

Kapstream Capital Managed Trusts Annual Financial Report for the Year Ended 30 June 2023

This annual financial report covers the following Kapstream Capital Pty Ltd managed Trusts as individual entities:

Kapstream Absolute Return Income Plus Fund

ARSN 627 095 676

Kapstream Absolute Return Income Fund

ARSN 124 152 790

The Responsible Entity of the above mentioned Trusts is Fidante Partners Limited (ABN 94 002 835 592) (AFSL 234 668).

The registered office of the Responsible Entity is Level 2, 5 Martin Place, Sydney NSW 2000.

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Directors' report

The Directors of Fidante Partners Limited, the Responsible Entity of the below listed Trusts (the Trusts), present their report together with the annual general purpose financial reports for the Trusts for the year ended 30 June 2023.

- Kapstream Absolute Return Income Plus Fund
- Kapstream Absolute Return Income Fund

The Trusts are Australian Registered Managed Investment Schemes. Fidante Partners Limited, the Responsible Entity of the Trusts, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is Level 2, 5 Martin Place, Sydney NSW 2000.

Directors

The following persons held office as Directors of Fidante Partners Limited during the year and up to the date of this report, unless otherwise stated:

A Bofinger	Director	
J Coomer	Director	(Resigned 26 June 2023)
R Grimes	Director	(Resigned 22 November 2022)
A Judin	Director	(Appointed 13 July 2023)
J O'Keeffe	Director	
V Rodriguez	Director	(Appointed 9 December 2022)
T Roxburgh	Director	(Appointed 13 July 2023)
Y Sodhi	Director	(Resigned 30 May 2023)

Principal activities and significant changes in the state of affairs

The Asset Manager of the Trusts is Kapstream Capital Pty Ltd (the Asset Manager).

The principal activity of the Trusts during the year was to invest in accordance with the provisions of the Trusts' governing documents. The individual investment strategies of the above mentioned Trusts are:

Trust name	Principal activity
Kapstream Absolute Return Income Plus Fund	The Trust invests in a global, diversified portfolio of predominantly investment grade fixed income securities, according to the Asset Manager's global macroeconomic and market views.
Kapstream Absolute Return Income Fund	The Trust invests in a global diversified portfolio, predominantly comprising of investment grade fixed income securities.

Directors' report (continued)

There were no significant changes in the nature of the Trusts' activities or to the state of affairs of the Trusts during the year.

Operating and financial review

The results of the operations of the Trusts for the year include the distributions paid and payable on a cents per unit (CPU) basis. The CPU represents the distribution paid by the Trusts to unitholders for each individual unit held in the Trusts.

The table below shows historical discrete annual return performance of the Trusts for the past two years. Performance is calculated after all fees, except any entry fees that have been deducted, and assumes that all distributions were reinvested during that year. The total return is the aggregate of capital growth and distribution of income.

The Indirect Cost Ratio (ICRs) represent the annualised percentage of indirect costs incurred by the Trusts over the Trusts' average net assets attributable to unitholders for the year.

The results of the Trusts were as follows:

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
For the year ended 30 June	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Net profit/(loss) before finance costs for the year attributable to unitholders	12,498	3,291	65,086	(35,120)
Distributions paid and payable	12,360	7,040	74,972	74,488

	Kapstream Absolute Return Income Plus Fund Class A		Kapstream Absolute Return Income Plus Fund Class I		Kapstream Absolute Return Income Fund Class A		Kapstream Absolute Return Income Fund Class I	
For the year ended 30 June	2023	2022	2023	2022	2023	2022	2023	2022
Capital growth (%)	0.55	(1.01)	0.10	(0.97)	(0.32)	(3.23)	(0.37)	(3.49)
Distribution of income (%)	3.05	1.95	3.71	2.08	2.97	2.11	3.17	2.52
Total return (%)	3.60	0.94	3.81	1.11	2.65	(1.12)	2.80	(0.97)
ICR (%)	0.60	0.60	0.46	0.46	0.55	0.55	0.41	0.41
Distributions paid and payable (CPU)	2.94	1.92	3.60	2.10	3.35	2.50	3.07	2.59

Directors' report (continued)

	Kapstream Absolute Return Income Fund Class P		Kapstream Absolute Return Income Fund Class X		Kapstream Absolute Return Income Fund ETF Class	
For the year ended 30 June	2023	2022	2023	2022	2023	2022
Capital growth (%)	39.69	(0.81)	(0.44)	(3.54)	(0.30)	(3.39)
Distribution of income (%)	2.54	0.80	3.19	2.55	3.53	2.80
Total return (%)	42.23	(0.01)	2.75	(0.99)	3.23	(0.59)
ICR (%)	0.45	0.45	0.45	0.45	—	—
Distributions paid and payable (CPU)	2.13	0.81	2.95	2.48	3.31	2.78

The indirect costs can include management fees and other costs as indicated in the Trusts' governing documents. Indirect costs may also include performance fees if permitted by the Trusts' governing documents. These costs are typically deducted from the Trusts' assets rather than paid directly by the unitholders of the Trusts.

