



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 2030.48
Distribution frequency	Quarterly
Management fee	0.40%
Buy/sell spread	Please contact us for latest spreads

Fund Statistics

Interest rate duration	0.74yrs
Credit spread duration	1.96yrs
Average credit rating	A-
No of issuers	73
Yield to maturity	5.56%

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

January 2025

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)	0.61	1.71	7.29	4.64	3.17	4.71
Fund Return (after fees, before sell spread) ¹	0.56	1.58	6.80	4.19	2.72	4.33
Fund Return (after fees and sell spread) ²	0.56	1.59	6.81	4.19	2.70	4.33
RBA Cash Rate	0.36	1.08	4.36	3.27	2.03	2.85
Active return ³ (before fees and sell spread)	0.25	0.63	2.93	1.36	1.14	1.85
Active return ³ (after fees and sell spread) ²	0.20	0.51	2.44	0.92	0.68	1.48
Bloomberg AusBond Bank Bills Index	0.38	1.12	4.48	3.32	2.04	3.05

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 January 2025.

Performance Commentary

The Fund added 0.56% in January, taking 12 month returns to 6.81% (after accounting for Class I unit fees). Volatility and headline risk are likely to be a feature of financial markets over 2025, as evidenced by the new administration in the US threatening tariffs towards the end of the month. Nonetheless the portfolio outperformed RBA cash over the month, as market movements across rates and credit provided a modest tailwind to the income generated by the portfolio's short-dated credit exposures. Global bond yields were mixed depending on region and part of the curve but were net positive for monthly returns on the back of significant falls at the front end of the Canadian curve where we retain reasonable exposures. This highlights the benefits of our increasingly global focus to duration, with yields rising a touch in other regions such as New Zealand, Germany and Australia. Credit spreads came in marginally over the month, which also benefited performance after we reduced our defensive positioning in recent months. The yield to maturity of 5.56% at the end of January, whilst 10bps lower over the month, continues to provide a strong basis for absolute and relative-to-cash returns looking forward.

Market Commentary

With the changing of the guard in US politics the market had to deal with the inevitable announcements relating to changes in Government policy. Or at the very least the threats of them. President Trump's proposal of 10% tariffs on China and 25% tariffs for Canada and Mexico hit risk markets hard, only for this to be partly unwound the following day when productive conversations saw the Canadian and Mexican tariffs delayed for a month on promises of more resources being sent to police the US borders. China's response was less conciliatory, promising tariffs in return.



Dan Siluk
Portfolio
Manager



Dylan Bourke
Portfolio
Manager



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

Bond markets had begun factoring in the change of regime late last year, particularly at the back end of the curve. The prospect of larger fiscal deficits and increased borrowing programs saw the curve steepen, even with the market expecting fewer rate cuts (which would normally flatten the curve). The focus for the front end remains more on what central banks do from here, but this is far from clear. Tariffs raise inflation but the negative economic activity impacts are more likely to be what central banks focus on. That said, the high probability of tax cuts later in the year remains strongly supportive for growth expectations and cannot be ignored. Combined with progress on disinflation stalling, this is likely to keep the Fed on hold and see bond yields more range bound in the near term.

Kapstream's focus remains global, and tariff uncertainty only affirms the downward trajectory in official interest rates (and therefore bond yields) in regions outside the US, such as Canada and Europe. Economic data in New Zealand continues to support the economy being in recession, with official interest rates set to fall and by more than is currently priced. The other big shift over January was the chances of a rate cut in Australia, following a softer Q4 trimmed mean CPI annualised to 2.0% - the first below 2.5% target midpoint outcome since Q2 2021. Market pricing for a February start to the easing cycle therefore went from around a two-in-three chance to more than 90% priced, despite the unemployment rate being 0.3pps below the RBA's forecast at 4.0%.

Outlook

January has set the tone for much of what we expect for the year. Headlines brought volatility to markets, which was concentrated more in risk markets, than rates. The possible playbook of fading the initial headlines would have worked, but only if you were quick enough to do so! However, other risks remain, as highlighted by the fall in equity markets relating to the drop in Nvidia's share price on reports of Chinese competition. Economic data also remain important, with core inflation measures stalling above target in most developed markets and unemployment rates rising under the weight of restrictive monetary policy.

Nonetheless the economic backdrop remains on a solid footing. Possible tax cuts will boost an already strong US economy, and economic growth seems to be recovering in other regions. This suggests a positive outlook for risk markets, although in credit markets with spreads at the bottom end of the range, particularly in the US, the upside is more limited. With lower downside risks to sentiment, we also think the downtrend that we and many had expected in bond yields after the start of the global easing cycle in 2024, is now far less likely. Sideways ranges in US yields are now our expectation and with considerable uncertainty of breakouts in either direction and greater-than-usual volatility. That said, it is outside the US where we have greater conviction that central banks will continue to ease. We are preferring to dedicate our research efforts and assign risk budget to these areas, where conviction is higher.

Portfolio Strategy

Portfolio positioning continues to reflect the above outlook - namely less chance of a global recession and contraction in risk markets, combined with lower conviction around the continued downtrend in US yields. The view that official rate cuts will support lower bond yields outside the US remains in place.

Amidst the increased uncertainty around the path for global rates, duration was reduced over January from around one year to finish the month around three-quarters of a year. This reduction in duration was mostly in the US, given the lower confidence outlined above. This leaves the vast bulk of our duration exposure elsewhere, where central banks are continuing to ease. We also initiated a small short position in Australian rates to fade the more than 90% chance of a February start to the RBA easing cycle, which we see as overdone.



Credit carry continued to support returns in January whilst spread compression was slightly additive. The portfolio's physical spread duration reduced slightly as we took profits on some positions.

We expect that risk markets will continue to focus on the positives of potential tax cuts and de-regulation in the short term. Its focus will only shift to potential negatives upon inauguration when potential tariff induced trade wars, unpredictable executive orders and significant fiscal spending cuts uncertain impact on S&P500 companies as they become more visible.

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 and were pleased to still outperform the local market in that respect. This month we participated in various financial and corporate deals.

The fund's close to decade high coupon is providing higher return stability 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 2.0 - 2.2 years in the upcoming months, balancing our view that we expect the Republican victory to potentially extend the credit cycle, offset by fairly tight US credit spreads and the ability for bouts of short tariff induced volatility. The exposure has been skewed towards Australian credit because credit spreads are closer to their long-term averages compared to the significantly tighter spreads observed in the US. 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, unless disrupted by an unforeseen macro event.

In terms of asset allocation, the portfolio can be split across three major 'buckets'; financials (~63%), corporates and REITs (~20%), and asset and mortgage-backed securities (<15%), with the residual in cash and liquids. Close to ~79% 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, but we reduced it over the month given the red sweep, with 'Level 1' liquidity at ~11% (cash, commercial paper, SSGA) and at the high end of the range for 'Level 2' liquidity at ~19% (<1yr investment grade). We believe the high level of liquidity provides the flexibility to buy more attractive credits should there be a sell-off.

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