



Fund Objective

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

Fund Details

APIR code	HOW0052AU
Inception date	31 May 2007
Fund size	AUD 2,052m
Distribution frequency	Quarterly
Management fee	0.55%
Buy/sell spread	0.00%/-0.07%

Fund Statistics

Interest rate duration	1.30yrs
Credit spread duration	2.07yrs
Average credit rating	BBB+
No of issuers	74
Yield to maturity	5.96%

Fund Guidelines

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

March 2024

Performance	1 month %	3 months %	CYTD	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Inception % p.a.
Fund Return (Net) ¹	0.54	1.08	1.08	5.48	2.11	1.93	2.53	3.94
RBA Cash Rate ²	0.34	1.07	1.07	4.11	2.08	1.47	1.65	2.78
Active Return ¹	0.20	0.01	0.01	1.37	0.03	0.45	0.88	1.16

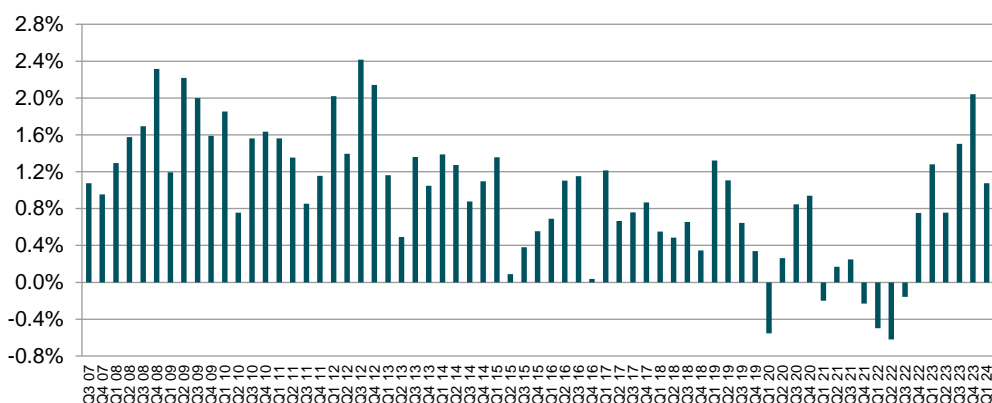
Past performance is not a reliable indicator of future performance

¹ Performance figures are calculated after fees have been deducted and assume distributions have been reinvested. No allowances are made for tax when calculating these figures. After fee returns inclusive of annualised total expenses for Class A Units. Prior to 1 October 2019, annualised total expenses were 0.70%. From 1 October 2019, annualised total expenses are 0.55%.

² From 1 February 2014 to 30 September 2019, the Fund's benchmark was a composite benchmark comprising 50% Bloomberg Ausbond 0-3 Yr Index & 50% Bloomberg Ausbond Bank Bill Index. Prior to 1 February 2014, the Fund's benchmark was the RBA Cash Rate.

Source: Fidante Partners Limited, 31 March 2024

Quarterly Performance History¹



³ Source: Kapstream Capital, 31 March 2024

Performance Commentary

The Fund returned 0.54% in March and 1.08% calendar year-to-date 2024. Risk markets improved modestly in the month against a backdrop of still strong economic growth, particularly in the US. Yield movements were more restrained compared to February, as we continue to edge closer to central bank rate cuts across the developed world, with inflation returning towards target. Portfolio duration positioning had little impact (positively or negatively) on performance, but continues to provide an important ongoing hedge against unforeseen adverse changes to the credit environment. We continue to hold high conviction that positive duration positioning will add to performance in 2024 as central banks ease policy. Returns over the first quarter were held back a little as a result of rising yields in February. A longer-term picture, which also includes the larger and expected fall in yields of late 2023, shows strong returns over the past twelve months. The portfolio yield to maturity remains high at ~6%, modestly down in the month but still providing strong support for expected future returns. Portfolio liquidity remains high, in line with our strategic objectives and to enable us to take advantage of opportunities as they arise.

