Fisher Funds
IMA Model Portfolios

Quarterly Update – September 2026



fisherfunds

Contents

Overview
Share markets grind higher despite resurgent oil prices and higher interest rates.....3

Trans Tasman Equities
Company results drive gains across Trans-Tasman equities 5

Global Equities
Stronger performance reflects benefits of a broader portfolio.....7

Property & Infrastructure Fund
Higher yields, lower prices: A de-rating, not a downturn.....10

New Zealand Cash and Fixed Interest
Cash and fixed interest funds beat benchmarks as higher yields create attractive entry points 12

Global Fixed Interest
Global bond yields jump as markets price in higher-for-longer interest rates 13

Contributors this month



Ashley Gardyne
Chief Investment Officer



Matt Peek
Portfolio Manager



Robbie Urquhart
Senior Portfolio Manager



Michael Bacon
Senior Investment Analyst



Quin Casey
Senior Portfolio Manager

Disclaimer: The content of this publication is intended for Fisher Funds Individually Managed Account Service clients. It may not be circulated or copied without the express permission of Fisher Funds Management Limited (Fisher Funds). The information and any opinions herein are based upon sources believed reliable, but Fisher Funds, its officers and directors make no representations as to its accuracy or completeness. All opinions reflect our judgement on the date of this report and are subject to change without notice. The information contained in this publication should not be used as a basis for making an investment decision about any particular company. Professional investment advice should be taken before making an investment. Past performance is not a reliable guide to future performance.

Share markets grind higher despite resurgent oil prices and higher interest rates

Ashley Gardyne, Chief Investment Officer

The September quarter brought different experiences for share and bond investors. Strong company earnings helped equity markets withstand higher interest rates, while those same rates weighed on fixed income returns. In this more volatile and selective market, we were pleased to see an improvement in fund performance, with the majority of our funds outperforming their benchmarks in the third quarter.

Market drivers in the third quarter

The headline 1.9% gain in the MSCI World Index in the third quarter masked turbulence beneath the surface. Investors had to absorb sharply rising interest rates, escalating conflict in the Middle East, and a slump in the AI trade during the quarter. US Treasury yields also reached 20-year highs on rising government debt concerns and persistent inflation, weighing on interest-rate-sensitive sectors such as housing-related cyclicals, utilities and real estate investment trusts.

Global equity markets were supported by strong performances of large cap US tech companies, while US small cap stocks and markets in Europe, the UK, Australia and Emerging Markets declined during the quarter. Strong US corporate profit growth also helped offset what may have otherwise been problematic interest rate and inflation increases.

Selected AI-related stocks fell sharply in July, when the SOX Semiconductor Index slumped 21%. Investors are increasingly distinguishing between companies where heavy AI investment is driving accelerating revenue growth, such as **Microsoft** (+38% in the quarter) and **Meta** (+29%), from those where the returns remain less visible.

