



### Fund Objective

The fund aims to provide a superior stream of income and capital stability over the medium term while aiming to outperform its benchmark through market cycles.

### Fund Application

Investors seeking to enhance their overall fixed income returns with a higher yielding, predominantly investment grade (IG), absolute return-oriented global fixed income portfolio.

### Fund Details

APIR code	HOW0165AU
Inception date	31 May 2007
Fund size	AUD 2012.70
Distribution frequency	Quarterly
Management fee	0.40%
Buy/sell spread	Please contact us for latest spreads

### Fund Statistics

Interest rate duration	1.03yrs
Credit spread duration	1.85yrs
Average credit rating	A-
No of issuers	71
Yield to maturity	5.79%

### Fund Guidelines

Target return	cash plus 2-3%
Target volatility	less than 1.5% annualised
Duration limits	-2 to +2 years
Credit quality	>85% investment grade



**Dan Siluk**  
Portfolio  
Manager



**Dylan Bourke**  
Portfolio  
Manager

### October 2024

Performance (%)	1 month	3 months	1 year	3 years p.a.	5 years p.a.	Annualised since inception.
Fund Return (before fees and sell spread)	0.58	2.07	7.75	4.07	3.03	4.67
Fund Return (after fees, before sell spread) <sup>1</sup>	0.54	1.96	7.28	3.65	2.58	4.30
Fund Return (after fees and sell spread) <sup>2</sup>	0.54	1.96	7.28	3.64	2.57	4.30
RBA Cash Rate	0.36	1.08	4.36	2.91	1.85	2.83
Active return <sup>3</sup> (before fees and sell spread)	0.21	0.99	3.39	1.16	1.18	1.84
Active return <sup>3</sup> (after fees and sell spread) <sup>2</sup>	0.17	0.88	2.93	0.73	0.72	1.47
Bloomberg AusBond Bank Bills Index	0.37	1.12	4.45	2.94	1.86	3.03

Past performance is no guarantee of future results. After fee returns are inclusive of 0.41% annualised total expenses for class I units. Fund inception date 31 May 2007. No allowance is made for tax. Numbers may not add due to rounding. 1) For a continuing investor the actual return experienced based on the NAV performance of the Fund, after accounting for management fees. 2) The return experienced by a redeeming investor, based on the exit price performance of the Fund which accounts for the end of period sell spread of 0.07% and management fees. 3) Active return of the Fund compared to Benchmark (RBA Cash Rate). Source: Fidante Partners Limited, 31 October 2024.

### Performance Commentary

The fund/ added a solid 0.54% in October, taking 12 month returns to 7.28% (after accounting for Class I unit fees). Physical credit spreads continued to compress in the month, supporting performance and allowing coupon income to again contribute strongly. Bond yields rebounded sharply in October, as financial markets unwound overly aggressive rate cut expectations as well as positioning shifting ahead of the US election. Duration therefore detracted from performance in October, but this was significantly reduced by the near halving of duration undertaken in August and with our global relative value framework focusing on regions where yields rose the least. Active risk management therefore allowed the fund to outperform its cash rate benchmark in October, with the now higher yield to maturity of 5.79% providing an even stronger basis for returns looking forward.

### Market Commentary

Markets moved to price out a number of rate cuts that it had overly aggressively priced in back in July. At that time, the Federal Reserve was preparing for an outsized 50bps easing and rate hikes from the Bank of Japan were being taken out after carry trade unwinds saw equities decline and volatility rise. Since that time, inflation, economic growth and the labour market have all come in on the positive side of expectations, leading to a reassessment of how aggressively the US Federal Reserve would ease monetary policy. Furthermore, the Republicans improving chances in the weeks leading up to the election also had a positive impact on yields. These influences saw the terminal rate in the US rise from around 2.80% in early August to around 3.60% at month's end, with two year US Treasury yields rising by a staggering 53bps in the month of October alone to close at 4.17%. Australian front end yields rose a similar amount, with three year Australian Government Bond yields up 48bps to 4.02% as near term rate cut expectations were dashed. However, other regions where central banks have already started easing had a much more muted reaction, with German 2yr yields up 27bps, Canadian 2yr yields up 16bps and NZ 2yr swap rates rising just 6bps.



### Fund Platform Availability

- AMP North, Wealthview, eWrap
- AMP PortfolioCare (Badge of Asgard)
- Asgard eWrap & Infinity
- Australian Money Market
- Australian Unity Lifeplan Investment Bond
- BT Panorama
- Centric Wealth (Findex)
- CFS Edge, FirstChoice & FirstWrap
- Clearstream/Ausmaq
- DASH
- Grow Wrap (Insignia)
- Hillcross PortfolioCare (Badge of Asgard)
- HUB24
- Insignia – eXpand
- Insignia – Rhythm (private label HUB24)
- Insignia – Asset Administrator (BT Badge)
- Macquarie, Accumulator, Wrap IDPS and Super
- Mason Stevens
- Netwealth
- Praemium
- Powerwrap
- Oasis
- OnePath
- OneAnswer
- OneVue
- Platform Plus (Infocus)
- Voyage (Oasis Badge)
- Xplore Wealth

Risk market themes were generally more balanced. Both US election candidates were seen as a positive for fiscal spending and economic activity, supporting the outlook for earnings. However, a very late re-assessment of a Harris victory saw all these gains eroded with the S&P 500 down 1% over the month. Synthetic credit indices were a touch wider in sympathy, but of more relevance for Kapstream's investments, physical credit spreads compressed noticeably, particularly in Australia. The Bloomberg US Corporate Aggregate series contracted 5bps to 84bps to be at the bottom of the post Global Financial Crisis range. Australian credit spreads were not as close to their historical tight, allowing a greater compression in the Bloomberg Ausbond credit ASW spread series of 6bps to 84bps.