Significant events after the balance date

At the date of this financial report, no matter or circumstance has arisen that has affected, or may significantly affect the Trusts' operations, the results of those operations or the Trusts' state of affairs in future financial years, which has not already been reflected in this report.

Likely developments and expected results

At the time the Directors approved this report, they were not aware of any developments likely to have a significant effect upon the operations or the result of the Trusts in subsequent financial years, which have not been adequately dealt with in this report or in the financial report.

The Trusts will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Trusts and in accordance with the provisions of the Trusts' Constitutions.

Further information on likely developments in the operations of the Trusts and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Trusts.

Indemnification and insurance of directors and officers

No insurance premiums are paid for out of the assets of the Trusts in regards to insurance cover provided to the officers of Fidante Partners Limited. So long as the officers of Fidante Partners Limited act in accordance with the Trusts' Constitutions and the Corporations Act 2001, the officers remain indemnified out of the assets of the Trusts against losses incurred while acting on behalf of the Trusts. The auditors of the Trusts are in no way indemnified out of the assets of the Trusts.

Directors' report (continued)

Fees paid to and interests held in the Trusts by the Responsible Entity or its related entities

Fees paid to the Responsible Entity and its related entities out of the Trusts' assets during the year are disclosed in note 12 to the financial statements.

No fees were paid out of Trusts' assets to the Directors of the Responsible Entity during the year.

Interests in the Trusts held by the Responsible Entity or its related entities as at the end of the financial year are disclosed in note 12 to the financial statements.

Interests in the Trusts

The movement in units on issue in the Trusts during the year is disclosed in note 2 to the financial statements.

Value of Trusts' assets

The value of the Trusts' assets and liabilities are disclosed in the statements of financial position and derived using the basis set out in note 1.2 to the financial statements.

Environmental regulation and performance

The operations of the Trusts are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Single set of financial reports

The Trusts are entities of the kind referred to in ASIC Corporations (Related Scheme Reports) Instrument 2015/839 issued by the Australian Securities and Investments Commission (ASIC) and in accordance with that Instrument, Trusts with a common Responsible Entity (or related Responsible Entities) can include their financial reports in adjacent columns in a single financial report.

Rounding of amounts to the nearest thousand dollars

Unless otherwise stated, monetary amounts contained in this report and the financial report have been rounded to the nearest \$1,000 under the option available to the Trusts under ASIC Corporations Instrument 2016/191.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

Directors' report (continued)

Authorisation

Signed in accordance with a resolution of the Directors of the Responsible Entity.

A handwritten signature in black ink, appearing to be 'A Judin', written over a circular stamp or seal.

A Judin
Director

Sydney
15 September 2023



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Auditor's independence declaration to the directors of Fidante Partners Limited

For the following Kapstream Capital Managed Trusts (the "Trusts"):

- Kapstream Absolute Return Income Plus Fund
- Kapstream Absolute Return Income Fund

As lead auditor for the audit of the financial report of the above Trusts for the financial year ended 30 June 2023, I declare to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.



