

Fisher Funds IMA Model Portfolios

Quarterly Report July 2025



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2025's sharp market swings have presented opportunities and lessons in market psychology

Ashley Gardyne, Chief Investment Officer

The first half of 2025 saw significant volatility in global markets, driven by US tariff announcements and geopolitical tensions. The sharp downturn and subsequent recovery has been a vivid reminder that financial markets are not just numbers and charts — in the short term they are deeply influenced by human behaviour. 2025 also highlighted the importance of preparing ahead of time for the opportunities that volatility inevitably creates.

The markets' dramatic journey in the first half of 2025

After starting the year with optimism, global markets were rattled early in Q2 when the announcement of sweeping US tariffs triggered a sharp sell-off. The S&P 500 fell nearly 20% from its February highs, and the VIX Index, often called the "market fear gauge", spiked to levels not seen since the early days of the COVID-19 pandemic. This spike in volatility reflected deep investor anxiety about escalating trade tensions and their potential impact on global growth and inflation.

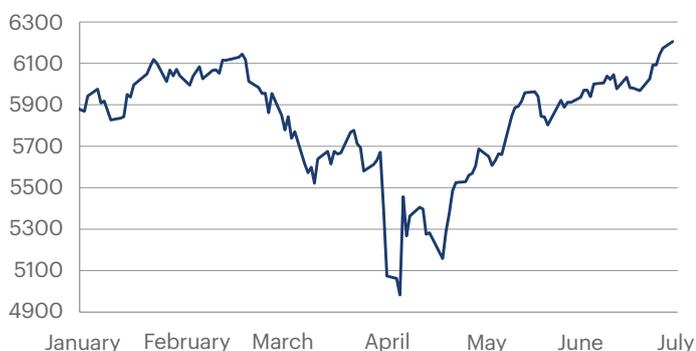
But Q2 also reminded us how quickly sentiment can shift. Markets rebounded almost as fast as they fell, helped by the US administration pausing the proposed tariff increases. This pause, combined with signs through June that economic data was not deteriorating as feared, helped restore investor confidence. The market's resilience was further tested by the military flare-up between Iran and Israel in June, but the market impact was limited as the conflict remained relatively contained.

By mid-year, the S&P 500 and Nasdaq had recovered their losses and hit new record highs, with the S&P 500 up 5.5% for the year so far. The broader MSCI World Index has performed even better, having gained 8.6% year-to-date.

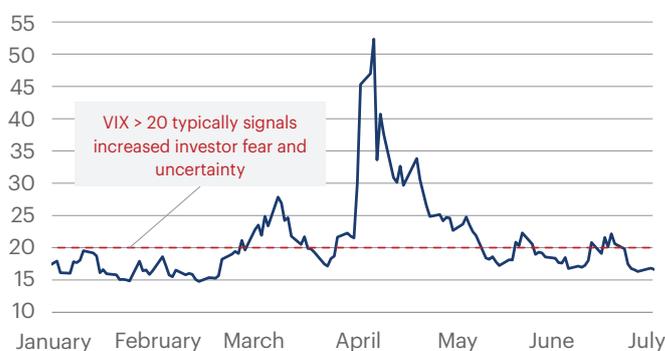
Fear is a powerful emotion in investing. It can cause investors to make impulsive decisions – selling assets at the worst possible time, locking in losses, and missing subsequent recoveries. Rapid market moves often reflect the collective sentiment and reactions of short-term investors, rather than purely rational analysis.

In this update, we explore what drove markets in the first half of the year, and how we tried to take advantage of this volatility in our portfolios.

S&P 500 Index YTD



VIX Index - aka the "Fear Gauge"



Source: Bloomberg

Our approach in Q2

The start of the quarter brought discomfort but also created opportunities. It's important to stay anchored in your investment process and not react emotionally. Our process focuses on long-term drivers of return, not short-term noise, and is built for times like this. While it can be tempting to retreat during moments of uncertainty, we aim to stay disciplined and act decisively where we see value.

Across our portfolios, we made several key changes over the quarter:

Leaned into volatility selectively

We added to high-quality businesses that were caught up in the broader sell-off. When markets sell first and ask questions later, it often creates a window to upgrade portfolio quality at better prices. Examples of this include our buying in Costco, Nvidia, Hermes and Amazon in our Global Fund.

Trimmed risk where necessary

In a few cases, we reduced exposure to sectors or companies where the fundamental story had changed — where risks had risen but prices hadn't yet reflected that shift in our view. Managing downside is as important as finding upside.

Examples here are reducing our exposure to selected healthcare holdings like UnitedHealth and Icon plc.

The following fund updates from our Portfolio Managers have more specific insights into how each sector responded to the market volatility during the quarter.

