

Generate[™] Fixed Interest Investing Guide

A fixed income perspective

MARCH 2026



[GenerateWealth.co.nz](https://www.GenerateWealth.co.nz)

The product disclosure statement for the Generate Unit Trust Scheme is available at [GenerateWealth.co.nz](https://www.GenerateWealth.co.nz) or by contacting us on 0800 855 322.
The issuer is Generate Investment Management Limited.

Contents

| | |
|---|----|
| What are the benefits of fixed interest investing? | 3 |
| What are the risks? | 5 |
| Portfolio Manager | 7 |
| The investment process – generating income and preserving capital | 8 |
| Case studies | 9 |
| Where is our Fixed Interest Fund invested? | 10 |
| Where our Fixed Interest Managed Fund is available | 11 |
| Conclusion | 11 |

Our Fixed Interest Fund

This guide relates to the Generate Unit Trust Scheme (Managed Funds) Fixed Interest Fund – referred to as a 'Fund'.

Past performance is not a reliable indicator of future returns.

Further information can also be found in the Statement of Investment Policy and Objectives, which can be found at [generatewealth.co.nz/documents-and-forms/](https://www.generatewealth.co.nz/documents-and-forms/)

What are the benefits of fixed interest investing?

Fixed interest investing involves lending money to governments, banks, and companies in return for regular interest payments and the return of principal at maturity. Common fixed income securities include government bonds, corporate bonds, inflation-linked bonds, and cash-like instruments.

For investors, fixed income plays a critical role in portfolios by providing income, capital stability, and diversification relative to growth assets such as equities and property.

Accrual income

Fixed income investments typically accrue income over time, even when interest is not physically paid out on a regular basis. This makes them attractive for investors seeking predictable, contractually linked returns, whether those returns are received as cash or reflected in the investment's value. This income can be particularly valuable for retirees or those approaching retirement.

Lower volatility

High-quality fixed income investments are generally less volatile than growth assets such as equities, reflecting their contractual income streams and defined maturities. Bonds typically provide more predictable returns through the accrual of interest, whereas shares tend to exhibit larger price fluctuations in the pursuit of higher long-term growth.

Over long periods, equities have historically shown roughly twice the volatility of bonds. However, there can be shorter-term market environments – particularly during phases of rapidly rising interest rates – where bond prices experience heightened volatility and, at times, larger drawdowns than equities. Active management and diversification are therefore critical to managing these risks.

Diversification benefits

Fixed income also often behaves differently from equities, particularly during periods of economic stress. Including diversified fixed income exposures in a portfolio can therefore lower overall volatility and improve risk-adjusted returns.

Fixed income investments provide diversification not only relative to equities, but also within the asset class itself. A diversified fixed income strategy spreads investments across multiple issuers, sectors, and security types, reducing reliance on any single borrower or industry.

By investing across governments, banks, and corporates operating in different sectors, the portfolio is less exposed to the financial health of any one company or part of the economy. This issuer and sector diversification can help dampen volatility and reduce the impact of individual credit events.

Flexibility across market environments

Fixed income investing offers flexibility to adapt as economic conditions and interest rate settings change. A well-constructed fixed interest portfolio can adjust its exposure to interest rates, credit quality and maturity profiles as markets move through different phases of the economic cycle.

This flexibility is supported by the selective use of derivatives, such as interest rate swaps and futures, which allow the portfolio to efficiently position for macroeconomic outcomes without the need to buy or sell large volumes of physical bonds. These instruments can be used to increase or reduce sensitivity to interest rate movements, target specific parts of the yield curve, and respond quickly as central bank expectations evolve.

By using derivatives in this way, the portfolio can position defensively during periods of heightened uncertainty, while also capturing opportunities when valuations improve or interest rate pressures ease. Active management plays an important role in navigating these shifts, helping to balance income generation and risk across a wide range of market environments.

Specifically, the Generate Fixed Interest Fund offers the following distinct advantages:

Local knowledge

The Fund is managed with a strong understanding of the New Zealand fixed income market, including local economic conditions, interest rate dynamics and issuer behaviour. This local perspective is particularly important in a relatively small and less liquid market, where familiarity and relationships can materially influence outcomes.

Access

The Fund benefits from strong access to bond issuance opportunities through established relationships with major banks and issuers. This access can be particularly valuable in the New Zealand market, where deal sizes are smaller and allocation can be competitive. Participation in primary issuance and selective private placements can provide attractive pricing and structures that are not always available in secondary markets, supporting both income generation and risk management.

