Investment Newsletter – October 2025

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Robust Sector Performance Amid Policy Momentum

September 2025 brought continued momentum to New Zealand's electricity sector, with strong annual results from key distribution and transmission players, advancing regulatory reforms to foster competition, and a flurry of green debt issuances underscoring investor appetite for sustainable infrastructure. Electricity demand held firm, supported by industrial recovery and seasonal factors, while government signals on energy security reforms highlighted opportunities for enhanced transmission and distribution investments.

As a dedicated private credit fund focused exclusively on New Zealand electricity infrastructure assets, we see these developments reinforcing the sector's appeal: relatively predictable revenues (especially for regulated entities), escalating capex needs, and a supportive policy environment driving attractive lending opportunities.

Below, we highlight the month's key updates.

Government Energy Reform Policy Announced

On October 1, 2025, the New Zealand Government released its comprehensive energy package, signaling significant reforms to enhance energy security, investment, and market efficiency. Key elements include reducing policy risks for investors through co-investment in gas security (up to $200 million), a new framework for firm generation and long-duration storage, updates to the Resource Management Act (RMA) and national directions prioritising energy infrastructure by end-2025. These measures aim to mitigate gas shortages and rising power prices while supporting electricity firming during winter peaks and the broader energy transition.For our private credit focus, these reforms unlock opportunities in EDB and transmission capex, easing restrictions on generation investments and fostering public-private partnerships for grid resilience.

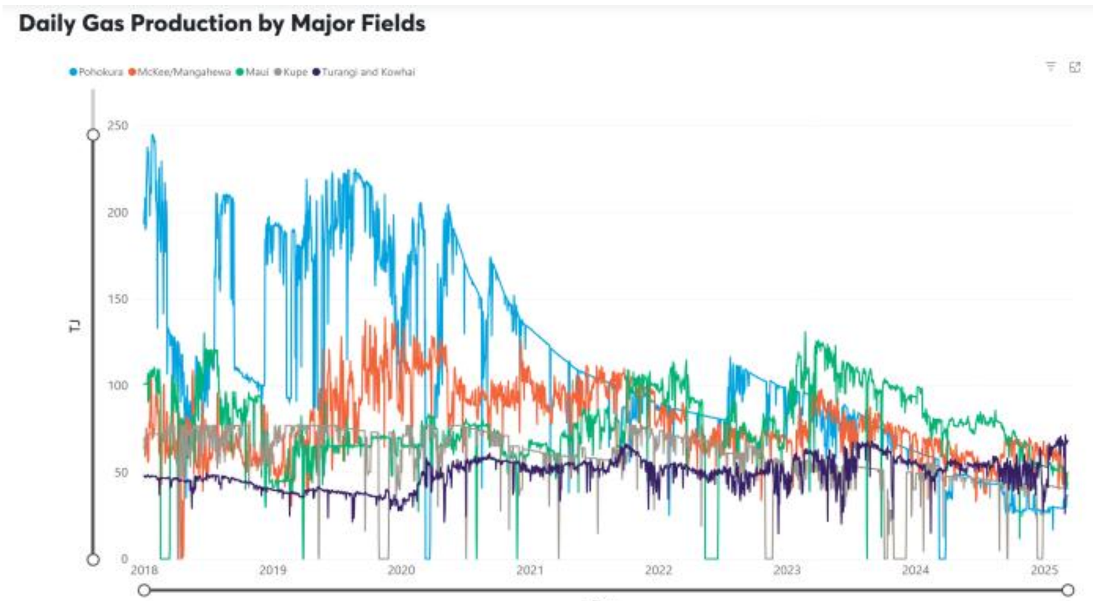
LNG imports are the headline proposal from Cabinet's review

The most significant proposal in the reform policy is a government-underwritten LNG import terminal. With gas supply constraints having increased the cost of back-up generation in recent years, the proposal aims to ensure sufficient firm fuel is available for electricity generation during dry years, while potentially also supplying some industrial users.

Minister of Energy Simon Watts said Cabinet had chosen to support LNG because it provided "100% security of supply." He noted that LNG offered the firming capacity required in the electricity system to meet total demand when renewable energy sources fell short. It was also essential for businesses that relied on gas to operate and had no viable pathway to electrification.

In 2024, a significant shortfall between gas production and demand led to industrial closures. While conditions appear to be improving in 2025, the system remains vulnerable to security of supply risks. Demand for gas is projected to exceed contracted supply volumes by 2030.

Figure 1.