Ernst & Young



Rita Da Silva
Partner
15 September 2023

Statements of comprehensive income

For the year ended 30 June

	Notes	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
		2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Income					
Interest income from financial assets measured at fair value through profit or loss		22,541	12,869	161,020	93,546
Interest income from financial assets measured at amortised cost		295	7	1,042	433
Other operating income		32	53	463	384
Net gains/(losses) on financial instruments at fair value through profit or loss		(4,158)	(8,668)	(24,446)	(120,994)
Net foreign exchange gains/(losses)		(534)	1,266	(7,567)	20,601
Total net income		18,176	5,527	130,512	(6,030)
Expenses					
Management fees	12	1,520	1,515	12,374	17,003
Interest expense from financial assets measured at fair value through profit of loss		4,061	633	51,338	10,876
Interest expense from financial assets measured at amortised cost		11	9	196	362
Transaction costs		42	34	307	347
Other expenses		44	45	1,211	502
Total expenses		5,678	2,236	65,426	29,090
Net profit/(loss) before finance costs for the year attributable to unitholders		12,498	3,291	65,086	(35,120)
Finance costs attributable to unitholders					
Distributions to unitholders	3	(12,360)	(7,040)	(74,972)	(74,488)
Movements in net assets attributable to unitholders	2	(138)	3,749	9,886	109,608
Net profit/(loss) after finance costs for the year attributable to unitholders		—	—	—	—
Other comprehensive income/(loss) for the year		—	—	—	—
Total comprehensive income/(loss) for the year attributable to unitholders		—	—	—	—

The statements of comprehensive income should be read in conjunction with the accompanying notes.

Statements of financial position

As at 30 June

	Notes	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
		2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Assets					
Cash and cash equivalents	13	3,648	8,391	29,005	90,440
Collateral and margin accounts		6,193	2,576	24,357	38,791
Receivables	4	6,177	1,357	26,701	15,164
Financial assets at fair value through profit or loss	5	346,996	327,583	2,261,675	2,821,686
Total assets		363,014	339,907	2,341,738	2,966,081
Liabilities					
Collateral and margin accounts		7,163	2,561	46,543	66,615
Distributions payable	3	3,191	1,893	17,073	32,318
Payables	8	1,037	364	13,330	10,286
Financial liabilities at fair value through profit or loss	6	1,108	12,251	12,265	15,253
Total liabilities (excluding net assets attributable to unitholders)		12,499	17,069	89,211	124,472
Net assets attributable to unitholders - Liability	2	350,515	322,838	2,252,527	2,841,609

The statements of financial position should be read in conjunction with the accompanying notes.

Statements of changes in unitholder funds

For the year ended 30 June

The following Trusts are multi-class and classify net assets attributable to unitholders as a liability. Refer to note 2.

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Classification of net assets attributable to unitholders as at 30 June	Liability	Liability	Liability	Liability
As at 1 July - Opening Balance	322,838	299,842	2,841,609	4,085,384
Applications for units	82,423	139,817	412,884	535,059
Units issued upon reinvestment of distributions	1,351	1,139	29,589	49,113
Redemptions of units	(56,235)	(114,211)	(1,021,669)	(1,718,339)
Movements in net assets attributable to unitholders - Liability	138	(3,749)	(9,886)	(109,608)
As at 30 June - Closing Balance	350,515	322,838	2,252,527	2,841,609

The statements of changes in unitholder funds should be read in conjunction with the accompanying notes.

Statements of cash flows

For the year ended 30 June

		Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
	Notes	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Cash flows from operating activities					
Proceeds from sale of financial instruments at fair value through profit or loss		425,535	318,482	2,604,277	4,108,158
Purchase of financial instruments at fair value through profit or loss		(459,773)	(343,826)	(2,083,757)	(2,888,280)
Interest received		21,526	12,889	149,959	96,663
Other income received		139	160	553	1,710
Interest paid		(3,659)	(444)	(47,957)	(6,917)
Management fees paid		(1,659)	(1,659)	(13,872)	(19,242)
Other expenses paid		(45)	(36)	(311)	(366)
Net cash inflows/(outflows) from operating activities	13	(17,936)	(14,434)	608,892	1,291,726
Cash flows from financing activities					
Proceeds from applications by unitholders		78,916	139,909	413,390	536,007
Payments for redemptions by unitholders		(56,096)	(114,290)	(1,022,632)	(1,756,300)
Distributions paid		(9,711)	(5,214)	(60,628)	(103,256)
Net cash inflows/(outflows) from financing activities		13,109	20,405	(669,870)	(1,323,549)
Net increase/(decrease) in cash and cash equivalents		(4,827)	5,971	(60,978)	(31,823)
Cash and cash equivalents at the beginning of the year		8,391	2,926	90,440	128,976
Effects of exchange rate changes on cash and cash equivalents		84	(506)	(457)	(6,713)
Cash and cash equivalents at the end of the year	13	3,648	8,391	29,005	90,440

The statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

1. Basis of preparation and overarching significant accounting policies

These financial statements cover the below listed Trusts (the Trusts) as individual entities. The Trusts are Australian registered managed investment schemes and were constituted on the below dates. The Trusts will terminate on the below dates unless terminated earlier in accordance with the provisions of the Trusts' Constitutions:

Trust name	Constitution date	Termination date
Kapstream Absolute Return Income Plus Fund	22 June 2018	21 June 2098
Kapstream Absolute Return Income Fund	31 May 2007	31 May 2087

The financial report of the Trusts for the year ended 30 June 2023 was authorised for issue in accordance with a resolution of the Directors on 15 September 2023.