Portfolio Managers

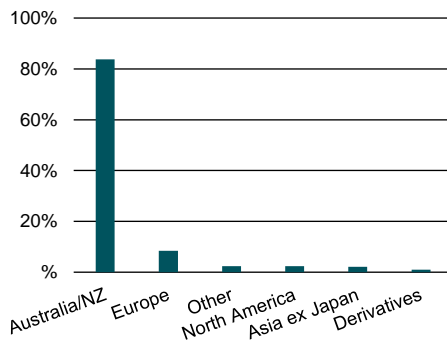


Dan Siluk
Co-Lead Portfolio Manager

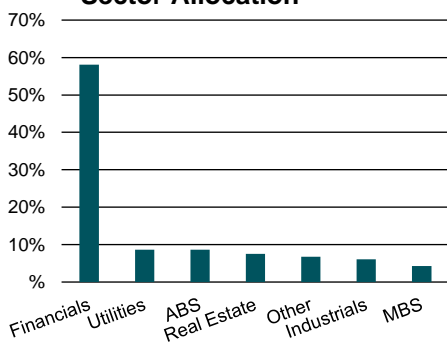


Dylan Bourke
Co-Lead Portfolio Manager

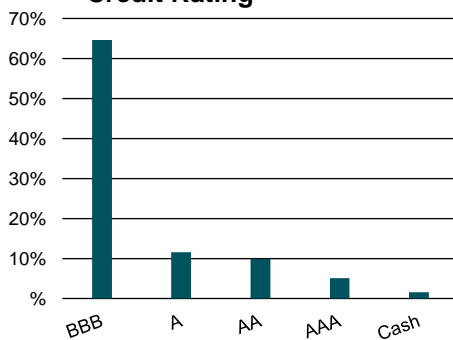
Geographic Allocation



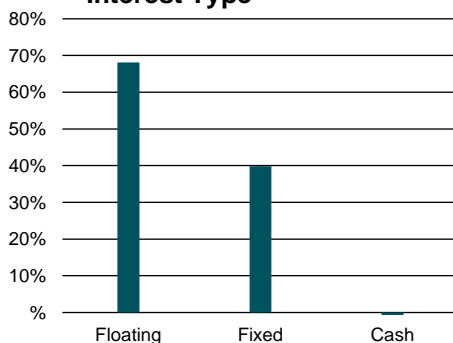
Sector Allocation



Credit Rating



Interest Type



Market Commentary

We continue to edge towards an easing in monetary policy from central banks globally. Inflation continues to fall from the lofty heights seen in 2022, but is not yet at target. Furthermore the pace of decline is uneven through time and across jurisdictions, meaning that the timing of the first easing in each region remains uncertain and varied. It can be argued that this aspect, combined with the performance of underlying economies and labor markets, will significantly influence the pace and extent of this easing.

Unlike February, the debate on timing and pace of easing did not change wildly in March. Yields finished the month largely where they started in the US and were modestly lower elsewhere. This consolidated the sharp rise in yields that was seen in February, after markets got too far ahead of themselves in late 2023 in terms of the extent of easing expected from central banks. The broader perspective reveals that yields currently sit at approximately the midpoint of their range over the last 18 months, below the highs of late 2023 as tightening cycles drew to a close, but above the over-stretched lows in January 2024 and in the aftermath of the US regional banking crisis in early 2023.

The US Federal Reserve Meeting came and went without too much reaction in markets. US inflation forecasts were raised for this year, in response to the strength seen in January and February, but the median amount of easing this year in the Fed's 'dots' stayed at 75bps. However, the Fed's expectations for where the Fed Funds rate will be beyond 2024 was increased, which was somewhat overlooked by markets. The expected June start to the easing cycle therefore remains on a knife's edge, with the US election later in the year. The European Central Bank also left rates on hold but remains committed to cuts beginning in June, with the Swiss National Bank being the first developed market central bank to ease, with a 25bps reduction to 1.5%. Central banks in Australia, New Zealand and Canada all showed a somewhat neutral bias, with inflation still too high above target to consider easing. That said, the resumption of a downtrend in inflation in Canada means that a move towards a dovish bias may be seen in coming months.