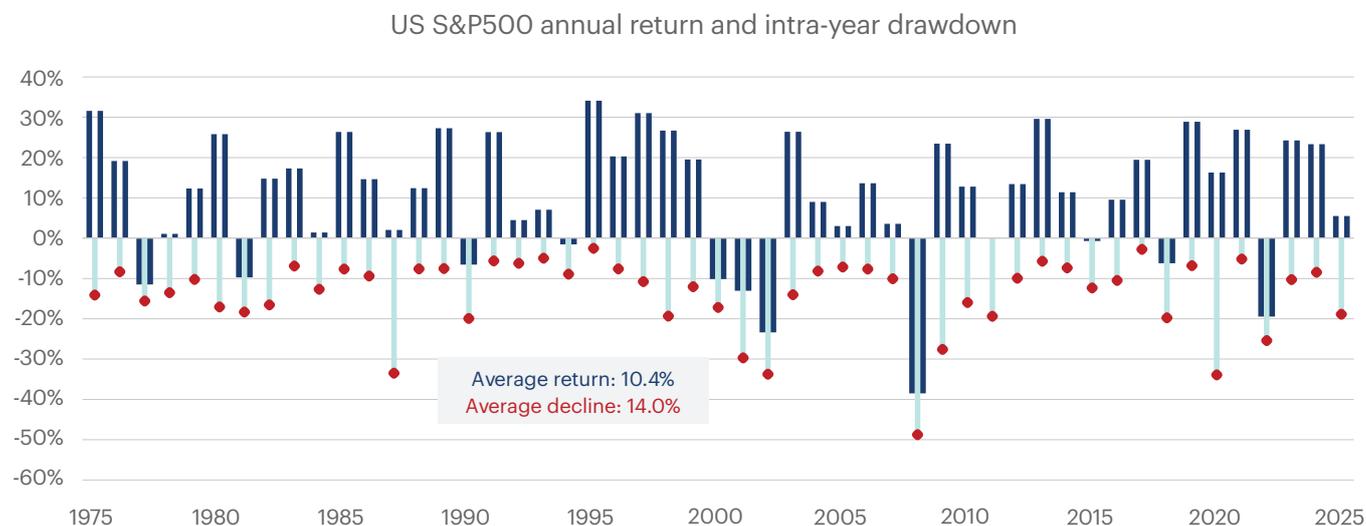
Volatility is the price of admission

When markets fall quickly, it's natural to feel unnerved. But history tells us these moments are more normal than they feel in the moment.

Over the last 50 years, the S&P 500 has returned an average of 10.4% per year — but it has rarely come easily. In almost every one of those years, investors endured sharp drawdowns, with the average intra-year decline of around 14%.

The chart below shows not just the annual returns of the US share market (the blue bars), but also the percentage drop from peak to trough at the worst point during each year (the red dots). Each red dot represents the lowest moment — the point of maximum pain, fear, or uncertainty each year. And yet in many of those years, returns still finished positive.

50 years of solid returns, but constant volatility



Source: Bloomberg

Take 1987, when US stocks plunged over 20% in a single day, but the market still ended the year in positive territory. Or 2020, where a pandemic-triggered 33% collapse turned into a double-digit gain by December. Even this year, the near-20% decline in April is beginning to look like just another chapter in a typical market year.

The lesson? Volatility happens. In fact, it happens virtually every year. It's not the exception — it's the price of admission for strong long-term returns.

Looking ahead

Markets have recovered strongly from April's sell-off, even pushing to new all-time highs. The strength of the rebound does raise some concerns, especially given the range of risks that could emerge in the second half of 2025.

Trade remains the biggest uncertainty. While tensions have eased and markets seem more accustomed to President Trump's negotiation style, there's still no durable resolution. A breakdown in negotiations or renewed escalation could dent confidence and weigh on global growth.

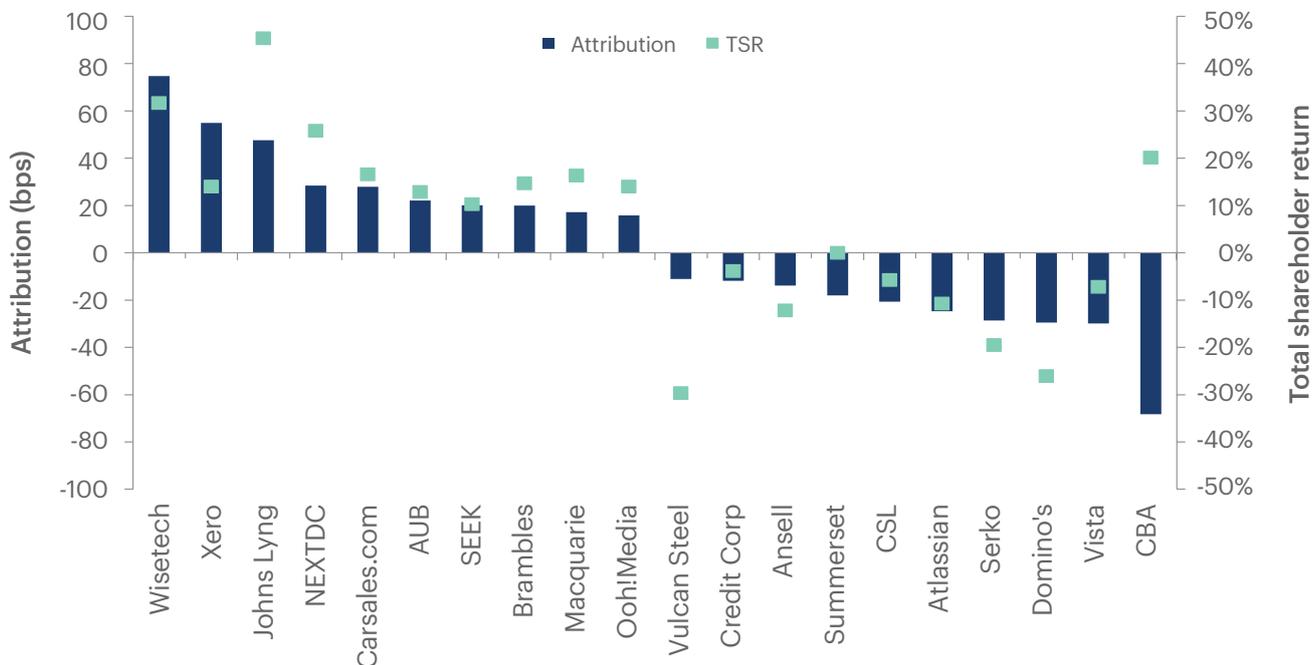
Even where tariffs have been announced, their full economic impact is unlikely to show up right away.

These effects tend to feed through with a lag - gradually weighing on corporate margins, disrupting supply chains, and eventually surfacing in the hard economic data. As such, the real consequences may not become clear until later in the year.

While the timing of a spike in volatility is hard to predict, our goal is to be prepared to take advantage when it inevitably does. That said, the broader backdrop remains supportive. Inflation continues to moderate, and central banks that have been on pause now have room to cut rates if needed - flexibility that could prove vital if growth slows.