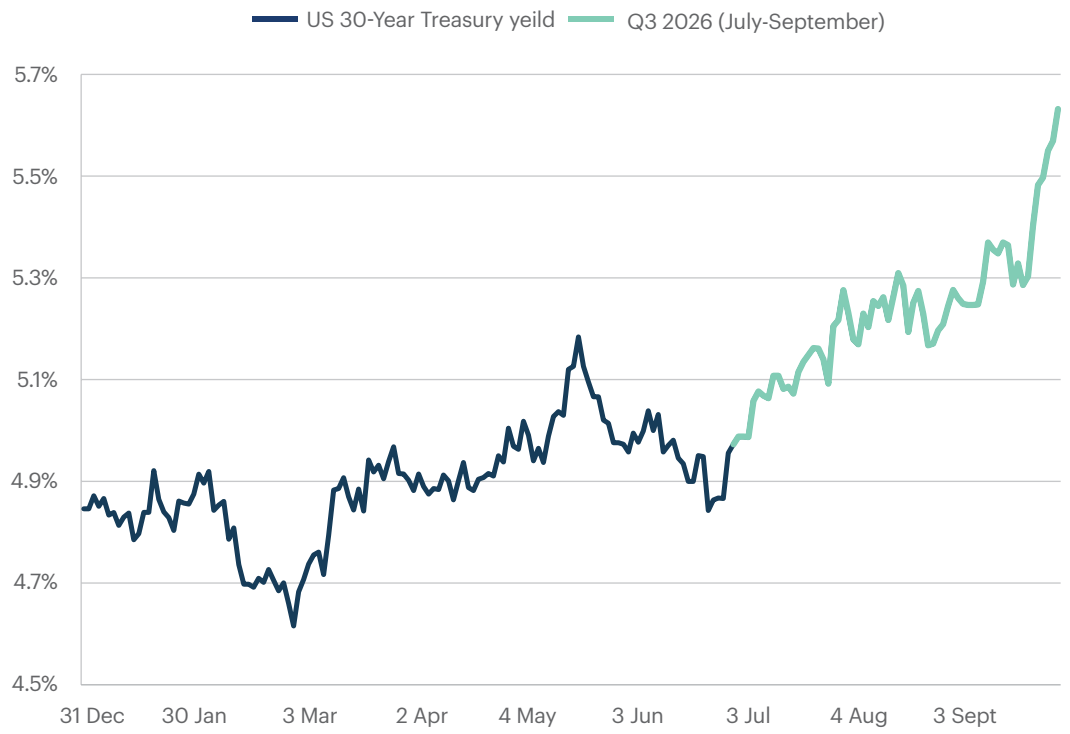
Our selective approach to the AI trend and focus on business quality and the sustainability of earnings helped our fund performance over the quarter.

Borrowing became more expensive

For bond markets, the pressure was more direct – with rising interest rates pushing bond prices lower in the quarter. Persistent inflation and elevated government debt burdens have led investors to demand higher yields. By the end of September, the yield on 30-year US government bonds had reached its highest level since 2002. Energy prices added to the problem, with Middle East tensions again pushing oil above US$100 a barrel, and central banks faced renewed pressure to contain inflation. Rate increases can restrain spending, but they cannot resolve disruptions to energy supplies. That leaves a difficult balance between containing prices and avoiding unnecessary damage to growth.

Substantial investment in AI infrastructure has also had consequences for interest rates. While spending on data centres has supported business activity and equity markets, it has also resulted in a surge in debt issuance to fund that construction. This elevated demand for debt capital is contributing to a more expensive financing environment.

US 30-year Treasury yield in 2026 (%)



Source: Bloomberg.

Attention now turns to whether companies can sustain growth as higher borrowing costs work through the economy. Investors will also be looking for further evidence that spending on AI is translating into stronger revenues and profits.

For fixed income, higher yields offer a better starting point for future returns. Over much of the last two decades, fixed income investments offered unattractive yields. That is starting to change and should provide improved results for investors with more conservative risk settings.

An encouraging improvement in fund performance

The investment team has been busy repositioning our portfolios in recent quarters, and it is encouraging to see an initial improvement in performance after a challenging 12 months.

Over the third quarter, our Premium Australia Fund returned 3.9% (+2.6% ahead of benchmark) and our Premium International Fund returned 3.3% (+1.0% ahead of benchmark). While our Property & Infrastructure Fund (-0.7% behind) and Premium New Zealand Fund (-1.4% behind) underperformed slightly in the quarter, they have both outperformed their benchmarks over the last 6 months.

It is still early, and a single quarter is too short to judge a turnaround in performance, but it is pleasing to see some progress. Our focus remains on building on that improvement through careful investment selection, in order to deliver a sustained lift in results for clients.

In the following quarterly updates, our Portfolio Managers talk more about recent portfolios changes and drivers of performance.

Company results drive gains across Trans-Tasman equities

Matt Peek, Portfolio Manager, New Zealand Equities | **Robbie Urquhart,** Senior Portfolio Manager, Australian Equities

The Trans-Tasman Equity Fund returned 2.6% over the September 2026 quarter, compared with its benchmark return of 1.6%.

