Kapstream
—JANUS HENDERSON—

ARSN 632 896 176

Kapstream Absolute Return Income Active ETF (CXA:XKAP)

Fund Facts – 31 December 2024

CXA Ticker	XKAP		
Fund Inception Date	10 October 2019	**Fund Size**	$16.7 million
Underlying Fund Inception Date	31 March 2007	**Underlying Fund Size**	$2.0 billion
Distribution Frequency	Quarterly	**Unit Registry**	Link Market Services
Management Fee	0.55% p.a.	**Fund Issuer**	Fidante Partners Limited

Fund Overview

The Kapstream Absolute Return Income Active ETF aims to deliver an alternative approach to fixed income. It provides access to global fixed income markets, in order to facilitate a steady income stream with capital stability across economic cycles.

Kapstream adheres to an active and less traditional approach to fixed interest management, one that blends top down macroeconomic outputs with bottom-up security selection. Unlike more mainstream competitors, it is not subject to the same benchmark relative constraints, providing the investment team with greater scope to incorporate best trade ideas and position the portfolio in response to varying market conditions.

Suits Investors Seeking

- Stable income across market cycles.
- Potentially higher levels of returns compared to cash.
- Low to moderate volatility.
- A diversified portfolio that can complement other asset classes.

Monthly Performance Report – 31 December 2024

Fund Performance[1, 2]	1 month	3 months	CYTD	1 year	3 years	5 years	Since inception[3]
Fund	0.57	1.68	7.22	7.22	4.45	3.96	3.85
RBA Cash Rate	0.37	1.08	4.39	4.39	3.15	1.97	1.91
Excess Return	0.14	0.44	2.19	2.19	0.70	1.39	1.33

1 Performance figures are based on the Fund's net asset value, are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of likely future performance. All periods longer than 1 year are annualised.

2 The performance of the Fund will not exactly replicate that of the Underlying Fund, for example, where cash is held by the Fund.

3 The Fund's inception date is 10 October 2019.

Source: Fidante Partners Limited, 31 December 2024.

Underlying Fund

The Fund invests in Kapstream Absolute Return Income Fund (Underlying Fund). In this report, where we refer to the Fund's investments we generally do so on a 'look-through' basis; that is, we are referring to the underlying assets that the Fund is exposed to through its investment in the Underlying Fund.

Underlying Fund Performance[4]	1 month	3 months	CYTD	1 year	3 years	5 years	Since inception[5]
Underlying Fund	0.52	1.54	6.63	6.63	3.88	2.60	4.08
RBA Cash Rate[6]	0.37	1.08	4.39	4.39	3.15	1.97	2.85
Excess Return	0.15	0.46	2.25	2.25	0.72	0.63	1.24

4 Performance figures are calculated after fees have been deducted, assume distributions have been reinvested, and include the impact of sell spreads. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of likely future performance. All periods longer than 1 year are annualised.
5 The Underlying Fund's inception date is 31 March 2007.
6 From 1 February 2014 to 30 October 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 December 2024.

Fund Benefits

Unconstrained approach
Investing wherever the best risk adjusted opportunities can be found by Kapstream irrespective of the benchmark index.

Conservative risk focus
Priority is given to actively managing the Fund’s investment risks within limits.

Flexibility
Able to meaningfully shift exposure to different geographies, sectors and fixed income categories to meet its return and risk objectives.

Capital stability
Conservatively managed, the Fund is well suited to investors looking for potentially higher levels of returns compared to cash with low to moderate volatility.

Income stream
Investing predominantly in high quality bonds provides the potential for a stable quarterly income stream.

Diversification
A flexible, unconstrained approach results in a diversified portfolio that can be complementary to other asset classes.

Fund Risks

The Fund is exposed to a number of risks including interest rate risk, market risk, and collateral risk. Please refer to the Product Disclosure Statement for more information.

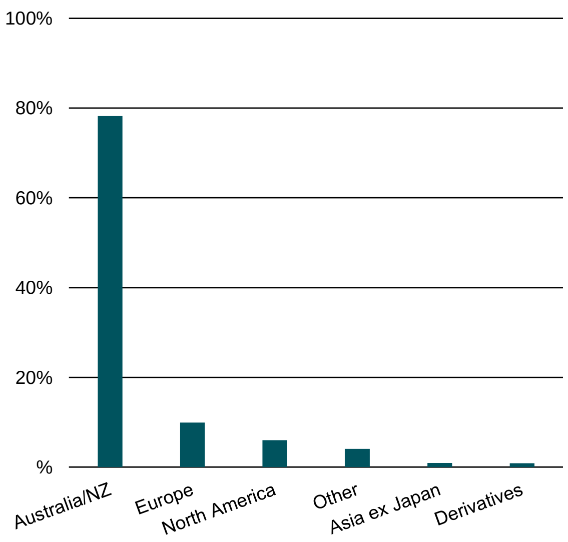
Underlying Fund Guidelines

Target Return	Target Volatility	Duration Limits	Credit Quality
Cash plus 2-3%	<1.5% annualised	-2 to +2 years	>85% investment grade