Trans Tasman Equities

Fisher Funds Trans Tasman Equity Trust – 1 April 2025 to 30 June 2025



Source: Fisher Funds

New Zealand Equities gained despite volatile global markets

Matt Peek, Portfolio Manager, New Zealand Equities

The headline returns for the quarter did not tell the full story, with global markets seeing one of the most volatile quarters in memory. Barely a week into the quarter, by 7 April, global share markets were in a tailspin following the ‘Liberation Day’ tariff announcements, and commentators were predicting a sharply negative impact on global economic growth.

From there, we witnessed a combination of retaliation, concessions, delays, and plenty in between. Then, in June, we saw Israel and the US conduct military strikes against Iran. Despite plunging -10% in the first week of the month and concerning geopolitical headlines almost every day, the global equities market rallied impressively to

deliver a gain for the quarter of +11% (as measured by the MSCI World Index in US dollars).

At times like this, we are reminded as investors that it is often best to shut out the noise and focus on the long term, while remaining alert to opportunities to buy high-quality businesses that have temporarily seen their share prices sold off due to short-term negative sentiment.

The defensive New Zealand market often proves resilient when global markets get choppy

When global markets are rocked by international shocks, it is often comforting to see that our local market has provided some needed diversification and has often experienced a more limited decline.

By 7 April, with the US S&P 500 down -9.8% and Australia's ASX 200 down -6.4%, the S&P/NZX 50 had suffered a more moderate -4.0% pullback. Admittedly, investors in those other markets enjoyed a greater rebound later in the quarter.

A large part of this is because the composition of our share market is quite different. Our benchmark index has a reasonably large exposure to utilities, property, telecommunications, and healthcare companies that tend not to be as volatile during global geopolitical shocks. At quarter-end, these sectors comprised around 65% of the New Zealand market, compared to around 24% of the US S&P 500 Index and only 21% of the Australian ASX 200 Index.

In fact, the New Zealand market has been getting more concentrated and defensive in recent years, as a result of multiple factors pulling in the same direction. A decade ago, these sectors were only around 55% of the New Zealand share market.

Further, the top 10 companies now comprise around 68% of the NZX 50 benchmark index, up from 53% a decade ago. So, our market has become noticeably more defensive and top-heavy. Why is this?

Firstly, we have seen very little in the way of new, meaningfully sized companies entering the market. The last significant IPOs to hit the NZX were Vulcan Steel and Winton in late 2021. In contrast, the ASX has seen a flurry of activity in recent weeks. This includes the relisting of airline Virgin (A\$2.3 billion) and the listing of retirement living company GemLife (A\$1.6b), which followed other IPOs in 2024.

Many impressive local Kiwi companies have been well-backed in private markets and have not needed to come to the NZX for funding. For example, the Kiwi electronic stock management company Halter raised a round of \$165 million in funding at a \$1.65 billion valuation.

Secondly, many companies have delisted due to takeovers, including retirement operator Arvida late last year (\$1.2 billion). We are likely to see other companies disappear – such as Manawa Energy, which has now been acquired by Contact Energy in July for around \$2.0 billion, and embattled campervan rental business Tourism Holdings, which has recently become subject to a \$500 million approach by private equity.

Thirdly, those high-quality companies that have been listed as mainstays of the local market have adeptly gained full value from their listings in the market. That is, they have raised new funding when required and cornerstone shareholders have also made use of the liquidity to sell their shareholdings when their needs have changed. Portfolio holding BOS saw both events happen during the quarter, raising around \$270 million to fund a new acquisition in early April – despite market turmoil. Longtime EBOS shareholder Sybos then sold around 13% of its 18% holding in May for \$960 million (we

scooped up some of the shares at a nice price). EBOS has grown from a 1.4% weight in the NZX 50 to around 5.8% over the last 10 years through a combination of consistently good business performance and periodically raising additional capital for growth (taking it from 23rd largest index weight to 5th).

What does this mean for the portfolio? Fortunately, as long as our companies remain strong businesses and listed, the portfolio can continue to perform well. Owning companies like Fisher & Paykel Healthcare, EBOS, Mainfreight, and Infratil has helped the fund deliver returns over time, as each business has grown and performed well. Over longer periods, quality new listings are needed to ensure a deep pool of companies exists in the market – the likes of Summerset and Vista, both listed over a decade ago.

The Fund's largest positions drove solid overall performance during the period

Overall performance was assisted by several companies reporting encouraging full-year results in May – including Xero (+16% in the quarter), Mainfreight (+9%), Fisher & Paykel Healthcare (+8%), and Infratil (+3%).

Xero also announced the strategic acquisition of US payments business Melio for around US\$2.5 billion, raising A\$2.05 billion to help fund the transaction. Melio is a fast-growing US platform that helps small- and medium-sized businesses seamlessly pay their bills. This supports one of Xero's key priorities, in addition to core accounting and payroll. It will provide Xero with added scale in the US market and open new avenues to acquire and monetise customers. Management is confident that the combined business will see accelerated growth and can double in size over the next 3 years.

Mainfreight has seen a mixture of performances by region and product, reflecting diverging market conditions. Australia remains the key growth driver with robust growth, while its European business is also showing improved performance. Air & Ocean freight forwarding has seen a limited impact of tariffs other than the China-US route, which is only around 10% of that business unit.

Fisher & Paykel Healthcare is seeing robust ongoing demand for its hospital hardware, supported in part by product innovation, and a strong uptake of new applications like anaesthesia, in addition to its continued progress in changing clinical practice globally to increased prevalence of high-flow nasal oxygen therapy. Performance in its homecare division was also solid, with growth supported by the launch of new obstructive sleep apnea masks like Solo and Nova.

The New Zealand economy remains subdued, as rural green shoots are yet to broaden

We have been waiting for some time for the low levels of economic activity in New Zealand to pick up, and we are optimistic that 2025 would finally see some improvement. As this year has evolved, it has become clear that despite having some more dollars in the wallet after paying the mortgage and other basic expenses, households are still recovering and prioritising paying down debt rather than spending or investing a lot more. Activity levels have stabilised at relatively low levels since the middle of 2024.