Market Commentary

New Zealand and Australian share markets delivered positive returns during the September quarter. Company reporting and annual meeting updates were important drivers, with several portfolio companies delivering encouraging financial results despite a mixed economic backdrop.

Performance was supported by positive company updates including the August reporting season. However, this was offset by higher global interest rates, more subdued domestic economic conditions and uncertainty ahead of the general election.

Portfolio Commentary

Strong results from selected industrial, healthcare and technology holdings highlighted the benefits of exposure to companies with different economic drivers.

In New Zealand, **Delegat** (+22%) was the strongest-performing position after reporting its highest profit in several years and providing encouraging guidance for the new financial year. The company continues to outperform the wider wine category as consumers in key markets increasingly favour premium brands such as Oyster Bay. **Vista** (+19%) also performed strongly, reporting first-half revenue growth of 12% and core operating profit growth of 24%. The company lifted its full-year guidance as it continued to transition clients to its next-generation cinema software. **Fisher & Paykel Healthcare** (+18%) increased its guidance following continued strength in its hospital business, while **Vulcan Steel** (+8%) and **Mainfreight** (+8%) delivered encouraging updates despite challenging economic conditions.

Australian industrial holdings made a strong contribution. **Ansell** (+45%) delivered profit growth despite a softer economic backdrop, supported by revenue growth, cost discipline and its ability to recover tariff and freight-related costs through higher prices. **MAAS Group** (+34%) benefited from its exposure to Australian AI infrastructure development, while **PWR Holdings** (+28%) delivered strong revenue growth following significant investment in manufacturing capacity.

Australian healthcare holdings also rebounded during the quarter. **CSL** rose following a recovery in revenue from its core plasma division, while **Cochlear** (+16%) delivered a result broadly in line with investor expectations. **ResMed** (+11%) continued to deliver strong financial results, supported by growth in sales of sleep apnoea devices and masks across its key markets.

Technology holdings produced mixed results. **Atlassian** was the strongest performer among the Australian technology and classified advertising holdings, delivering revenue growth of 28% as it added customers, increased software use and saw encouraging uptake of its AI-related products. **WiseTech** and **Xero** also delivered solid financial updates, although both companies' share prices fell back in September as investors remained cautious about AI disruption and the effect of higher interest rates on companies with faster-growing earnings.

In New Zealand, **Summerset** (-14%) also detracted as higher global interest rates, uncertainty about retirement village operating settings in New Zealand following the election. Other detractors included **Freightways** (-8%), which experienced softer courier volumes amid the prolonged domestic economic recovery, and **Infratil** (-8%), whose shares declined following strong gains earlier in 2026. Infratil's September investor day provided encouraging updates across its major holdings, including CDC Data Centres, One NZ and Longroad.

During the quarter, **Skellerup** was added to the New Zealand portfolio. The company is a global manufacturer of specialised polymer products for the agricultural and industrial sectors. It has a strong track record of profitable growth, supported by operational efficiency, innovation and new product development. Skellerup has contributed positively to performance since its addition.

Across both markets, the portfolio remains focused on companies with strong competitive positions,

capable management teams and opportunities for long-term earnings growth.

Its holdings across New Zealand and Australia provide exposure to a broad range of sectors and economic drivers, helping to balance company-specific and market risks.

Stronger performance reflects benefits of a broader portfolio

Ashley Gardyne, Chief Investment Officer, Global Equities

Global Equities returned 2.24% over the quarter, broadly in line with its market benchmark return of 2.21%.

It was encouraging to see Global Equities deliver a positive return during a more subdued and volatile quarter for global markets. As outlined in recent investment updates, we have made a number of changes to the portfolio in recent months, including adding several new high-conviction positions, broadening sector and geographic diversification, and expanding the global investment team. While it is still early, the portfolio's performance and resilience during the quarter provide encouragement that these changes are moving us in the right direction.