In March, risk markets were exceptionally well-supported, buoyed by the ongoing narrative of a soft landing. US GDP growth posted an above-trend 3.1% yearly gain over 2023. Early estimates for the first quarter are for a solid 2% annualised pace, supporting earnings expectations and the soft landing (or dare we say, no landing, theme). US equities posted a 3% gain and hit record highs. Credit spreads also declined, but the extent of this is limited by how low they already are. The US Bloomberg Corporate Aggregate OAS Credit spread series declined by 6bps to 90bps as at the end of March, well inside the historical average of 150bps. Australian physical credit spreads continue to lag the global backdrop, with the Bloomberg Ausbond OAS credit spread declining by 1bp to 142bps, but still remaining above its historical average of 133bps.

Portfolio Strategy

The high coupon continues to provide a return robustness which hasn't been seen for around a decade. The quality of this coupon is strong given it is comprised of a higher than average credit spread, despite being focused on shorter dated assets. Given this high coupon we remain cautiously optimistic. Additionally as the odds of a soft landing (rather than hard landing) in the US continues to increase given strong GDP and unemployment data, we expect to hold spread duration around 1.8-2yrs over the coming months in Australian credit, as home market credit spreads remain around long term averages, whilst US credit spreads are significantly tighter against averages, and our view that if the global macro environment remains stable, Australian spreads will eventually follow the US lead.

In terms of asset allocation, the portfolio can be split across three major 'buckets'; financials (~60%), corporates and REITs (~25%), and asset and mortgage-backed securities (<15%) with the residual in cash and liquids. Close to ~85% 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 and was fairly stable as we chose to take profits on previous new issues to fund investments into 'new' new issues, mainly in AUD credits with 'Level 1' liquidity at ~9% (cash, commercial paper, SSGA) and at the high end of the range for 'Level 2' liquidity at ~17% (<1yr investment grade). We believe this mix provides the flexibility to buy attractive credits.

Outlook

The pace of decline in inflation and official interest rates remains the key focus of financial markets. Bond yields are lower than where they were towards the middle and end of last year and we have a high conviction view that this will continue to be a major theme over 2024. However, financial markets rarely move in a straight line, and the start of the year has been a good example of that. We also see the end point of the coming easing cycles as being too high. Once central banks begin to ease we expect this to be reflected via the pricing in of a more aggressive cutting cycle than is currently anticipated.

The risks of a hard landing in the US have declined, but not disappeared. A lagged response to the official interest rate hikes seen over 2022 is still possible. Furthermore, economic activity outside the US has already slowed below trend, a point seemingly overlooked by financial markets looking at current pricing. In Australia economic growth has slipped to 1.5% in the year to Q4, below the trend number closer to 3%. New Zealand has slipped into a technical recession already, with two consecutive quarters of negative growth to finish 2023. Growth in the Eurozone has slipped to just 0.1% as at the end of 2023. We still believe some caution is therefore warranted on the economic outlook and consequently risk markets.

This material has been prepared by Kapstream Capital Pty Limited ABN 19 122 076 117 AFSL 308870 (Kapstream), the investment manager of the Kapstream Absolute Return Income Fund ARSN 124 152 790 (**Fund**). Fidante Partners Limited ABN 94 002 835 592 AFSL 234 668 (**Fidante Partners**) is a member of the Challenger Limited group of companies (Challenger Group) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Kapstream and Fidante Partners have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Kapstream and Fidante Partners may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the Banking Act 1959 (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (Challenger ADI) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.