The rural sector has seen improved prices translate into more income for farmers, not just dairy but kiwifruit and meat too. Fonterra's payout of potentially around \$10 per kilogram of milk solids could be up around 30% from the \$7.83 last season. However, despite clear signs that rural economies are seeing some more optimism and activity, it is taking time for this activity to spread more broadly.

At its result in May, Mainfreight noted that 'downtrading' was still prevalent among its customers, with consumers of a particularly value-conscious mindset and retailers needing to resort to discounting to stimulate activity.

Volatility cuts both ways: Why patience and selectivity mattered in Q2

Robbie Urquhart, Senior Portfolio Manager, Australian Equities

Q2 started poorly with share markets sinking rapidly in early April as the US announced a raft of tariff proposals for many of its trading partners. At the stroke of a pen, these proposals were put on hold and in some cases, reduced. This, in turn, buoyed share markets and after falling sharply from its lows in April, the ASX 200 Index rose +17% through to the end of June.

Heightened share price volatility driven by global rather than company-specific events, while stressful, works in both directions (that is, shares can rebound as quickly as they fall). In continuation of a theme from our Q1 quarterly update, this again highlights the importance for investors of being measured in responding to share price volatility.

During Q2, we capitalised on this volatility by making selective changes to our portfolio. As in Q1, we typically added to positions in companies that are performing well in areas where they have control. Where execution by management teams has been sub-par, we have held off adding to positions. In the case of James Hardie, we exited entirely.

With the benefit of hindsight, it is easy to lament not being more aggressive in the portfolio changes that were made. That said, markets moved fast, and changes in US policy and announcements were also erratic. Overall, we are pleased with the steps we took during Q2 and with our portfolio's performance.

Taking advantage of market volatility and adding to companies that are performing well

Pinnacle (+36% in the period we owned it) was the key new addition to our portfolio during the market turmoil in April. Pinnacle supports fund managers by providing a range of best-in-class services, including seed funding (investing in the funds to help get them started). They also help with fundraising (distribution) and provide administrative services, which include helping with regulatory documentation, prospectuses, etc. In doing this, Pinnacle frees up the fund managers to focus on what they do best – research and investing.

In return, Pinnacle gets a share of the ownership of these fund managers, and they charge a fee for the services they provide.

Founder and CEO Ian Macoun leads Pinnacle, and a strong, long-tenured management team supports him. Pinnacle has a long track record of helping its affiliates grow their businesses. Growth in funds under management across Pinnacle's network of fund managers has been predominantly organic (20%+ annualised since 2008). Strong investment returns, steady inflows, and Pinnacle's seed funding for new affiliates have driven this growth. Some of the new managers in Pinnacle's stable manage funds worth \$10 billion or more.

Pinnacle's share price fell sharply due to market volatility, providing us with a fleeting opportunity to add it to our portfolio. It then rebounded strongly as equity markets recovered, to levels where valuation upside looked stretched to us. So we sold our position within a few weeks.

It is unusual for us to buy and sell shares in a position so rapidly. We would have been happy remaining invested for several years. However, the share price rallied sharply and more strongly than we anticipated, so we elected to exit the position. Should valuation look more appealing in the future, we could well see Pinnacle back in our portfolio.

As covered in our Q1 update, we had added to the likes of Car Group (+19%) and SEEK (+12%) in the March quarter and continued buying shares in Q2. The share prices of both companies rose significantly during the period, demonstrating the strength of their businesses in volatile market conditions.

SEEK had a pleasing investor day in May, highlighting the tremendous progress it is making in developing new products and embracing artificial intelligence (AI). Despite a stagnant employment market, SEEK's technology investments in recent years gives it the ability to effectively increase the price or 'yield' of employment adverts. This reduces the earnings cyclicality of the business, a theme that came through strongly at its investor day.

Similarly, we also added to Atlassian (-9%) during the market turmoil. Although its share price fell during Q2, we are pleased with the company's operating performance (the things they can control) and believe it'll deliver for us in time.

Pleasingly, some of Q1's 'problem children' rebounded strongly as key concerns abated

We wrote about insurance remediation services provider Johns Lyng (+48%) (JLG) in our Q1 update, given its poor financial performance in the last year. We did not add to the position in Q1 because of the investment thesis drift related to their poor financial performance. We didn't think the investment case was broken. Rather, we wanted to see evidence that management could improve the delivery of services in New South Wales (NSW) and improve their market share. Anecdotally, their outlook in NSW has improved. In addition to this, bad weather in NSW and a cyclone in Queensland also lifted insurance claims in Q2 overall, improving JLG's earnings prospects and supporting the share price.

Recognising the latent valuation upside for Johns Lyng, a private equity suitor entered takeover discussions with the company. This drove a large part of the share price move in Q2. The Board of Directors has granted the private equity firm with exclusive access to due diligence, which was completed in July. The Private Equity firm has subsequently made a takeover offer, resulting in the share price rising further in July. We are monitoring this closely.

WiseTech (+34%), another laggard during Q1, made good strides in refreshing its Board and addressing its governance concerns. In conjunction with this, we added to our position during the tariff-related

turmoil, which had further weighed on its share price. The company's business performance remains sound. In May, WiseTech announced a US\$2.1 billion acquisition of US software business e2open. Although it is still early days, we are encouraged by the acquisition of e2open. WiseTech seems to have opportunistically acquired the company at an attractive price. The complementary nature of its software products broadens WiseTech's reach across global logistics participants, helps it accelerate growth and puts further distance between it and its competition. In short, its economic moat continues to widen.

We did not add to our positions where poor share price performance was company-specific

The share prices of many companies fell during the tariff-related turmoil. We were selective in which shares we bought, or, despite the share price weakness, those that we sold during this turmoil. A key differentiator between the buying and/or selling decision came down to how the company itself was performing.