Market Commentary

The headline 1.9% gain in the MSCI World Index in the third quarter masked turbulence beneath the surface. Global markets were supported by strong performances from large-cap US technology companies including **Meta** (+29%), **Microsoft** (+38%) and **NVIDIA** (+14%), while US small-cap stocks and markets in Europe, the UK, Australia and emerging markets declined during the quarter.

AI-related stocks fell sharply in July, with the SOX Semiconductor Index down 21%, before partially recovering in August and September as demand for AI computing capacity proved resilient and industry guidance improved. During the quarter, investors increasingly distinguished between companies where significant AI investment is accelerating revenue growth, such as **Microsoft** and **Meta**, and those where the potential returns remain less clear. We remain selective, focusing on business quality and the sustainability of earnings.

During the quarter, investors had to absorb sharply rising interest rates, escalating conflict in the Middle East and a slump in the AI trade. US Treasury yields also reached 20-year highs on rising government debt concerns and persistent inflation, weighing on interest-rate-sensitive sectors such as housing-related cyclicals, utilities and real estate investment trusts.

Portfolio Commentary

A defining feature of markets in recent quarters has been exceptionally narrow leadership, with a small group of AI-related stocks (semiconductors in particular) driving a disproportionate share of global returns. Alongside broader weakness in quality stocks and sectors like healthcare (as money flowed from blue chips to hotter parts of the market), this weighed on our relative performance earlier this year. This quarter's recovery in quality stocks and derating of crowded positions is consistent with the market broadening we have been positioning for.

Meta (+29%) was our top contributor to performance following the September launch of Muse, Meta's personal AI assistant. The stock surged as investors saw evidence of a consumer AI product that could justify Meta's large AI spending. While the route to material consumer monetisation is not yet clear, Muse has the potential to open substantial new markets for Meta beyond its core advertising business as the company rolls out AI agents to its 3 billion users and 200 million business customers.

Software stocks recovered as earnings results and industry announcements supported our view that established software platforms such as **Salesforce** (+46%), **Microsoft** (+38%) have a critical role to play in enterprise AI adoption. Microsoft is also benefiting from strong AI-related cloud growth, while unchanged capital spending guidance provided encouraging evidence of improving returns on AI investment.

Our healthcare holdings also recovered during the quarter, led by **Dexcom** (+29%) and **Danaher** (+20%). Dexcom rebounded as revenue and profit margins came in ahead of expectations, while the company continued to gain market share in the continuous glucose monitoring market. Danaher benefited from the continued recovery in spending by its pharmaceutical and biotechnology customers.

Recruit (+50%), owner of **Indeed**, the leading US job listing site, delivered a standout quarter.US job listing revenue rose 35%, well ahead of expectations, as AI-driven matching improvements resonated with customers and margins expanded materially.

Our interest-rate sensitive holdings underperformed during the quarter as mortgage rates in the US passed through the psychological 7% level. These high rates are slowing new home construction, affecting portfolio companies such as **Martin Marietta** (-14%) and **Installed Building Products** (-14%), while reduced renovation spending is affecting **Floor & Décor** (-22%).

Higher interest rates also affected **NextEra Energy** (-12%), a leading US electric utility. As utilities are often viewed as bond proxies due to stable, high-dividend payouts, rising government bond yields reduce their relative attractiveness.

Portfolio Activity

As discussed in prior newsletters, since taking over as portfolio manager in July, I have undertaken a detailed review of the portfolio with the team. As a result of this review and our assessment of other opportunities in the market, we have recently made several changes to the portfolio's construction. We have added several new high-quality businesses, many in the consumer, financial services and industrials sectors, areas where the portfolio has historically had lower exposure. We also exited several holdings where the investment thesis had played out or where we found a better opportunity.

We have also expanded the team to allow us to cover more ground globally as we look for new investments and monitor an enlarged portfolio. The addition of Harry Smith, Daniel Moser and Ashton Old to the International Growth team has also allowed us to move to a sector coverage model, helping us develop deeper industry insights and identify new investment opportunities.