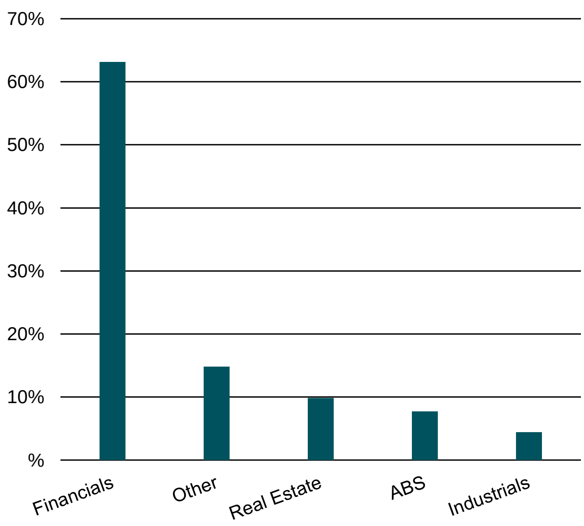
Underlying Fund Statistics

Interest Rate Duration	Credit Spread Duration	Average Credit Rating	Number of Issuers	Yield to Maturity
1.09yrs	2.09yrs	A-	73	5.66%

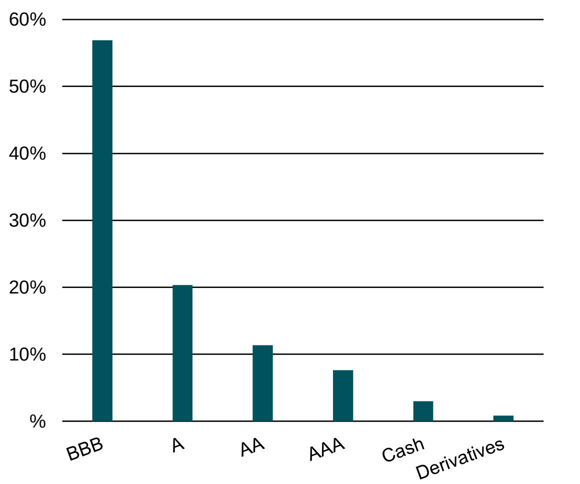
Geographic Allocation



Sector Allocation

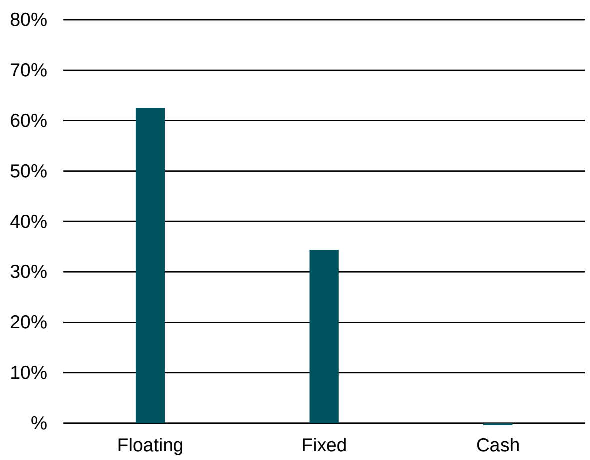


Credit Rating*



*of which 2.62% of Investment Grade and 0.62% of High Yield were internally rated

Interest Type



Monthly Commentary

Performance Commentary

The fund added 0.57% in December, taking 12 month returns to 7.22% [(after accounting for class A/I unit fees)]. Coupon income remained the key driver of returns, with market movements doing little to disturb this in December. Australian credit spreads were marginally wider (to swap) as global risk sentiment softened, but security selection more than offset this to see credit positioning make a modest positive contribution in the month. Yields were generally higher across the developed world, but much less so at the front end of the curve where Kapstream tends to focus. Additionally, our exposures to regions such as New Zealand and Canada, where front end yields actually fell, meant that the underlying portfolio was protected from a negative contribution from duration. Overall the underlying fund outperformed it’s cash benchmark for a ninth consecutive month to finish 2024, with yearly returns ending well in excess of the RBA’s 4.35% cash rate. The underlying portfolio’s yield to maturity fell 11bps to 5.66%, remaining high by historical standards and continuing to provide a strong basis for absolute and relative-to-cash returns looking forward.

Market Commentary

December was a mixed month in terms of sentiment. Equities and credit finished the year with a softer tone, after the strong post-US election gains seen in November. The S&P 500 fell 2.5% in December, erasing a portion of the 5.7% increase over November. US equities had a fantastic year in 2024, finishing up 23.3% and adding to the 24.2% increase in 2023. While the implications of the US election result is the current area of focus, it is useful to remember that these gains began well before November. The US avoiding recession was instead a more significant influence, after history suggested that the significant tightening cycle we saw would likely have derailed the economy.