The nature of the operating and principal activities of the Trusts are described in the Directors' report.

1.1. Basis of preparation

Basis of preparation

The accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

Furthermore the financial statements have been prepared on a going concern basis as the Trusts are expected to generate sufficient funds to enable them to pay their debts as and when they fall due.

The Trusts are for-profit entities for the purposes of preparing financial statements.

The statements of financial position are presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial instruments, and in instances where a Trust treats unitholder funds as a liability, net assets attributable to unitholders. The amounts expected to be recovered or settled beyond twelve months after the end of each reporting period cannot be reliably determined.

Unless stated otherwise, the financial report is presented in Australian dollars and has been prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

1. Basis of preparation and overarching significant accounting policies (continued)

Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

New accounting standards and interpretations

All new accounting standards that are applicable to the Trusts for the 30 June 2023 reporting period have been adopted and do not have a material impact on the financial statements.

There are no new accounting standards and interpretations that have been issued, but not yet effective, that are material to the financial statements or have been early adopted for the 30 June 2023 reporting period.

Foreign currency

Both the presentation currency and the functional currency of the Trusts are Australian dollars.

Transactions in foreign currency are translated into the Trusts' functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Australian dollars at the foreign exchange rate ruling at the statements of financial position date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the historical exchange rate as at the date of the transaction.

Non-monetary items measured at fair value in a foreign currency are translated to the functional currency using the exchange rate ruling at the date when the fair value was determined.

Comparatives

Where necessary, comparative figures have been reclassified to conform to any changes in presentation made in this financial report.

Rounding of amounts

Unless otherwise stated, monetary amounts contained in this report and the Directors' report have been rounded to the nearest \$1,000 under the option available to the Trusts under Australian Securities and Investments Commission (ASIC) Corporations Instrument 2016/191.

Including different registered scheme financial reports in a single document

The registered schemes have applied ASIC's Corporations Instrument 2015/839, which allows registered schemes with a common, or related, Responsible Entity to include their financial statements in adjacent columns in a single financial report.

1. Basis of preparation and overarching significant accounting policies (continued)

1.2. Summary of significant accounting policies

Investment income and interest expense

Investment income may include net gains or losses from financial instruments. Where applicable, these net gains include all realised and unrealised fair value changes. Any foreign exchange differences, interest, dividends and distributions are recorded as separate line items in the statements of comprehensive income. Where applicable, interest income and interest expense are recognised using the effective interest method, and dividend and distribution income are recognised when the Trusts' right to receive payment is established.

The Trusts have not applied hedge accounting.

Expenses

Expenses are recognised on an accrual basis at the fair value of the consideration paid or payable for services rendered.

Expenses may include management fees, operation costs and transaction costs. Expenses may also include performance fees if permitted by the Trusts' governing documents. Expenses are recognised in the statements of comprehensive income.

Taxes

Under the current legislation, the Trusts are not subject to income tax as all assessable income, exempt income and non-assessable income will be attributed to unitholders under the AMIT regime.

Financial instruments at fair value may include unrealised capital gains. Should such a gain be realised, the portion of the gain that is subject to capital gains tax will be attributed so that the Trusts are not subject to capital gains tax.

Realised capital losses are not attributed to unitholders but are retained in the Trusts to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is attributed to unitholders.

The benefit of imputation credits and foreign tax paid are passed on to unitholders.

Goods and services (GST)

The Trusts qualify for Reduced Input Tax Credits (RITC) at various applicable rates.

Revenues, expenses and assets are recognised net of the amount of GST, except when the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable.

1. Basis of preparation and overarching significant accounting policies (continued)

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statements of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Cash and cash equivalents

Cash and cash equivalents are financial assets with fixed or determinable payments and comprise of cash at bank, cash held with custodian and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash and cash equivalents are recognised at fair value. For the purposes of the statements of cash flows, cash and cash equivalents are stated net of any outstanding bank overdrafts.

Payments and receipts relating to the purchase and sale of investment securities at fair value are classified as cash flows from operating activities, as movements in the fair value of these securities form a part of the Trusts' income generating activity.

