned with a strategic blend of cyclical names benefiting from near-term catalysts and high-quality defensives offering attractive valuations.

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

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