James Hardie (-8.5%) is a good case in point. The company announced the acquisition of a large US building products company that is a leader in composite (including recycled PVC) decking for homes. Although the business is complementary, it was poorly received by the market. James Hardie management is deemed to be paying too much and has structured the deal in a way that looks to destroy value for James Hardie shareholders. Management also deprived shareholders of the right to vote on the transaction.

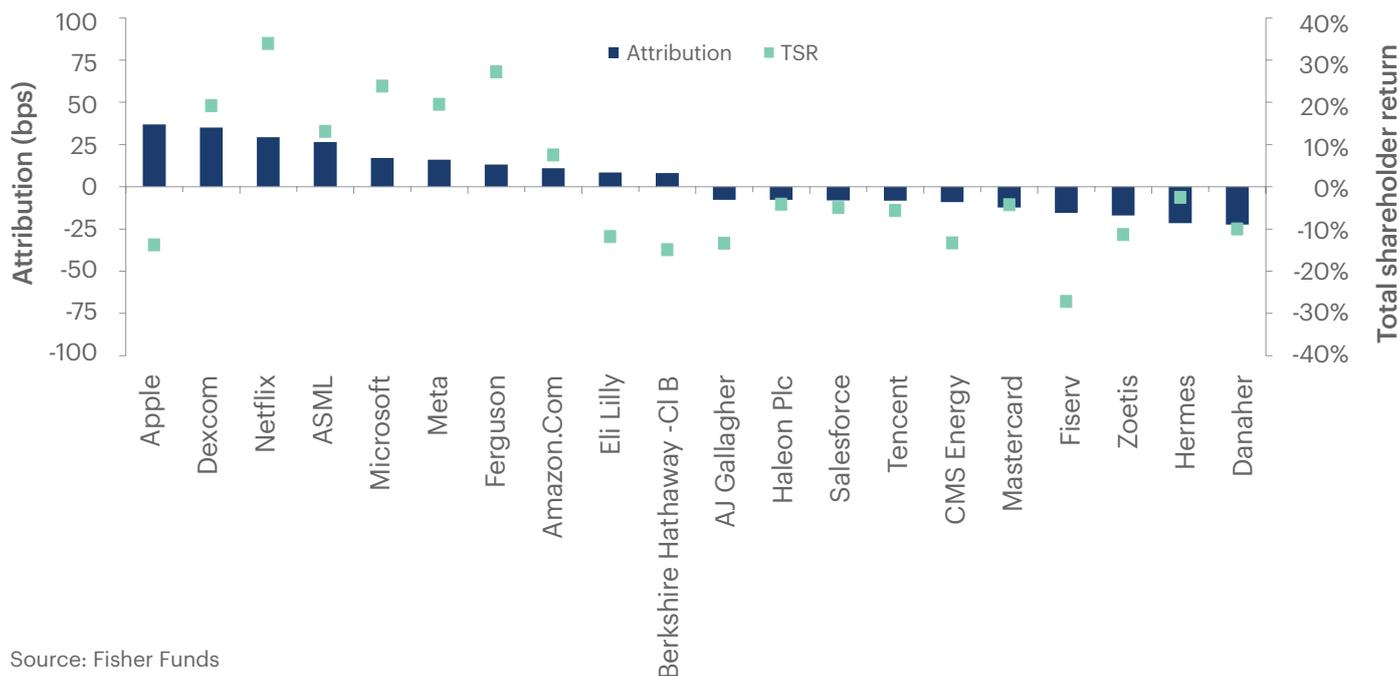
Through this transaction, we have lost faith in the James Hardie Board and management team. Evaluating the 'people' running the companies we invest in is a key part of our investment process. In this instance, despite the fall in the share price, we have therefore sold our position.

Domino's (-25%), which we wrote about in Q1, sits somewhere in between the buy and sell decision. We didn't buy or sell shares despite the continued slide in its share price during Q2. There were no material financial updates in Q2. While some of the management team was replaced during the period, again, in evaluating the people and their track record, we have held off buying shares until we see evidence of an improvement in performance from the refreshed team. With its scale advantages and strong brand presence in several countries, we believe there is significant potential if management performs well. But with a management refresh underway, pragmatically speaking, this is likely to take some time. We continue to engage with the company and monitor its performance.

Volatility creates opportunities: Using uncertainty to strengthen the portfolio

Sam Dickie, Senior Portfolio Manager, Global Equities

Fisher Funds Global Fund – 1 April 2025 to 30 June 2025



Source: Fisher Funds

Global stock markets began the quarter in turmoil and ended with a powerful recovery.

We often talk about how challenging it is to predict the impact of politics on stock markets. In the last 3 months, the US implemented sweeping tariffs across the globe and bombed three nuclear sites in Iran, resulting in a 20% spike in oil prices; the Republicans proposed a government spending bill that would add \$2 – \$3 trillion to the US government deficit; the US long-term interest rates rose, driven by both tariff related inflationary fears and excess US Government debt fears; and the US GDP for the March quarter was released, contracting 0.5%.

And after all that, the S&P 500 stock index ended the quarter +11% at all-time highs!

We used the April sell-off to reposition the portfolio: (1) Adding to oversold tariff-affected names, Intuitive Surgical and Meta; (2) Upgrading the quality by buying Costco and Hermès, funded by reducing weight in the lower-quality Icon and Greggs; and (3) Trimming defensives United Health and Boston Scientific to add to Amazon, KKR, and NVIDIA.

Portfolio commentary

NVIDIA (+46%) led performance. The stock was pressured in April by trade war fears, export restrictions to China, and concerns about an AI bubble. We added significantly during the dip. NVIDIA beat earnings expectations, Trump eased trade tensions, and sovereign demand is expected to offset lost revenue from China. Enthusiasm for AI agents – tools that enhance corporate workflows – helped dispel fears of an AI hype cycle.