Collaboration across asset classes

The Fixed Interest investment team work closely with Generate's Australasian equity team, particularly when assessing credit risk. Insights gained from equity research – such as company strategy, competitive positioning and balance sheet strength – help inform bond selection and ongoing credit monitoring.

Depth of experience

The Fixed Interest Managed Fund benefits from experienced portfolio management and a disciplined investment process developed through multiple market cycles. This depth of experience supports informed decision-making during periods of volatility and uncertainty, helping the Fund navigate changing interest rate and credit environments.

What are the risks?

While fixed income investing is generally considered lower risk than equity investing, it is not risk-free. Investors should understand the key risks before investing.

Key risks

Interest rate risk

Bond prices move inversely to interest rates. When interest rates rise, the value of existing bonds typically falls, while falling interest rates generally support bond prices. Longer-duration bonds are more sensitive to changes in interest rates than shorter-duration bonds.

Inflation can also influence interest rate outcomes. If inflation is higher than expected, it can erode the purchasing power of fixed interest payments and place upward pressure on interest rates, reducing the real value of returns from fixed income investment.

Credit risk

Credit risk is the risk that a bond issuer may be unable to meet its interest or principal repayment obligations. Lower-quality issuers generally offer higher yields to compensate investors for taking on this additional risk, but they may be more vulnerable during economic downturns.

Concentration risk

Concentration risk arises when a fixed income portfolio has meaningful exposure to a limited number of issuers or counterparties. If one of these issuers experiences financial stress, a credit downgrade or another adverse event, it may have a disproportionate impact on the portfolio.

The Fund typically invests across more than 40 individual issuers, which helps reduce reliance on any single borrower. This risk can be more pronounced in smaller or less liquid markets, making issuer limits and diversification across borrowers and sectors an important part of portfolio construction.

Liquidity risk

Some bonds may be difficult to buy or sell quickly without affecting their price, particularly during periods of market stress or reduced market activity. This can limit the ability to adjust portfolio positions in a timely manner.

Currency risk

Where the Fund invests in offshore fixed income securities, returns may be affected by movements in foreign exchange rates.

The Fund targets a 100% hedge of foreign currency exposure, meaning international fixed income investments are generally hedged back to New Zealand dollars. This approach is intended to minimise the impact of currency movements on returns, allowing performance to be driven primarily by interest rates and credit outcomes rather than exchange rate fluctuations. While hedging aims to reduce currency risk, it may not always fully eliminate it.

Past performance

Past performance is not a reliable indicator of future returns. Markets can go down as well as up, and there is no guarantee that the Fund will achieve their investment objectives.

Managing risk

The Funds' investment strategy seeks to manage risk by diversifying across sectors and geographic diversification across New Zealand and Australia. Sector and geographic exposures are managed relative to the benchmark, and the portfolio typically holds a broad range of industries to reduce reliance on any single company or sector. The 100% long-term currency hedge minimises exposure to exchange rate fluctuations.

Interest rate exposure is actively managed relative to the benchmark, with defined limits that allow portfolio duration to vary by up to plus or minus two years. This provides flexibility to position for changing economic and interest rate conditions while ensuring overall portfolio risk remains controlled.

Duration positioning and yield curve analysis are supported by the selective use of interest rate derivatives. These tools allow the portfolio to efficiently adjust interest rate exposure as central bank expectations and market conditions evolve, without unnecessary turnover in underlying bond holdings.