The International Growth Fund now holds 56 companies across a wider range of sectors and regions. This increases diversification while keeping the portfolio concentrated by industry standards and invested in competitively advantaged businesses we expect to perform well over the medium to long term. These changes are also expected to reduce the volatility of the portfolio.

Every new portfolio addition must meet the same rigorous quality standards that have guided our investment process for 25 years. Many of the new additions to the portfolio are leaders in their industries and, in our view, amongst the highest-quality companies globally. Several of these new additions are discussed below.

New addition **S&P Global** is one of the world's most important financial infrastructure businesses, providing credit ratings, market data, indices and analytics that underpin global capital markets. S&P Global is a highly profitable and cash-generative growth business, and its products are deeply embedded in customers' workflows, supported by trusted brands, proprietary datasets and regulatory barriers that make competition difficult. As global capital markets continue to grow, we believe S&P is well positioned to benefit from rising demand for ratings, indices and mission-critical financial information.

Arthur J Gallagher & Co is one of the world's largest insurance brokers, serving businesses across property, casualty, employee benefits and specialty insurance markets. The company has built a leading position through decades of disciplined acquisitions and a strong focus on middle-market clients, where expertise and relationships are highly valued. Gallagher's scale provides access to industry data, systems and specialist knowledge that smaller competitors struggle to replicate. Its highly recurring revenue model, sticky client relationships and long runway for further consolidation make it an attractive long-term growth company in a fragmented industry.

Chipotle Mexican Grill is the leading fast-casual restaurant chain in the United States, offering fresh, high-quality Mexican-inspired food through a simple and highly efficient operating model. The company has built a powerful brand around food quality, convenience and value, enabling it to take market share from both traditional fast-food chains and independent restaurants. Chipotle's strong unit economics and substantial store expansion opportunity provide a long runway for growth, while operational innovations continue to drive productivity gains. We believe Chipotle represents a rare example of a restaurant business that combines a strong consumer brand with significant reinvestment opportunities.

Nu Holdings (Nubank) is Latin America's largest digital bank, serving well over 100 million customers across Brazil, Mexico and Colombia. Founded to challenge the region's highly concentrated banking sector, Nubank has built a cloud-native platform that delivers a superior customer experience at a fraction of the cost of traditional banks. The company has achieved scale advantages that are increasingly difficult for competitors to replicate, supported by vast amounts of customer data, leading digital engagement and sophisticated underwriting capabilities. Despite its already impressive size, we believe Nubank still has a long runway to deepen customer relationships, expand lending and increase share of wallet across some of the world's most underpenetrated banking markets.

Broadcom Inc is a global technology leader whose products sit at the heart of modern digital infrastructure. The company holds leading positions in networking chips, custom AI processors and data centre connectivity, making it a critical supplier to many of the world's largest technology companies. As artificial intelligence drives unprecedented investment in data centres, Broadcom is emerging as one of the key beneficiaries through both its custom silicon capabilities and networking solutions. Its scale, deep engineering expertise and mission-critical products create significant competitive advantages and position the company to benefit from long-term growth in AI and cloud computing.

The quarter's improved performance is a welcome start, and we are encouraged by how the portfolio has responded. We have made these changes to build a more resilient portfolio without altering what

has made our approach successful over the long term. We believe the changes leave the portfolio better balanced, better resourced and well placed to deliver for our clients over the long term.

Higher yields, lower prices: A de-rating, not a downturn

Michael Bacon, Senior Investment Analyst, Property and Infrastructure

Market Commentary

Property & Infrastructure returned -3.09% for the quarter, compared to its benchmark index which returned -6.88%[JJ1.1]

The September quarter was a difficult one for property and infrastructure equities. Bond yields rose sharply: the US 10-year Treasury yield climbed around 80 basis points to 5.3%, while New Zealand and Australian 10-year bond yields increased by 60 to 70 basis points, reaching 5.0% and 5.4%, respectively. Brent crude rose 31% to above US$100 a barrel as the Iran conflict kept supply at risk, and central banks stopped treating the inflationary impulse as temporary. The US Federal Reserve raised rates for the first time since 2023, the Reserve Bank of New Zealand raised the OCR twice, and the Reserve Bank of Australia delivered its fourth increase of the year.