Netflix (+44%) and Microsoft (+33%) emerged as relative tariff winners early in the quarter as their service-based products are not impacted by US tariffs. Netflix’s subscriber growth continues to exceed expectations as it continues to roll out new subscription tiers to appeal to a wider range of customers. Microsoft’s Azure, its cloud computing platform, continues to grow ahead of expectations at 35%.

Dexcom (+28%) reported US sales which were well ahead of expectations. The company also received FDA approval for its 15-day sensors. Longer-lasting

sensors mean fewer sensor changes, lower cost of goods sold, and higher margins. Dexcom's ability to improve health outcomes (lower the rate of diabetes) and reduce costs for the healthcare system is becoming increasingly important, given the growing scrutiny of rising healthcare costs globally.

ASML (+21%) benefited from ongoing investment in AI, fuelling demand for AI-related semiconductor chips. TSMC, the world's leading semiconductor manufacturer and ASML's largest customer, reported a 40% increase in revenue last month, primarily due to strong demand for AI accelerators. This surge in demand for advanced chips supports further orders for ASML's cutting-edge lithography equipment.

Floor & Décor (-6%) was weak given its exposure to tariffs (it imports around 50% of its products), plus the knock-on effect of disruptive tariffs on demand. The company reduced its store roll-out target for the year, given this uncertainty. It has a diverse global supply chain, which gives it the flexibility to absorb proposed tariff impacts and puts it in a better position than competitors. Floor & Décor has already seen competitors increase prices by up to 50%, which could potentially widen Floor & Décor's price gap and enhance its value proposition.

United Health (-40%) was a defensive haven during the tariff sell-off, outperforming the S&P by 20% at one point. We used that strength to continue reducing our position in the company. In May, a rare earnings miss caused a 30% decline in share price, shaking investors' confidence in this historically stable business. US health insurers have faced challenges as reimbursement pressure in government programs and rising healthcare costs have squeezed profit margins. We have a very small position and are reviewing our thesis.

Icon (-17%) and its clinical research peers continue to be impacted by reduced R&D spending from pharma and biotech clients post-COVID. Recovery was expected this year, but high interest rates, macro uncertainty, and unclear regulatory direction have delayed investment. We had been reducing our position ahead of earnings due to these concerns.

New portfolio additions in the quarter

Costco is a leading global warehouse club, offering high-quality products in bulk at low prices. The company is the third-largest retailer in the world by revenue and operates more than 900 warehouses. Costco serves 137 million members by offering a wide range of goods – from groceries and electronics to household items. Costco's ability to leverage its scale to consistently deliver the lowest prices creates a strong moat. This, combined with its customer-centric culture, has led to sales per square foot double that of its nearest competitor. Costco has a substantial opportunity to expand its warehouse footprint both in the US and internationally.

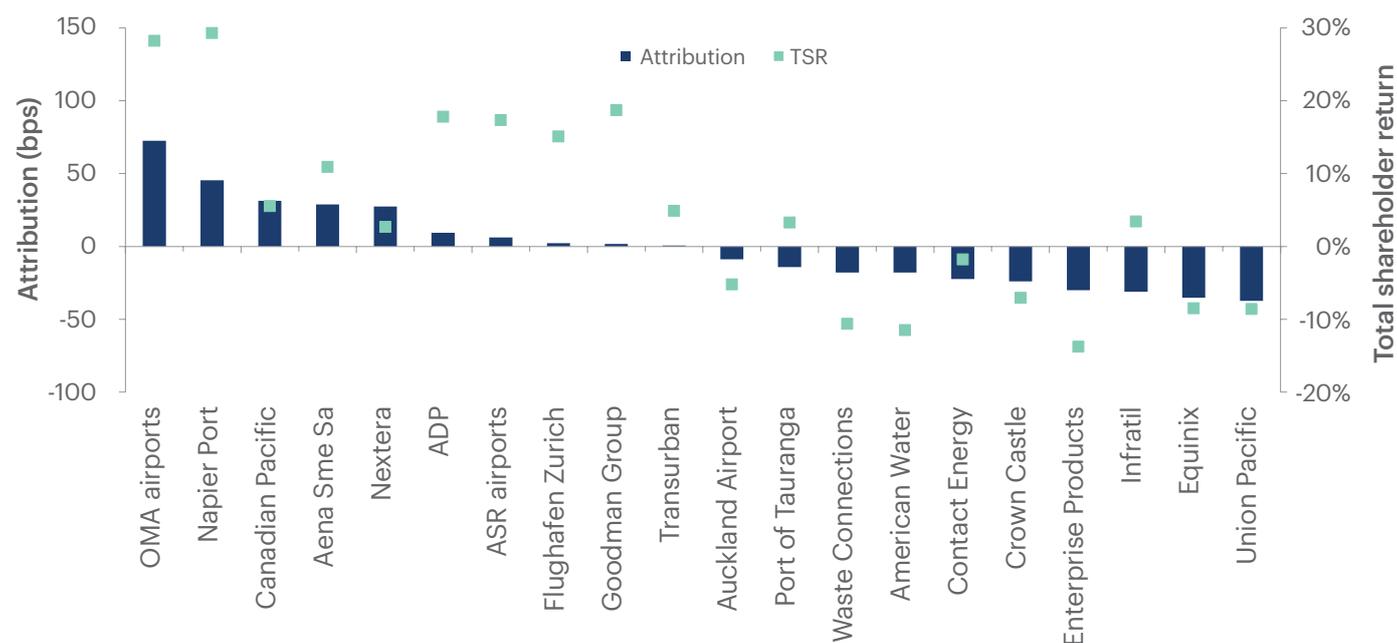
KKR is a leading alternative asset manager that benefits from the rising allocations to alternative assets by pension funds, sovereign wealth funds, and high-net-worth individuals. KKR has a wide moat given its strong track record of returns and the stickiness of assets under management. KKR's brand and track record help with fundraising and attracting investment talent.

Tradeweb operates electronic marketplaces for fixed income and equities, connecting over 2,800 clients. Its scale, real-time pricing, and superior liquidity have allowed it to take market share from competitors for the last 7+ years by implementing innovative trading protocols. The adoption of electronic trading will continue to be a tailwind.