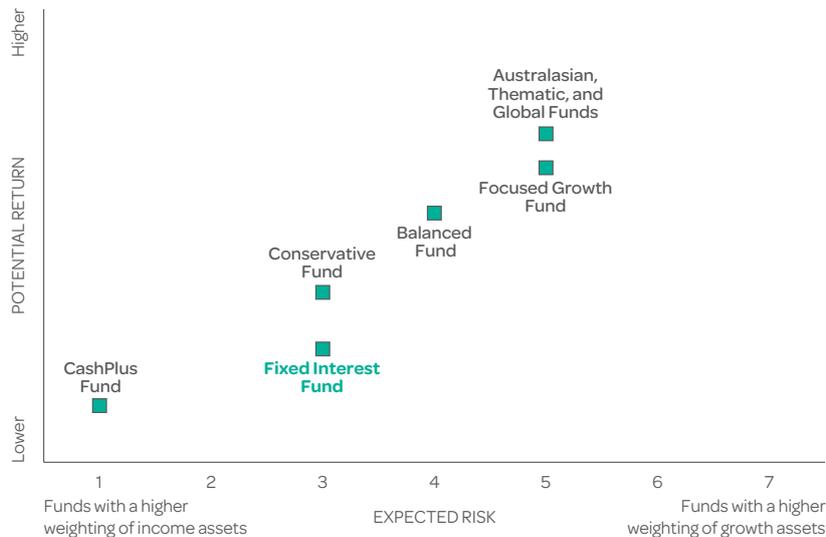
Credit risk is managed through a disciplined focus on issuer quality, diversification and ongoing monitoring. The Fund maintains a strong bias toward high-quality issuers with resilient balance sheets and stable cash flows, helping reduce the likelihood of default or financial stress. Exposure is diversified across more than 40 issuers, with limits applied to individual borrowers to reduce concentration risk. Credit assessments are reviewed regularly, and exposures may be reduced if an issuer's fundamentals deteriorate or risks increase.

Credit analysis is further strengthened through close collaboration with Generate's Australasian equities team. Equity research provides valuable insight into company strategy, competitive positioning, management quality and sector dynamics, which complements traditional fixed income analysis. This integrated approach supports more informed bond selection and ongoing credit risk management.

The Fund seeks to mitigate liquidity risk through careful portfolio construction. Investments are selected with consideration given to market depth and tradability, and exposure is diversified across issuers and security types. Liquidity is monitored on an ongoing basis, and the portfolio is managed to ensure it can adapt as conditions change.

For more information on the risks of investing, please refer to section 4 of the Generate Unit Trust Scheme Product Disclosure Statement, available at generatewealth.co.nz.

Generate Managed Funds Risk vs Return



Portfolio Manager

Generate Investment Management Limited (“Generate”) is the investment manager of the Fund. Generate has appointed Ayrton Oliver as the portfolio manager of the Fund.

Ayrton Oliver

Portfolio Manager, Generate Fixed Interest Fund

Ayrton has over 13 years of financial markets experience. Prior to joining Generate in 2021, Ayrton was a portfolio manager in the Chief Investment Office at JP Morgan London, which managed the banks international interest rate and FX risks. Ayrton’s investment career began on the trading desk at Citi group in Sydney before transferring to the JP Morgan role initially based in Sydney prior to relocating to London in 2017.

Ayrton also manages the **Generate Wholesale Fixed Interest Fund**, established in November 2021. The fund has delivered a positive annualised return of +7.2% over the three years to 31 December 2025, outperforming its benchmark (+6.4%) by approximately 0.8% per annum over a period that marked one of the most volatile fixed income environments in decades.

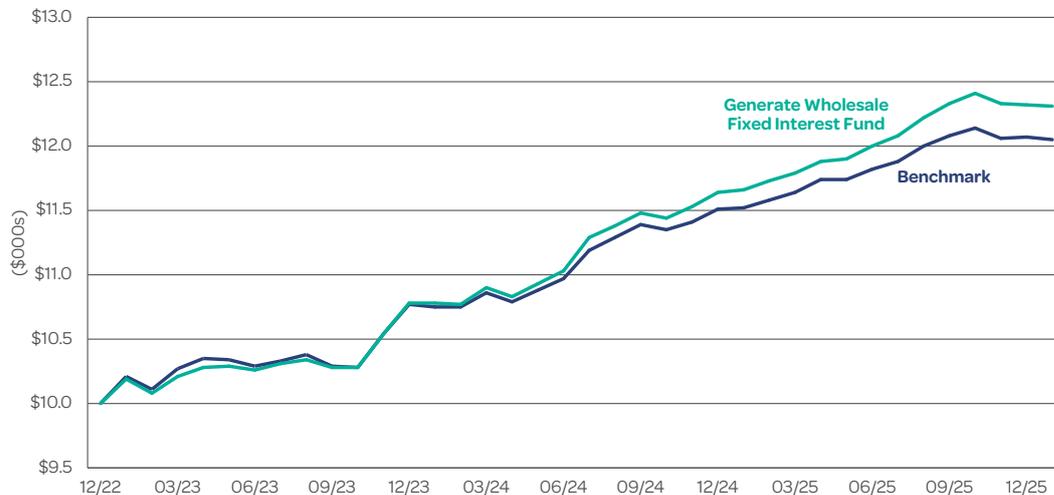
In the Morningstar ‘NZ Bonds’ category to 31 December 2025, the Generate Fixed Interest Managed Fund is attributed a 6.87%* (after fees, before tax) return per annum. On this attributed performance, the Generate Managed Fund ranked 1st out of 17 funds in the category for 3-year returns.