This was a de-rating of our asset class rather than a broad market sell-off. Global equities rose around 2% over the quarter, while every component of our blended benchmark fell: global infrastructure -7%, Australian property -8% and New Zealand property -4%. Almost every sub-sector we track declined. US utilities were the weakest, down 12%, hit by higher yields and growing political resistance to data centre development, which challenges the demand growth priced into the sector (see below). Airports and midstream energy also fell, with the latter declining despite the oil price. Only towers and emerging market infrastructure finished the quarter higher, with railroads roughly flat.

Within the portfolio, our towers, data centre, railroad and UK utility holdings all added value. However, the fund fell behind the benchmark for the quarter due to negative returns from a handful of large positions, notably **CMS Energy** (-17%), **NextEra** (-13%), **Goodman Group** (-13%) and **Vistra** (-13%), together with the Arena REIT exit discussed below.

Quarters like this are uncomfortable, but they allow us to buy our favourite companies at discounted prices, and we were active in doing so.

Portfolio Commentary

Targa Resources locks in future growth with key customer ExxonMobil

Targa Resources (+1%) signed 20-year, fee-based midstream agreements with **ExxonMobil** across the Permian Basin, materially extending its growth runway. The agreements support three new processing plants and a new pipeline, underpinning double-digit medium-term earnings growth. The announcement came alongside second-quarter earnings which beat market expectations, with adjusted EBITDA (cash earnings) roughly 9% ahead.

The ExxonMobil deal is a strong endorsement of our investment thesis: pairing the best assets with the best customers to deliver sector-leading returns on capital. It also helped catalyse a shift in our midstream holdings. Earlier in the year we added **Targa and Williams** (-8%) as the best operators with top-tier growth rates, and during the quarter we sold our residual positions in **Kinder Morgan** (-5%) and **Enterprise Products** (-2%). Both remain solid companies and return to the fishing pond.

Earnings momentum remains robust at CPKC as it enters a favourable freight environment

Canadian Pacific Kansas City (CPKC, -2%) reported second-quarter earnings which modestly beat market expectations. Revenue rose 13%, supported by volume growth of almost 4%: grain volumes lifted 19% on a record Canadian harvest, whilst coal volumes fell 29%. Pricing remained the more important driver, with revenue per tonne-mile (the price earned for moving a tonne of freight one mile) up almost 9%. Around 4% of that increase was attributable to pure price rises, at the top end of CPKC's long-term target range. Management reaffirmed full-year guidance for low-double-digit earnings growth, and CEO Keith Creel reiterated his opposition to the proposed Union Pacific-Norfolk Southern merger. We made no change to our position in CPKC but exited our small remaining holding in **Union Pacific** (+1%).

Equinix raised its medium-term growth targets barely a year after setting them

Equinix (-2%) delivered a solid quarter, lifting margins 3% and bookings 23%, but the more significant development was management lifting its 2027-2029 growth targets barely a year after setting them. It now expects annual revenue growth of 10-13% (up from 7-10%) and AFFO per share (a property trust's cash profit) growth of 9-12% (up from 5-9%). Annual capital investment is expected to increase by a third to meet demand. The driver is AI inference, the day-to-day running of trained AI models close

to where they are used, which is lifting volume, pricing and margins. While some may fret that this upgrade leans on hyperscale capital spending, we see Equinix's demand as resilient, supported by its enterprise-led, diversified customer base and the sticky, distributed nature of inference demand, and we increased our position.

We also exited **Crown Castle** (-11%) following the departure of two senior managers with short tenure. Whilst its shares are cheap, the timing of an inflection in tower leasing keeps being pushed out, and with elevated debt at a time of rising long-term interest rates, we see better opportunities elsewhere.

