



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, absolute return-oriented global fixed income portfolio.

Fund details

Inception date	16 August 2018
Fund size	AUD 510m
Distribution frequency	Quarterly
Management fee	0.45% p.a.
Buy/sell spread	0%/0.2%
Interest rate duration	1.06yrs
Spread duration physical	2.38yrs
Yield to Maturity	6.44%
Average credit rating	BBB+
Number of issuers	62

Fund guidelines

Target return	cash plus 3-4%
Target volatility	<3% annualised
Duration limit	-2 to +2 yrs
Credit quality	>75% investment grade

Platforms

- AMP North (Class A)
- Asgard Infinity
- BT Panorama
- Insignia - Asset Administrator (Badge BT)
- Netwealth



Dylan Bourke
Portfolio Manager



Daniel Siluk
Portfolio Manager

November 2024

Performance (%)	1 month	3 months	calendar year to date	1 year	3 years annualised	5 years annualised	since inception annualised
Fund Return <i>(before fees and sell spread)</i>	0.63	2.24	7.99	9.03	5.68	4.21	4.35
Fund Return <i>(after fees, before sell spread)¹</i>	0.59	2.12	7.54	8.52	5.18	3.72	3.86
Fund Return <i>(after fees and sell spread)²</i>	0.59	2.12	7.53	8.52	5.19	3.70	3.85
RBA Cash Rate	0.34	1.07	4.00	4.35	3.03	1.90	1.78
Active return³ <i>(before fees and sell spread)</i>	0.29	1.17	3.99	4.68	2.65	2.31	2.57
Active return ³ <i>(after fees and sell spread)²</i>	0.25	1.06	3.54	4.17	2.16	1.80	2.07
Ausbond Bank Bill Index	0.36	1.10	4.08	4.46	3.07	1.92	1.87

Past performance is no guarantee of future results. Net of fee returns inclusive of 0.4632% annualised total expenses. 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 start and end of period sell spread level, and management fees. 3) Active return of the Fund compared to Benchmark (RBA Cash Rate). Source: Fidante Partners Limited, 30 November 2024.

Performance commentary

The Fund returned 0.63% before fees in November, and the rolling one-year return was a very solid 9.03%. The primary returns driver was the consistent coupon income. Additionally, the fund benefited from modest movements in both bond yields and credit spreads: bond yields finished the month lower despite the US election resulting in a Republican sweep and credit benefited from spread compression globally, although widening pressure in Australia was seen later in the month on the back of significant primary issuance. The yield to maturity of 6.44% provides a strong basis for returns looking forward.

Portfolio strategy

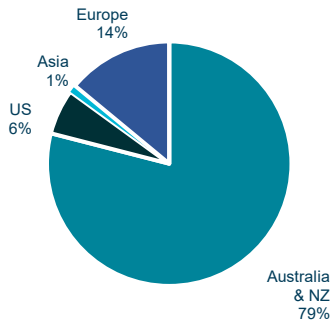
The portfolio's physical spread duration increased to 2.38yrs, as we invested in attractive primary opportunities and to build some carry ahead of the quiet holiday season as we expect the Republican victory will likely extend the credit cycle with risks only expected to be seen after inauguration on 20 January 2025. The portfolio continues to be skewed towards Australian dollar credit where we see good relative value. 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.

The average credit rating of holdings remained at BBB+. High yield exposure was stable at ~15%, in typically BB-rated short maturity assets. The portfolio is split across financials (~68%), corporates (~11%), and ABS/MBS and warehouses (~17%), with the residual in cash and SSGAs. We have a ~79%/21% split between Australia/New Zealand and international issuers, with the slight shift towards the latter due to attractive primary opportunities.

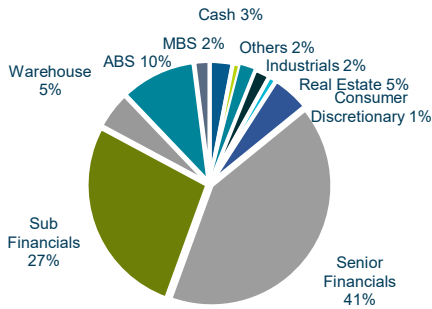
Portfolio liquidity remains solid, with 'Level 1' liquidity at ~11% (cash, commercial paper, SSGA), down from 16% as we invested in new deals. 'Level 2' liquidity was fairly stable at ~17% (<1yr investment grade). We believe the high level of liquidity provides the flexibility to buy attractive credits or take advantage of a better entry point should there be a sell-off.

Rates duration remained at around one year in November (1.06yrs). We continue to have the vast majority of our exposure outside the US, avoiding the election-related uncertainty, preferring regions where central banks have started easing and are still expected to take rates below neutral and below current market pricing. This includes Canada (0.31yr) and mainland Europe (0.31yr), as well as New Zealand (0.06yr). Short duration positioning in Australia has been removed as near-term easing pricing was largely removed (0.1yr).