Tariff volatility gave way to a measured recovery

Sam Dickie, Senior Portfolio Manager, Property & Infrastructure Fund

Fisher Funds Property & Infrastructure Fund – 1 April 2025 to 30 June 2025



Source: Fisher Funds

President Trump’s ‘Liberation Day’ on 2 April drove markets globally throughout the month. Liberation Day was used to announce sweeping tariffs on all major trade partners, subsequently followed by select exemptions and deferrals. Policy uncertainty led to significant volatility, with relatively flat end-of-month performance for April belying large intra-month price moves.

The VIX index, a measure of stock market volatility, reached levels not observed since early 2020 (onset of the COVID pandemic) and late 2008/early 2009 (collapse of Lehman Brothers during the Global Financial Crisis (GFC)). Markets saw a broad-based recovery in May, supported by a softer-than-feared stance on tariffs from President Trump. This continued into June, boosted by falling interest rates as the market became more optimistic on US government debt levels and President Trump’s signature tax and spending bill (‘One Big Beautiful Bill’).

The result was a strong quarter for equities,

including our focus markets. US equities and global equities increased +11% and +12%, European equities fell -3% and Emerging markets rose +12%. Global infrastructure rose +10%, Australian property rose +14%, and New Zealand property rose +7%.

Debate on US government debt sustainability led to a rollercoaster in interest rates and rate-sensitive equities

10-year US government bond yields rose 24 basis points in May as legislation (‘One Big Beautiful Bill’) passed in the US House of Representatives implied increasing US fiscal deficits. Some question whether US budget settings are sustainable, including Elon Musk, who until recently led government cost-cutting efforts via the Department of Government Efficiency (DOGE). Yet as the bill reached the Senate in June (and was passed in early July), markets became more optimistic on debt risks, and bond yields ended the quarter roughly where they began. Australian 10 Year Government Bonds also finished the quarter flat, whereas New Zealand government bond yields fell 22 basis points.

Better-than-feared tariff outcomes boosted North American railroads

Canadian Pacific Kansas City (CPKC, +13%) reported Q1 2025 earnings, which modestly beat expectations. Investors have been concerned about CPKC's potential exposure to tariffs, given that it is the only freight railroad that crosses through Canada, the US, and Mexico, and cross-border trade accounts for 40% of its revenue. CPKC's direct exposure to China is 7% – 8% of revenue, led by export commodities such as potash and coal from Canada. In contrast, higher-risk commodities like export soybeans from the US and containers landing in Canada and moving into the US are relatively small. Autos are in the trade war crosshairs; however, some tariff relief arrived and allowed volumes to stabilise. CPKC retained full-year volume growth for 'mid-single digit' percentage volume growth but lowered full-year earnings per share guidance to 10% – 14% from 12% – 18% growth given last quarter. The revisions were attributed to foreign exchange rate fluctuations and a difficult economic environment. Management reiterated medium-term targets.

Trump's energy policy negatively impacted renewable power companies, but we think NextEra Energy is well placed and priced attractively

NextEra Energy (-1%) was added to the portfolio in May as a quality-on-sale position. NextEra is a combination of two business segments: the highest-quality regulated utility in the US (Florida Power & Light, 55% of firm value) and the largest renewable developer in the US (45% of firm value, 20% US development market share). The company benefits from scale advantages and has a strong balance sheet, supported by predictable utility earnings that are invested in renewable energy projects.

NextEra enjoys a cheaper cost of debt and higher project returns than other developers. The company has a strong track record of exceeding earnings guidance, and its earnings growth over the past 10 years puts it in the top tier of utilities globally. We expect it to deliver earnings growth of 8% over the next 5 years.

The key market debate surrounding NextEra relates to renewable energy subsidies. President Trump campaigned on renewable energy subsidy repeal, and the just-passed 'One Big Beautiful Bill' substantially removes such subsidies, albeit with a delayed effect. Despite the significant policy changes, we believe NextEra is well placed to navigate these changes with its earnings power intact.

By investing in a significant project backlog, NextEra has locked in subsidies on projects out to 2029. We expect power prices for renewable projects to rise to compensate for the removal of subsidies, like the price changes in response to cost inflation

that occurred during the pandemic. As the largest renewable developer, we expect the company to take market share while keeping its balance sheet intact, unlike most other developers in the industry.

Strong traffic growth and a falling peso boosted Mexican Airports

Grupo Aeroportuario Centro Norte (+37%) reported Q1 2025 earnings, which beat expectations. Traffic increased 9% relative to the same quarter last year, supported by a 15% rise in international traffic as airlines added capacity and connections to new destinations in the US. New commercial initiatives, developed in collaboration with major shareholder Vinci (the largest airport operator globally), helped drive a 9% increase in commercial spend per passenger. The strong traffic and pricing dynamics delivered a 19% uplift in earnings per share relative to the same quarter last year. We reduced our position during the quarter to take advantage of strong outperformance and to part-fund the purchase of NextEra.

Napier Port benefited from recovering trade volumes and strong pricing

Napier Port (+29%) reported its half-year 2025 result, which delivered strong underlying profit growth of 33% compared to 2024. The result is a milestone as Napier Port recovers trade after Cyclone Gabrielle in 2023 and the loss of a major customer, Winstone Pulp International (WPI), in 2024. Container revenue increased +27%, with container volumes up +14% and average container prices increased +12%. WPI was a high-volume, low-price customer, and the lift in average prices is in part due to WPI's closure. Napier Port paid a special dividend of 2.5 cents per share alongside a 33% increase in the first half ordinary dividend. Further dividend increases are likely once Napier Port has more visibility on the global trade situation. We reduced our position during the quarter to take advantage of strong outperformance.