* Kapstream's flagship and plus funds have placed in the top quartile of various consultant return universe over the past 1, 3 and 5 years as at June 2024 including Mercer and Zenith, whilst being ranked in the bottom quartile for volatility.

** Kapstream has calculated the monthly return correlation with the Australian based indices used in APRA's annual performance test for the Australian superannuation industry and analysed 1yr, 3yr and 5yrs of the Australian indices.

This pullback in risk sentiment over December predictably impacted credit markets. The Bloomberg US Agg Corporate average OAS rose 3bps to 80bps, after compressing 7bps in November. Nonetheless, this series remained near the bottom of the 74-618bps range for the past 25 years. Australian credit spreads to swap similarly widened in the month, with the Bloomberg Ausbond Credit 0+ index bid asset swap spread rising 1bp to 87bps. However, in contrast to the US situation, Australian credit spreads are closer to the average of the past 10 years of 89bps than the bottom of the 57-140bps range. The concerns around Australian credit spreads being tight from a longer-term valuation perspective is nowhere near as extreme.

In rates markets, bond yield movements in December were varied depending on the part of the curve and the region. In the US (which often sets the tone elsewhere in bond land) yields rose strongly at the back end of the curve. Expectations of monetary policy easing have been pared back, reinforced by an upwardly revised set of Fed forecasts that suggested that the Fed would only ease by 50bps in 2025 and the same again in 2026, to take the Fed Funds rate to closer to 3%. Financial markets are more sceptical and have a terminal rate of around 4%, with expectations that Republican fiscal spending will support growth and potentially raise inflation. Combined with increased US Government debt issuance expectations, which are particularly influential at the back end of the curve, this saw US ten-year yields rise 40bps in the month to 4.57%, far eclipsing the 9bps increase in US two-year yields 4.24%.

Bond markets elsewhere followed the US, but to a lesser degree. Long end yields generally rose, in line with the US. Front end yields fell in New Zealand and Canada as concerns about economic activity increased, with front end yields in Australia also falling on a dovish turn in RBA commentary. In contrast, front end yields in Europe and the UK rose more so than in the US, as expectations of an aggressive easing cycle were pared back. This highlights what we expect to be a key theme into 2025 - divergence in yield movements across countries.

Portfolio Strategy

Underlying portfolio positioning remains around historical averages, by design, reflecting the above outlook. Changes were minimal over the month of December.

In terms of recent changes, duration positioning was recently increased in October from a little over half a year towards one year, after markets were seen to have taken yields too low in August. It remained at around one year in December, rising back 0.1 years to 1.0 year over the month.

Kapstream continued to have the majority of it's exposure outside the US, avoiding the fiscal-spending related uncertainties after the US election. Instead, there is a preference for regions where central banks have started easing and are still expected to take rates below neutral and below current market pricing. Canadian and NZ exposures benefited the underlying portfolio in December, whereas the European position detracted.

Credit carry continued to support returns in December whilst spread compression played a smaller role as the Australian credit market continued to digest the primary overhang from November. The underlying 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 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 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. 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 underlying 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 ~78% of the underlying portfolio is held in Australian & New Zealand names, and by currency <5% is held in non-AUD denominated securities.

Underlying portfolio liquidity remains high but we reduced it over the month given the red sweep, with 'Level 1' liquidity at ~10% (cash, commercial paper, SSGA) and at the high end of the range for 'Level 2' liquidity at ~18%

(<1yr investment grade). We believe the high level of liquidity provides the flexibility to buy more attractive credits should there be a sell-off.

Outlook

The outlook for 2025 has a different set of uncertainties compared to those at the beginning of 2024. Questions over when the global easing cycle would begin and fears of a possible recession given previous monetary policy tightening, are no longer as prominent as they were. Instead, questions about the impact of US fiscal easing and whether monetary easing cycles will extend further from here have become key. Yields have not followed their usual historical pattern of declining after the first easing accordingly, as it's unclear whether official interest rates will move all the way back to neutral let alone beyond.

We remain optimistic about returns in 2025. Yields remain high by the standards set over the past decade and provide a strong support for expected returns. Credit spreads, while at the bottom end of the range in some regions, are not so across all regions. The risks of a sharp widening due to a global recession have also fallen given the resilience exhibited in 2024 and with the expectations of fiscal stimulus in the US. In the rates space we still expect cash rates to fall, particularly so outside the US where the same fiscal stimulus is not a factor and economies are weaker. We therefore continue to emphasise the benefits of a globally focused investment process that is able to capture these elements, as we see the biggest opportunities and conviction in regions such as Europe, Canada, New Zealand and Australia.

CONTACT US

For further information, please contact 1300 721 637 (within Australia) and 02 8023 5428 (outside of Australia) or Email: info@fidante.com.au

For investor enquiries, please contact Link Market Services: 1800 441 104, Email: fidante@linkmarketservices.com.au

For financial planner enquiries, please contact your local Business Development Manager or Email: bdm@fidante.com.au

www.fidante.com.au