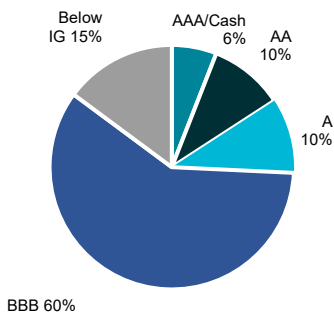
Geographic Allocation



Sector Allocation



Credit Rating



Outlook

The US election represented the key event risk for financial markets in November. Chances of a Republican president and House/Senate combination increased in late October, seeing equities and yields rise. This continued in the early part of November, as the chance became a reality. The prospect of additional expansionary fiscal policy saw rate cut expectations wound back, with the terminal rate rising to 3.75% and US 2-year yields rising to as high as 4.38%. The S&P500 breached the 6,000 level for the first time. The same improvement in risk sentiment saw credit spreads compress both in the US and Australia.

However, the month did not continue as it started. Yields and equities came off these highs as news around Trump administration appointees saw some of the more extreme expectations around fiscal stimulus wound back. Equities came off their highs (only to rebound and finish at a record high) and spreads widened a touch off their lows. In Australia, the bounce in the last week of the month on new issuance indigestion saw the Bloomberg Ausbond Credit 0+ Index spread to swap out 2bps in November. Yields also gave back some of their gains but finished the month lower, as US Fed officials came out to suggest that a rate cut was still on track for the December meeting. US 2-year yields closed 2bps lower at 4.15%, with US 10-year yields down 12bps in a surprise flattening of the yield curve (yield curves usually steepen in easing cycles and in environments where more government bonds need to be issued).

Yields elsewhere did not rise on this very US focused event and finished more significantly down in November. German yields fell on softening inflation and activity data, as well as ECB speak, with 2-year yields down 33bps. Markets are now pricing in a minimum of 25bps cuts from the ECB at its next four meetings, with chances of 50bps at each. UK yields were down around 20bps across the curve. Australian yields fell a reasonable amount as expectations of RBA cuts increased, with Australian 3-year yields down 11bps. Canadian 2-year yields were down a modest 4bps.

Whilst the initial event risk related to the US election result is behind us, the uncertainty around what the result of the election means from here is not. Many questions remain, including the size of any fiscal stimulus, its impact on economic growth and inflation and whether it will stop the Fed from easing monetary policy all the way back to neutral. Forecasts of rate hikes in the US in 2025 have also resurfaced. There also remains questions around what happens to economic activity outside the US. Tariffs may negatively impact other regions, such as Europe, which is already suffering with below trend economic activity. Threats of tariffs have been raised for Canada and Mexico.

Outside of the United States, several other themes also still at play. Economic activity has slipped below trend in Europe, Canada and New Zealand, with central banks taking official interest rates back towards neutral and perhaps beyond. Yields may therefore continue their down trend and curves steepen in this regions, decoupling from the usual relationship with the US. In contrast and despite sub-trend economic activity in Australia, inflation has remained stubbornly high such that a rate cut from the RBA is not expected until well into next year.

The year 2025 may therefore be when the official interest rate cycles diverge, after the starting points were synchronised by the pandemic. Active management that is global in nature will therefore be even more important than usual in such a world. Our philosophy is to run a 'sleep-at-night' portfolio, quickly selling investments with any concerns to minimise potential price impacts, and we expect the attractive yield to generate a meaningful return for investors. Nevertheless, we remain positive on the outlook for stable and attractive portfolio returns, as the yield to maturity bounces around 6-7%, providing a rich buffer to the uncertainty of the macro backdrop. Additionally, the elevated levels of available portfolio liquidity and volatility budget provide us with ample ability to pounce on any opportunities, reinforcing our cautious optimism for returns in the period ahead.

The information has been prepared on the basis that the Client is a wholesale client within the meaning of the Corporations Act 2001 (Cth), is general in nature and is not intended to constitute advice or a securities recommendation. It should be regarded as general information only rather than advice. Because of that, the Client should, before acting on any such information, consider its appropriateness, having regard to the Client's objectives, financial situation and needs. Any information provided or conclusions made in this report, whether express or implied, do not take into account the investment objectives, financial situation and particular needs of the Client. Past performance is not a guide to future performance. Neither Kapstream Capital ("Kapstream") (ABN 19 122 076 117 AFSL 308 870) nor any other person guarantees the repayment of capital or any particular rate of return of the Client portfolio. Except to the extent prohibited by statute, Kapstream, or any director, officer, employee or agent of Kapstream, do not accept any liability (whether in negligence or otherwise) for any errors or omissions contained in this report.