### Outlook

The US election result represents the key near term risk to markets, but beyond that the question is to what extent will it disrupt how far central banks will ease policy. Tariffs and tax cuts that boost demand could see inflation stop declining below trend or even increase, leading to the Fed retaining some restrictiveness in its policies. However, terminal rates are already pricing in this outcome. Furthermore, a continual rise in yields as was seen in 2016, when the Fed was tightening policy, is less likely when monetary policy is heading in the opposite direction. More interesting perhaps is that these policies may see lower economic growth outside the US, leading to more rate cuts elsewhere. A global focus for active duration would allow these trends to be captured. For risk markets the fiscal spending promises to significantly reduce the near-term prospects of a recession, taking away a key downside risk for declines in sentiment.

### Portfolio Strategy

Reducing interest rate duration in August significantly supported performance in October, as did the mix of where that duration was held. Given the around 50bps increase in yields seen across the curve in Australia and the US, each year's worth of duration would have subtracted around half a percent from returns. Fixed income indices with several years' worth of duration therefore performed particularly poorly, with the Australian Composite Bond index falling 190bps as an example. In the case of Kapstream's funds, we actively reduced duration from above 1.1 years at the end of July to around 0.6 years in following months. This halved the negative impact of duration on the portfolio. Furthermore, the exposure was only modestly weighted towards the US directly and with short duration exposures in Australia, with a far greater weight to Europe, Canada and New Zealand. This action effectively halved the negative impact of rising yields on the portfolio. After the yield increase in the month, duration was largely returned to close to the one year point by the end of October, continuing to add exposure as global easing cycles continue.

Credit continued to support returns in October, in particular the overweight to Australian credit. The portfolio's physical spread duration was fairly stable at c1.9 years, retaining lower sensitivity to spread change than we have historically targeted. Despite maintaining a fairly short-dated book, we have captured strong credit spread compression compared to many short-dated credit indices over the last year. This month we saw some attractive issuance in AUD denominated financials which rallied.

The fund's high coupon is providing return stability not seen in nearly a decade, due to an above-average credit spread from shorter-term assets and an attractive cash rate. This makes us cautiously optimistic about future return prospects.

We plan to maintain our spread duration at around 1.8 - 2.2 years in the upcoming months which is a wider range dependent on the outcome of the US election, which in the case of a Republican victory would likely extend the credit cycle. This will be skewed towards Australian credit because credit spreads in Australia are closer to their long-term averages compared to the significantly tighter spreads observed in the US. Barring a severe global downturn and considering the sustained interest from yield-seeking high-net-worth and Asian investors, we anticipate that Australian spreads will likely play catch-up to the US by moving towards the lower end of their historical ranges.



In terms of asset allocation, the portfolio can be split across three major 'buckets'; financials (~64%), corporates and REITs (~18%), and asset and mortgage-backed securities (<15%), with the residual in cash and liquids. Close to ~84% of the portfolio is held in Australian & New Zealand names, and by currency <5% is held in non-AUD denominated securities.

Portfolio liquidity remains high, with 'Level 1' liquidity at ~17% (cash, commercial paper, SSGA) and at the high end of the range for 'Level 2' liquidity at ~17% (<1yr investment grade). We believe the high level of liquidity provides the flexibility to buy attractive credits or take advantage of a better entry point should there be a sell-off.

Unless otherwise specified, any information contained in this publication is current as at the date of this report and is provided by Fidante Partners Limited (ABN 94 002 835 592, AFSL 234668) the issuer of the Kapstream Wholesale Absolute Return Income Fund (ARSN 124 152 790) (Fund). Kapstream Capital Pty Limited (ABN 19 122 076 117, AFSL 308870) is the investment manager of the Fund. It should be regarded as general information only rather than advice. It has been prepared without taking account of any person's objectives, financial situation or needs. Because of that, each person should, before acting on any such information, consider its appropriateness, having regard to their objectives, financial situation and needs. Each person should obtain the relevant Product Disclosure Statement (PDS) relating to the Fund and consider that PDS before making any decision about the Fund. A copy of the PDS can be obtained from your financial adviser, our Investor Services team on 13 51 53, or on our website [www.fidante.com.au](http://www.fidante.com.au). If you acquire or hold the product, we and/or a Fidante Partners related company will receive fees and other benefits which are generally disclosed in the PDS or other disclosure document for the product. Neither Fidante Partners nor a Fidante Partners related company and our respective employees receive any specific remuneration for any advice provided to you. However, financial advisers (including some Fidante Partners related companies) may receive fees or commissions if they provide advice to you or arrange for you to invest in the Fund. Kapstream Capital, some or all Fidante Partners related companies and directors of those companies may benefit from fees, commissions and other benefits received by another group company.