In April 2025 Generate launched a retail managed fund version of the Generate Wholesale Fixed Interest Fund to give retail investors access to this successful Fixed Interest strategy.



Ayrton Oliver
Portfolio Manager

Return on Equity of the Generate Wholesale Fixed Interest Fund vs Benchmark



Note: The return chart is based on an initial investment of \$10,000 on 31/12/2022. The benchmark index has changed twice during the above timeframe shown on the chart. Initially it was a composite of 80% S&P/NZX Investment Grade Corporate Bond index & 20% S&P/ASX Corporate Bond Index 0+ NZD hedged. On 30/04/2025, the benchmark changed to a composite 65% S&P/NZX Investment Grade Corporate Bond index & 35% S&P/ASX Corporate Bond Index 0+ NZD hedged. Subsequently, on 28/11/2025, the benchmark index changed to a composite 65% S&P/NZX Investment Grade Corporate Bond index & 35% Bloomberg AusBond Credit 0+Yr Index 100% hedged into NZD.

* Source: Morningstar direct report to 31 December 2025. The Generate Fixed Interest Managed Fund would have delivered a 6.42% return per annum over three years to 31 December 2025, as its performance record reflects the results of the Generate Wholesale Fixed Interest Fund in which it invests. The Wholesale Fund’s historical performance has been adjusted to reflect retail fees, providing an indication of what returns would have been had the retail managed fund been in place during that period. The retail fund launched in April 2025.

© 2026 Morningstar All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its affiliates or content providers; (2) may not be copied, adapted or distributed; (3) is not warranted to be accurate, complete or timely; and (4) does not constitute advice of any kind, whether investment, tax, legal or otherwise and (5) has been prepared for New Zealand wholesale clients of Morningstar Research Ltd, subsidiary of Morningstar, Inc and is not intended for New Zealand retail clients. Neither Morningstar nor its content providers are responsible for any damages arising from the use and distribution of this information. Past performance is no guarantee of future results.

The investment process – generating income and preserving capital

The Fixed Interest Managed Fund is managed using an **active investment approach**, meaning the portfolio is not designed to simply track a benchmark. Instead, the investment team actively adjusts the Fund's positioning in response to changing economic conditions, interest rate expectations and relative value opportunities across fixed income markets.

Economic & market analysis

The investment process begins with an assessment of the broader macro-economic environment. This includes analysis of economic growth, inflation trends, labour market conditions, business and consumer confidence, and central bank policy signals.

Understanding how the economy is evolving helps the investment team form a view on where markets may be misaligned with underlying conditions, and where risks or opportunities may be emerging across fixed income markets.

Interest rate analysis

Interest rate analysis is a core driver of portfolio decisions. The investment team assesses how economic conditions and central bank expectations are likely to influence interest rates across different maturities.

Interest rate exposure is actively managed using a combination of physical bonds and derivatives. The selective use of instruments such as interest rate swaps and futures allows the portfolio to efficiently position for macroeconomic outcomes, target specific parts of the yield curve, and respond quickly as expectations change – without unnecessary trading in underlying bond holdings.

Credit research

Alongside interest rate analysis, the Fund applies disciplined, bottom-up credit research to identify high-quality issuers that offer appropriate compensation for risk. The emphasis is on preserving capital and generating consistent income, rather than stretching for yield.

Credit research is strengthened through close collaboration with Generate's Australasian team. Equity research provides valuable insight into company strategy, competitive positioning, management quality and sector dynamics. These perspectives complement traditional credit analysis and are particularly useful when assessing corporate issuers, supporting more informed bond selection and ongoing monitoring of issuer risk.

Environmental, social and governance (ESG) considerations are integrated into credit research where they may have a material impact on an issuer's long-term creditworthiness.

Portfolio positioning

Insights from economic, interest rate and credit analysis are brought together to determine portfolio positioning. This includes decisions around duration, yield curve exposure, issuer selection and sector allocation.