Politics and interest-rate sensitivity led to a weak quarter for our US utilities

CMS Energy (-17%) and **NextEra Energy** (-13%), our two largest US regulated utilities, fell with their sector as long-term bond yields rose and politics intruded on data centre demand. Both reported second-quarter earnings in line with market expectations and held their guidance, so this was a de-rating (a lower earnings multiple) rather than an earnings problem. For NextEra, the overhang is political: Virginia's governor has taken the unprecedented step of intervening in its proposed merger with Dominion Energy, and its Florida rate settlement is under appeal. For CMS, leading candidates from both parties for Michigan governor have called for a pause on new data centres, several townships have adopted moratoria, and the regulator has signalled concern over customer bills. The pushback reached Texas too, where Governor Abbott ordered an audit of every data centre project seeking a grid connection before any is approved, depressing forward power prices and hitting Vistra (-13%). We modestly reduced both CMS and Vistra during the quarter to buy European utilities, and to acknowledge the increased regulatory risk faced by Vistra.

The Australian childcare industry is in poor shape, leading us to exit Arena REIT

We exited **Arena REIT** (-30%) in August, having reduced the position by more than half over the past year. Australia's childcare industry has suffered a series of safety scandals, which, together with a softer economy has led to declining enrolments and rising staff costs, making it harder for operators to afford rent. Despite this, Arena kept reporting robust tenant and portfolio metrics, including 100% occupancy, and our inability to reconcile the two drove the earlier reductions. In August, Edge Early Learning, which accounted for 14% of Arena's rent, requested rent relief and by month end had entered administration. That settled the question for us and we sold the remaining position. It is a frustrating outcome, and a sad reflection on the state of Australian childcare, but position sizing meant the impact on the fund was contained.

It was an active quarter. We exited six holdings where our thesis had weakened or better opportunities existed and recycled the proceeds into our highest-conviction ideas, adding to Equinix, Targa Resources and Williams, while building **SSE** (+4%) and **National Grid** (-8%) into full positions.

Cash and fixed interest funds beat benchmarks as higher yields create attractive entry points

Quin Casey, Senior Portfolio Manager, New Zealand Cash and Fixed Interest

Portfolio Commentary – Cash

The New Zealand Cash and Fixed Interest Fund returned +0.71% over the September quarter, outperforming its benchmark return of +0.65%.

Interest income continued to support the Fund's performance, with short-dated securities offering attractive yields. During the quarter, we selectively added exposure to high-quality New Zealand issuers, including **BNZ, Westpac New Zealand, Auckland Council** and the New Zealand **Local Government Funding Agency**. These investments provided additional income while maintaining the portfolio's credit quality and liquidity.

The Reserve Bank raised the Official Cash Rate to 2.75% in September and indicated that further increases might be needed to bring inflation under control. This supported the income outlook for cash investments, as higher short-term rates created opportunities to reinvest maturing holdings at more attractive yields.

Outlook and strategy

We continue to favour short-dated securities from financially strong issuers, seeking additional yield over bank bills while keeping funds readily accessible. Our focus remains on the income available to the credit risk and the length of investors' money is committed.

The portfolio's short maturities provide regular opportunities to reinvest as holdings mature, allowing its income to adjust relatively quickly to changes in market interest rates. We will continue to balance these reinvestment opportunities with liquidity and capital preservation.

Portfolio Commentary – New Zealand Fixed Interest

The New Zealand Fixed Interest Fund returned −1.96% over the September quarter, outperforming its benchmark return of −2.02%.

Rising bond yields created a difficult quarter for New Zealand fixed income investors, with price declines outweighing the income earned from bonds. Elevated energy prices and resilient global growth reinforced expectations that interest rates would remain higher for longer, pushing local yields up alongside offshore markets.

As yields rose, we increased the Fund's interest rate exposure to capture more attractive prospective returns. While global inflation pressures remain a concern, we expect New Zealand's economic recovery to be slow and uneven, supporting our view that local bonds offer attractive value.

Credit

We participated in **Metlifecare's** new six-year secured bond, issued with a coupon of 6.27%. The retirement village operator benefits from long-term demand linked to an ageing population, while security over property assets provides additional protection for bondholders. We believe the combination of income and this security offers attractive compensation for the underlying credit risk.