Source: Gas Industry Co

Brookfield backs NZ gas markets with $2b Clarus Group buy

On October 6, Canadian infrastructure investor Brookfield announced a NZ$2 billion acquisition of Clarus Group, marking a major vote of confidence in New Zealand's gas sector amid ongoing energy market reform. The deal includes Clarus's core assets—Firstgas, Rockgas, and Flexgas—which collectively operate much of the country's gas transmission, distribution, and storage infrastructure. As part of the broader transaction, Powerco will acquire Clarus's electricity distribution business, Firstlight Network, serving the East Coast region. The sale represents an exit for Igneo Infrastructure Partners, which has owned Clarus since 2016.

Transpower & Regional EDBs Developments

Major Capital Investment Programs

HVDC Link Upgrade Programme Proposal (September 2025): **Transpower** submitted a major $1.1 billion capital expenditure (capex) proposal to the Commerce Commission for Stage 1 of renewing the critical High Voltage Direct Current (HVDC) link between the North and South Islands. This includes replacing three aging submarine cables in the Cook Strait (installed 1991, nearing end-of-life), adding a fourth cable to boost capacity from 1,200 MW to 1,400 MW, new termination stations, spare cable storage, and upgrades to overload capacity and filter banks. The project addresses supply resilience and affordability, with completion targeted for 2030-2031. A $653 million component specifically targets the North-South power link upgrade. This has regional implications for EDBs in both islands by enhancing inter-regional power flows.

Proposed Upper South Island Network Investment (September 2025): Submission to the Commerce Commission for a $164 million upgrade to future-proof the grid in the upper South Island, including reinforcements for reliability amid electrification demands. **Transpower** defended the plan against cost concerns, emphasising regional benefits for EDBs serving Canterbury and Marlborough.

Delivery of an award-winning decarbonisation breakthrough for Fonterra, involving grid connections to support industrial electrification in the Waikato region (ties into regional EDB networks like **The Power Company**).

Boost to electricity supply in Hawke's Bay and Tairāwhiti regions through new connections and reinforcements, aiding post-cyclone recovery and renewable integration for local EDBs like **Unison Networks.**

Official Cash Rate and Interest Rate Outlook

The Reserve Bank of New Zealand (RBNZ) delivered a larger-than-expected 50 basis point (bp) cut to the Official Cash Rate (OCR) on October 8, 2025, lowering it to 2.5%—its most aggressive move since February 2025. This "shock treatment" follows a 25bp reduction to 3.0% in August and brings the OCR down 300bps from its 5.5% peak, reflecting subdued economic activity, a stalling recovery, and the RBNZ showing less concern about inflation pressures.

The decision signals a dovish pivot, with the Monetary Policy Committee (MPC) stating it remains "open" to further easing if data evolves as projected, aiming to support growth, household spending, and business investment while trading partner economies (bolstered by AI-related activity) slow.

Economic Growth and Employment

The August 2025 MPS from the RBNZ signaled a clear shift to a more dovish monetary stance amid ongoing economic softness and inflation pressures easing within the target band.

Key Economic Forecasts from October MPS:

Indicator	**Current/Recent**	**Outlook (2025-2026)**
Inflation (CPI)	2.7% (Q2 2025, annual)	~2.7% near-term; declines to 2.0% midpoint by H1 2026 via spare capacity and easing pressures.
GDP Growth	-0.9% (Q2 2025, q/q); -1.1% (annual)	Slow recovery: 0.5-0.7% in 2025; 1.0-1.2% in 2026, tempered by global trade headwinds and domestic softness.
Unemployment	5.2% (mid-2025 peak)	Remains weak short-term; eases gradually through 2026 as growth picks up and jobs increase.
Wage Growth	Moderating amid slack	Sufficient for gradual consumption support without re-igniting inflation.

Source: RBNZ MPS August 2025

Wholesale Swap Rates and Funding Conditions

NZD swap rates tumbled post-cut, with the 90-day bank bill yield falling to ~2.41% and multi-year tenors also falling (e.g., 3Y at ~2.7%). Narrower spreads over government bonds signal robust bank funding and fixed-rate demand, though mortgage pass-through lags (current floating rates ~5.5-6.0%, with sub-4% fixed possible in 6 months). This environment eases refinancing for infrastructure borrowers but tempers near-term deposit yields.