An important part of portfolio positioning is assessing the **relative value of new bond issues**. When new securities come to market, the investment team compares their yield, structure and terms against existing bonds from the same issuer and against comparable securities in the broader market. New issues may offer additional yield or more favourable terms to attract investors, and the Fund seeks to participate where pricing provides fair compensation for risk and enhances overall portfolio value.

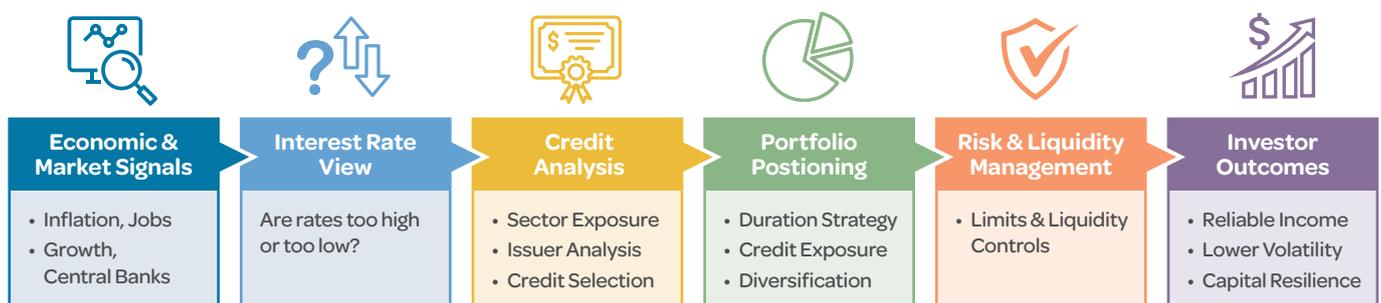
Risk & liquidity management

Risk and liquidity management are embedded throughout the investment process. The Fund is diversified across issuers, sectors, security types and maturities, with issuer limits used to reduce reliance on any single borrower.

Interest rate risk is managed relative to the benchmark, with portfolio duration able to vary within defined limits.

Liquidity is carefully monitored, particularly given the structure of the New Zealand fixed income market, to ensure the Fund can adapt as market conditions change.

Ongoing monitoring of interest rate exposure, credit fundamentals and liquidity helps ensure the portfolio remains aligned with its objectives, allowing the Fund to balance income generation with capital preservation across a range of market environments.



Case studies

Actively managing duration through the cycle

Environment

In 2025, interest rate markets were not pricing in sufficient central bank easing, despite growing signs of economic slowdown in New Zealand. Employment trends, migration flows, business confidence surveys, and consumer spending all pointed to softer growth following several years of aggressive interest rate hikes. These macro signals were reinforced by real world insights from New Zealand businesses, including perspectives gained through our Australasian equity team.

Challenge

A passive fixed income approach risked leaving portfolios underexposed to falling interest rates if the Reserve Bank of New Zealand (RBNZ) was forced to cut rates more aggressively than markets expected.

Our view and action

We believed the economy was weaker than market pricing implied and that this would lead the RBNZ to cut rates further and revise its future Official Cash Rate (OCR) track lower. In response, we increased portfolio duration relative to the benchmark, focusing on areas of the yield curve most sensitive to changes in the RBNZ's policy outlook.

Outcome and risk management

When the RBNZ subsequently cut rates and lowered its projected OCR path, followed by a very weak GDP data, market interest rates declined. Our overweight exposure to duration meant the portfolio benefited more than the benchmark, contributing to outperformance. Risks were managed through disciplined position sizing and diversification across different points on the yield curve.

Key takeaway

Where the Fund invests in offshore fixed income securities, returns may be affected by movements in foreign exchange rates.

Active fixed income management can add value by dynamically adjusting interest rate exposure as economic conditions evolve, rather than relying solely on passive benchmark positioning.

Selecting a high-quality social housing bond

Environment

Alongside managing interest rate risk, the investment team actively assesses individual bond opportunities where credit quality, structure, and valuation align. One such opportunity arose within New Zealand's social housing bond market.

Our view and action

We invested in bonds issued by the Community Housing Funding Agency (CHFA), which provides financing to Community Housing Providers (CHPs) to develop and manage social housing. From a bottom-up credit perspective, these bonds offered an attractive balance of income and risk.

Why this bond?