We also invested in a new bond from **Toyota Finance New Zealand**, issued at a yield of 5.36%. The company's established domestic vehicle finance business benefits from its association with Toyota's strong global brand and scale. We see the investment as an opportunity to earn attractive income while maintaining our focus on credit quality.

Outlook and strategy

The Fund now has greater interest rate exposure following the rise in yields. Much of the repricing has been driven by offshore developments, while subdued wage growth and increasingly restrictive monetary policy point to a slow and uneven recovery in New Zealand. We believe current yields offer attractive value given this domestic outlook.

We favour New Zealand government bonds, including the 2054 bond, which would benefit strongly if weaker growth led to lower yields. The bond's sensitivity to interest rates also means greater exposure to further yield increases. Alongside this position, we continue to favour corporate bonds where the income and creditor protections adequately compensate us for the risks, as reflected in our purchases of Metlifecare and Toyota Finance New Zealand.

Global bond yields jump as markets price in higher-for-longer interest rates

Quin Casey, Senior Portfolio Manager, Global Fixed Interest

Market Commentary

The Global Fixed Interest returned −3.01% over the September quarter, underperforming its benchmark return of −2.86%.

Higher bond yields created a difficult September quarter as price declines outweighed the income earned from bonds. Disruption to shipping through the Strait of Hormuz kept energy prices elevated, while resilient global growth reinforced expectations of persistently high interest rates. Concerns about government finances also weighed on some markets, particularly France.

We entered the quarter with relatively cautious interest rate exposure, which helped as yields rose in August. As valuations became more attractive, we increased our positions in Australia, New Zealand and the United Kingdom, while reducing our underweight positions in Europe and Japan.

Our overweight positions in New Zealand and Australia detracted from performance as global pressures pushed local yields higher. In hindsight, we increased these positions too early, although we retain conviction in their value relative to economic fundamentals. Our underweight in Chinese government bonds also detracted, as low inflation and a predominantly domestic investor base insulated that market from the global sell-off. We continue to favour opportunities elsewhere given China's low yields.

Credit

Corporate credit fundamentals remained broadly resilient, although higher borrowing costs and economic uncertainty created uneven pressures across industries. Credit spreads widened towards the end of the quarter, adding to the pressure from rising government bond yields. However, the widening began to offer more attractive entry points after a prolonged period of expensive valuations.

CoreWeave illustrates the opportunities and risks associated with the rapid expansion of AI infrastructure. Demand for its specialised cloud computing capacity continues to grow, and its better-than-expected second-quarter results supported our positive assessment of the business. Its substantial investment requirements remain an important consideration, but we believe its market position and strong customer relationships support its credit profile. Selected bonds offer attractive compensation for the risks.

We established a position in **Michaels**, a US arts and crafts retailer. Following a difficult period as pandemic-era demand faded, a new management team has made encouraging progress in turning the business around. Product development has focused on changing consumer interests, including demand for creative, screen-free activities. The bonds rallied following the company's latest results late in the quarter, supporting our investment thesis. The upcoming Halloween and US holiday season will be an important test of the turnaround, given Michaels' strong presence in seasonal decorations and crafts.

Outlook and strategy

While rising yields have weighed on recent returns, they have also improved the starting point for future returns. Newly purchased bonds offer higher yields, and income from existing holdings can be reinvested at more attractive rates. The Fund now has a modest overweight to interest rate exposure, focused on markets where we believe yields offer attractive value relative to the economic outlook.

We remained cautious on credit while spreads offered limited compensation for risk. Recent widening may create opportunities to put that patience to work, although we remain selective about both issuers and valuations. Our focus is on earning attractive income, managing interest rate and credit risk, and directing capital towards opportunities where our research gives us conviction in borrowers' ability to meet their obligations.

fisherfunds

Contact: Private Bag 93502,
Takapuna, Auckland 0740
0508 347 437
enquiries@fisherfunds.co.nz