New Zealand Equities Fund

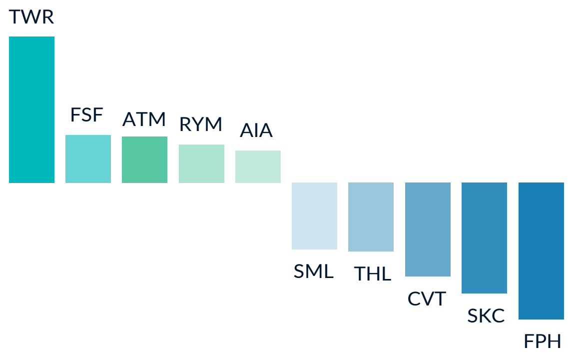
Investor Factsheet for the quarter ended 30 September 2024

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*	Since Sep 2019*
Gross Fund Return**	7.28%	9.23%	0.46%	5.42%	10.96%	5.42%
S&P/NZX 50 Gross with Imputation Index***	6.37%	10.84%	-1.37%	3.39%	8.86%	3.39%
Out/under performance	**0.90%**	**-1.61%**	**1.84%**	**2.03%**	**2.10%**	**2.03%**
Tracking error	n/a	3.24%	2.42%	2.61%	3.64%	2.61%
Information ratio	n/a	-0.50	0.76	0.78	0.58	0.78
Sharpe ratio	n/a	0.33	-0.34	0.23	0.76	0.23

Key Fund Facts as at 30 September 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)	$107,469,786	**Unit Price**	$4.0833

ATTRIBUTION (ROLLING 4QS TO 30 SEPTEMBER 2024)



PORTFOLIO CONVICTION (AS AT 30 SEPTEMBER 2024)

The fund in its macro context

The New Zealand equity market posted a solid September quarter returning 6.37%, a healthy rebound after a negative prior quarter of -3.13%.

This recovery was supported by the beginning of the rate cutting cycle, which came sooner than previously forecast, and saw the Reserve Bank of New Zealand (RBNZ) make its first cut of 25 basis points in August and a further 50 basis points in October.

Although the rate cutting cycle has begun, we think that the economic backdrop is likely to remain weak for the remainder of the year and that unemployment will continue to rise until at least Christmas. Whilst consumer confidence has lifted for its third consecutive month, spending remains subdued with the lift in confidence driven largely by expectations for the future, rather than the here and now. Across the August reporting season management commentary around current trading conditions continued to be weak relative to prior periods and guidance, where given, was conservative. Despite this we continue to look through near term weakness to an expected upturn and growth in earnings throughout 2025.

* 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.

Portfolio attribution

For the quarter to 30 September the New Zealand Equities Fund delivered a gross return of 7.28%, outperforming the fund's market index return of 6.37%.

For the four quarters to 30 September the Fund delivered a gross return of 9.23%, underperforming the fund's market index return of 10.84%.

The September quarter was characterised by a significant uptick in capital market activity with capital raisings from Infratil ($1.3bn) and Auckland Airport ($1.4bn) to fund growth projects. Fletcher Building raised $700mn to strengthen its balance sheet in the face of short-term earnings pressure. All three raises were well supported and absorbed by the market, a positive signal of confidence for New Zealand equities. These liquidity events created short-term buying opportunities for the fund, not just in the company raising money, but also in other stocks as investors sold equities to raise funds. As an active investor we look as these liquidity events as sources of potential alpha. The quarter's outperformance highlights how we have navigated these trades.

Looking at the four-quarter rolling performance, the fund's top contributors were from our overweight investments in Tower Insurance (TWR) and Fonterra. The strength in both positions is largely due to upgrades to earnings per share for this financial year, supported by stronger dividends and capital returns to shareholders. Fonterra in particular is benefitting from supernormal stream returns and a strengthened balance sheet as they divest non-core assets. Our out of index investment in TWR has worked well after the name was over-sold following the Auckland Floods and Cyclone Gabrielle.

On the other side of the ledger, our underweight position in Fisher and Paykel Healthcare (FPH) and overweight position in SkyCity (SKC) have been our largest negative contributors to fund performance. We continue to see the FPH price stretched well beyond our valuation. Sell-side analysts are forecasting near-perfect execution on revenue and margin targets for the next ten years to produce valuations close to the share price and justify its 50 times FY25 earnings multiple.

Portfolio conviction

Despite August delivering a reporting season that saw downgrades outweigh upgrades and conservative outlook commentary, the market has been buoyed by the RNBZ's interest rate movements. Whilst short term earnings pressures are likely to persist through the remainder of the year, we see a continued pathway back to mid-cycle earnings for cyclically exposed stocks and believe current valuations are attractive for many companies on that mid-cycle view. We continue to position the portfolio accordingly and have recently been adding to some of our smaller cyclical positions in the portfolio. Our highest conviction positions of Sky Tv (SKT), SKC and TWR all continue to have strong valuation support and should be bolstered by an earnings recovery in 2025. With TWR finalising its FY24 guidance to include a $45m upgrade due to not utilising its large events allowance. We see news of SKT's rugby rights renewal as the only near-term catalyst for that stock before the year end.

We have continued to fund our overweight positions with underweights in FPH as well as the likes of Chorus and Meridian. In general terms, we feel that the market continues to overpay for defensive earnings exposure in sectors like infrastructure, telecommunications and energy, although we accept this may continue as interest rates cuts can make their dividend profiles more attractive.

We continue to maintain a mix of cyclicals and defensives within the portfolio matched to where we think their valuations offer attractive future returns.

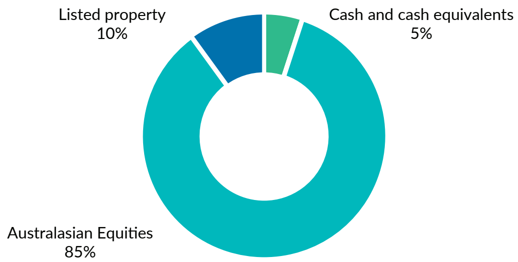
Conclusion

We continue to see opportunity in macro-exposed companies where the market places more weight on short-term earnings impact rather than mid-cycle valuations and margins. It is important that we are able to distinguish between impacts that are short term and macro driven rather than a structural change. This is key, as companies offer value well before we see actual earnings rebound. Our investment process requires that we continue to test and learn as new information becomes available.

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
Fisher & Paykel Healthcare Corp Limited	12.3%
Infratil Limited	8.2%
Auckland International Airport Limited	7.6%
Contact Energy Limited	6.8%
Spark New Zealand Limited	5.5%
Meridian Energy Limited	4.5%
Mainfreight Limited	4.3%
SKYCITY Entertainment Group Limited	3.8%
The a2 Milk Company Limited	3.5%
Ebos Group Limited	3.4%
Major holdings as % of total portfolio	**59.9%**

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.

In particular, the number of management changes across the market such as with Fletcher Building, The Warehouse and Comvita forces us to pause and reflect on what this means for those companies going forward. As interest rates continue to fall and confidence recovers, we are positive on the outlook for 2025 and see prospects for strong returns over the next three years for New Zealand equities.

Portfolio Manager

Paul Robertshawe, CA
Director, Chief Investment Officer

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