Equinix unveiled plans to build bolder, but investors were disappointed with the cost

Equinix (-2%) held an investor day in June. The company unveiled plans to double its capacity by 2029, which is a significantly faster pace of development than it has undertaken in almost a decade. The 'build bolder' initiative will involve larger buildings, fewer development phases, and more datacentres for hyperscale clients under its xScale brand. The increased development will be funded by debt. Revenue growth targets met market expectations; however, profit growth targets disappointed as the higher interest costs and lower utilisation of new developments will drag on earnings. Sceptics also highlighted the increased execution risk associated with the significant level of change under new CEO Adair Martin, which also includes executive and sales team restructures.

Infratil plans to increase asset sales to fund growth and refocus the portfolio

Infratil (+3%) reported earnings at the upper end of guidance for 2025, showing 9% growth, or 6% on a like-for-like basis. The company guided to 9% like-for-like growth in 2026. CDC's 2026 EBITDA guidance of 21% was below expectations, and Infratil provided no further update on the 130MW of customer contracts it had expected to sign by June.

Infratil reiterated confidence in achieving CDC's 2027 EBITDA target to double 2025 EBITDA, which is 80% contracted already. One NZ increased EBITDA by 1%, supported by a 6% reduction in expenses. EBITDA guidance for 2026 is for 1% earnings growth but improved free cashflow from lower investment requirements.

Longroad Energy remains confident in delivering on its medium-term plan (\$600 million in 'run-rate' earnings by 2027), even as near-term growth faces headwinds from the potential removal of tax subsidies for renewable energy in the US.

Infratil plans to receive \$1 billion of capital from selling its stakes in portfolio companies over the next few years. Its Contact Energy investment alone could realise that target. We decreased our position during the quarter, as Infratil has become increasingly reliant on capital markets. Elevated levels of leverage at both the portfolio level and the company parent level mean that Infratil has reduced financial flexibility, which could hinder future realisation if it is forced to raise capital at the wrong time or forgo valuable investment opportunities due to a stretched balance sheet.

Steady as she goes for New Zealand Cash & Fixed Interest

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

The US ‘on-off’ tariff policy announcements during the quarter resulted in challenging investing conditions and material swings in financial asset prices. Despite the volatility, we stuck to our investing process, and our preference for fixed-income assets issued by solid businesses paid off with the Fund generating positive returns during the quarter. The outlook for economic growth and corporate profitability remains difficult to predict, but we are confidently exploring the corporate credit universe for attractive investment opportunities.

Confidence versus uncertainty

Spurred on by headlines related to US tariff policy developments, commentary on the outlook for economic growth has been a regular feature across media channels over the past 3 months.

While future US tariffs will directly affect trade flows, the unpredictability around their level, scope, and timing has had indirect effects on the global economy.

These indirect effects are linked to the interaction between uncertainty and confidence.

Uncertainty impacts confidence, and the degree of confidence within an economy – while hard to quantify – is a driving force that spurs people into action.

With the spectre of tariffs causing an uncertain backdrop, business owners have likely been thinking twice about growth opportunities as they feel less confident about future sales and profits.

Similarly, firms may have delayed hiring – preferring to ‘wait it out’ before having the confidence to grow staff numbers in support of new business initiatives.

This reflects the fact that growing a business isn’t merely the result of cold calculation of prospective cashflow: it depends on confidence and the willingness to weather the ups and downs of the economic cycle.

Confidence also applies to investing in financial markets.

It can be hard to remain confident in your investments when uncertainty increases and there is the temptation to check the value of your portfolio weekly or even daily (perhaps you did this during April!).

But there are ways to reduce the impact of uncertainty and the impulse to cut and run from financial markets when confidence falls.

For our Fixed Interest Team, we retain confidence despite uncertain conditions by sticking to our long-standing credit research process.

This process ensures that we thoroughly investigate the business, financial, and capital structure risk dynamics of prospective companies, allowing us to confidently select attractive fixed-income assets for the fund.

Tools of the trade

The New Zealand Fixed Interest Fund established a new investment during the quarter related to Speirs Finance Group. Speirs is a New Zealand-based finance company with an established track record of providing loans to businesses that require real assets or ‘tools of the trade’ (for example, trucks, forklifts) as part of their day-to-day operations. During June, Speirs issued asset-backed notes (debt securities backed by the loans Speirs makes to its customers). As the risk-return profile was attractive, we added the notes to the Fund.

We look forward to working alongside Speirs in the years ahead, supporting the growth of assets for local businesses and the wider New Zealand economy.

Bond markets rally as rate expectations shift

Mark Brighthouse, Chief Investment Strategist, Global Fixed Interest

Bond markets enjoyed another quarter of positive returns as investors revised down their inflation forecasts and revised up their expectations for interest rate cuts. Central banks cut rates further.

Policy divergence and long-end pressure shaped the quarter.

The European Central Bank cut its key interest rate for the eighth time since mid-2024. However, the Bank of Canada, the US Federal Reserve and the Bank of England all paused their rate cuts. The Bank of Japan, with an economy that is out of sync, paused its tightening cycle. Still, inflation pressures remained elevated and further hikes are likely.

Yield curves steepened significantly during the quarter. Most notable was Japan, where the 5-year government yield declined 0.12%, but the 30-year yield rose 0.39% after weak bond auction results. Steepening yield curves imply a higher risk premium for owning long-duration assets, reflecting the uncertain trade policy and inflation environment. UK yields rose across the curve as confidence in the Labour Government's ability to stick to fiscal rules began to waver.

Debt issuance also weighed on the long end of yield curves. The US Treasury is expected to issue \$10 trillion in securities over the next year to fund maturing debt and cover anticipated federal deficits. Interest costs for the federal government now consume almost 20% of tax revenues and exceed even defence spending.

Corporate credit spreads widened sharply in the early part of the quarter as risk aversion spiked following President Trump's tariff announcement. By the end of the quarter, spreads were tighter than where they started, providing additional gains for investors.

The underlying managers maintain a conservative position on credit risk. The duration position is close to the benchmark, reflecting the improved prospects from fixed interest securities – even in light of considerable uncertainty.

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