The majority of rental income received by CHPs is ultimately funded by the New Zealand government, meaning the underlying source of repayment risk sits with the government. The bonds are senior in structure and secured against a high-quality asset base, with conservative loan-to-value ratios providing a meaningful equity buffer. The underlying housing providers include well established organisations, with long track records in delivering and managing social housing, with conservative loan-to-value ratios providing a meaningful equity buffer.

Relative value and impact

CHFA bonds offered a higher yield than government or high-grade local authority bonds with similar credit ratings (around A+), making them attractive on a relative value basis. In addition, investor capital directly supports the delivery of essential social housing across New Zealand.

Key takeaway

Careful bond selection can enhance portfolio income without materially increasing risk, while also delivering positive social outcomes.

Where is our Fixed Interest Fund invested?

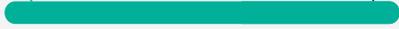
The top 10 holdings of the Generate Fixed Interest Fund portfolio as at 31 December 2025.

| | EQUITY | SECTOR | DOMICILE | WEIGHT % |
|----|------------------------|-----------------|-------------|----------|
| 1 | NZLGFA | Semi-government | New Zealand | 8.7% |
| 2 | KĀINGA ORA | Semi-government | New Zealand | 8.7% |
| 3 | NEW ZEALAND GOVERNMENT | Government | New Zealand | 5.7% |
| 4 | WESTPAC | Financials | New Zealand | 5.4% |
| 5 | TR GROUP | Transport | New Zealand | 3.7% |
| 6 | TRANSPower | Utilities | New Zealand | 3.6% |
| 7 | KIWIBANK | Financials | New Zealand | 2.9% |
| 8 | NZMS 1ST | Property | New Zealand | 2.8% |
| 9 | INFRATIL | Industrials | New Zealand | 2.5% |
| 10 | AUCKLAND AIRPORT | Infrastructure | New Zealand | 2.5% |



Where our Fixed Interest Managed Fund is available

The Generate Fixed Interest Managed Fund launched on 30 April 2025.

| Generate Fixed Interest Managed Fund | | | |
|--|--|--|--|
| INVESTMENT OBJECTIVE AND DESCRIPTION | ASSET ALLOCATION AND RISK INDICATOR | TARGET INVESTMENT MIX | MINIMUM RECOMMENDED INVESTMENT TIMEFRAME |
| <p>The Generate Fixed Interest Managed Fund aims to provide a stable return over the short to medium term. It invests in an actively managed portfolio made up entirely of income assets. Volatility is likely to be low to medium. (Returns will vary and may be low or negative at times.)</p> | <p>Asset allocation</p> <p>100% Income 0% Growth</p>  <p>Risk Indicator</p>  <p>Low High</p> | <p>Target investment mix</p>  <ul style="list-style-type: none"> Cash and cash equivalents 5% Fixed interest 95% Australasian equities and property 0% International equities 0% | 2 years |

Estimated total annual fund charges

| FUND NAME | BASE FUND MANAGEMENT FEE* | THIRD PARTY UNDERLYING FUND BASE FEES* | THIRD PARTY PERFORMANCE FEES* | ANNUAL FUND CHARGES AS A % OF NET ASSET VALUE (NAV)** |
|--------------------------------------|---------------------------|--|-------------------------------|---|
| Generate Fixed Interest Managed Fund | 0.829% | 0.000% | 0.000% | 0.83% |

* Estimates ** Net Fees rounded to 2 decimals

Conclusion

Fixed income plays an important role in building balanced investment portfolios, providing income, diversification and resilience through different market environments. In a world of changing interest rates and economic uncertainty, a disciplined and active approach to fixed income investing can make a meaningful difference to investor outcomes.

The Generate Fixed Interest Managed Fund combines local market knowledge with an active, research-driven investment process. By focusing on economic and interest rate analysis, high-quality credit selection, and careful portfolio positioning, the Fund seeks to generate reliable income while managing risk through the cycle.

Risk management is embedded throughout the investment process, with diversification across issuers, active interest rate management and a strong focus on liquidity. Collaboration with Generate's Australasian equity team and access to a broad range of bond issuance opportunities further support informed decision-making and disciplined investment outcomes.

Through this approach, the Fixed Interest Fund aims to provide investors with a dependable source of income and stability as part of a well-diversified portfolio.

To learn more about the Generate Fixed Interest Fund, visit generatewealth.co.nz, call 0800 855 322 to speak with a Generate Wealth adviser, or contact your current financial adviser.

Generate[™]