Figure 2. NZ Swap curve

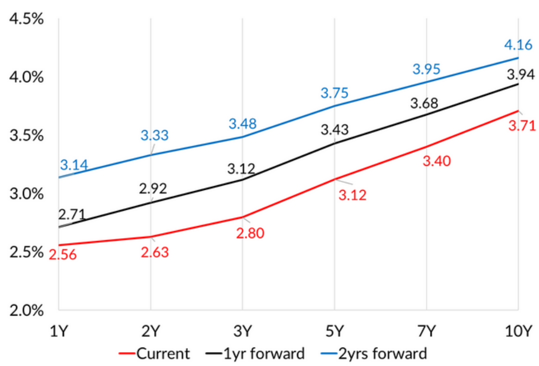
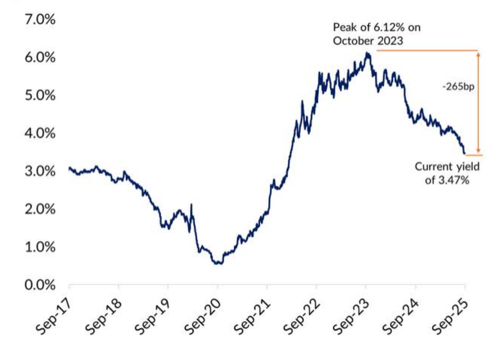


Figure 3. NZ Corporate bond yields



Source: Bloomberg October 5, 2025

Source: Bloomberg, S&P/NZX Investment Grade Index

We are now about two years on from the peak in interest rates, when both the yield on the S&P/NZX Investment Grade Corporate Bond Index and the five-year swap rate topped out. Since then, it has been a steady decline, with A-grade corporate bonds now being issued at around, or even below, 4%. Equivalent term deposits (TDs) are offering similar rates, but with a further 50–75bp of OCR cuts expected, TD rates are likely to fall from here.

Investment Outlook

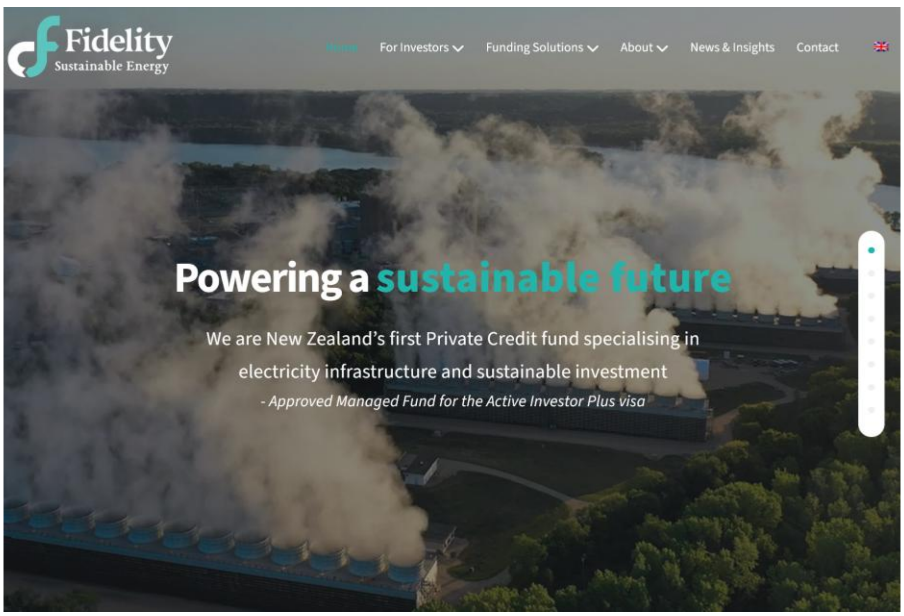
In the current subdued market environment—marked by low economic growth, persistent global trade headwinds, and the RBNZ's aggressive easing cycle—our strategy as a dedicated private credit fund focused on New Zealand's electricity distribution and transmission companies prioritises **high-quality, low-risk** credits. With GDP contracting 0.9% in Q2 2025 and unemployment at 5.2%, volatility in broader credit markets underscores the resilience of regulated infrastructure assets. These offer predictable, inflation-linked cashflows, shielding against downturns while capitalising on lower funding costs following the recent 50bp OCR cut to 2.5% on October 8. Amid projections of private credit's global expansion to $5 trillion by 2030, we see NZ's essential services sector as a defensive haven.

The October 1 Energy Package further de-risks this space, unlocking EDB generation investments and $200 million in gas co-funding, while the OCR trajectory (to 2.0-2.25% by mid-2026) compresses wholesale swap rates, easing refinancing and compressing margins on high quality senior, secured loans. In a diverging credit landscape—where public IG holds steady but private stress builds—we selectively deploy into AA/BBB+ tranches, avoiding speculative plays. Risks like regulatory reopeners remain, but with NZ's credit outlook pressured yet stable, our focus is to position the fund for stable performance during market volatility.

Upcoming Energy Trusts of New Zealand Annual Conference

The Fidelity Capital team will be presenting at the ETNZ Annual Conference on 5–6 November. If you would like to arrange a meeting with us during the event, please don't hesitate to get in touch.

Our new website is coming soon — stay tuned!



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