Collateral and margin accounts

Collateral and margin accounts represent short term investments which are not held for the purpose of meeting short term cash commitments. They may also include restricted deposits for derivative financial instruments and/or for securities sold short. Margin accounts represent cash deposits held by or due to brokers as collateral against open derivative contracts.

Collateral and margin accounts are measured at amortised cost using the effective interest method less any expected credit losses.

Financial instruments

Classification

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition/derecognition

The Trusts recognise financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognise changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Trusts have transferred substantially all risks and rewards of ownership.

1. Basis of preparation and overarching significant accounting policies (continued)

Measurement

At initial recognition, the Trusts measure financial assets and financial liabilities at fair value. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statements of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value are presented in the statements of comprehensive income. For further details on how the fair values of financial instruments are determined please refer to note 11.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets at fair value through profit or loss

Financial assets are categorised as financial assets - fair value through profit or loss. The classification depends on the definition and the purpose for which the investments were acquired. The classification of investments is determined at initial recognition and evaluated at each reporting date.

Purchases and sales of financial assets are recognised on the date on which the Trusts commit to purchase or sell the asset. A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Trusts have transferred their rights to receive cash flows from the asset, or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Trusts have:

- Transferred substantially all of the risks and rewards of the asset; or
- Neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

Financial assets measured at amortised cost

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Trusts include in this category short-term non-financing receivables including cash collateral posted on derivative contracts, accrued income and other receivables.

Financial liabilities at fair value through profit or loss

The Trusts may make short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or they may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

Derivative contracts that have a negative fair value are presented as financial liabilities at fair value through profit or loss.

1. Basis of preparation and overarching significant accounting policies (continued)

Securities subject to repurchase agreements continue to be recognised in the statements of financial position as the risks and rewards of ownership remain within the investment portfolio. Collateral received is classified as 'Repurchase agreement bonds' and are accounted for as financial assets at fair value through profit and loss. Collateral provided is classified as 'Repurchase agreements' and are accounted for as financial liabilities at fair value through profit or loss. The difference between the sale price and the repurchase price is charged to interest expense in the statements of comprehensive income using the effective interest rate method over the expected life of the agreements.

Net assets attributable to unitholders

Units issued by the Trusts are redeemable for cash at the unitholders' option at any time based on the redemption price. The fair value of redeemable units are measured using the redemption unit price at the reporting date if unitholders were to exercise their right to redeem units in the Trusts.

Units are classified as equity when they satisfy the following criteria under AASB 132 Financial Instruments: Presentation (AASB 132):

- the puttable financial instrument entitles the holder to a pro rata share of net assets in the event of the Trusts' liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Trusts, and it is not a contract settled in the Trusts' own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss and cannot be guaranteed.

At 30 June 2023, unitholder funds have not been classified as equity as they did not satisfy all of the criteria under AASB 132.

Use of estimates

The Trusts may hold financial instruments for which quoted market prices are readily available. The Trusts may also hold certain financial instruments, for example over-the-counter derivatives or unquoted securities, that are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Models are calibrated by back testing to actual transactions to ensure that outputs are reliable.

2. Net assets attributable to unitholders

As stipulated in the Trusts' Constitutions, each unit represents a right to an individual share in the respective Trusts and does not extend to a right to the underlying assets of the Trusts.

The number of separate classes of units in the below listed Trusts are as follows.

2. Net assets attributable to unitholders (continued)

Trust	Separate classes of units
Kapstream Absolute Return Income Plus Fund	Two
Kapstream Absolute Return Income Fund	Five

Each unit in the Trust has the same rights, preferences and restrictions attaching to it as all other units of each respective Trust.

Applications received for units in the Trusts are recorded net of any entry fees payable prior to the issue of units in the Trusts. Redemptions from the Trusts are recorded gross of any exit fees payable after the cancellation of units redeemed.

Income not distributed is included in net assets attributable to unitholders. Where unitholder funds are classified as a liability, movements in net assets attributable to unitholders are recognised in the statements of comprehensive income as finance costs.

Terms and conditions on units

Each unit issued confers upon the unitholder an equal interest in the Trusts, and is of equal value per class. A unit does not confer any interest in any particular asset or investment of the Trusts. Unitholders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- have their units redeemed;
- receive income distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Trusts.

The rights, obligations and restrictions attached to each unit are identical in all respects.

2. Net assets attributable to unitholders (continued)

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	Kapstream Absolute Return Income Plus Fund Class A		Kapstream Absolute Return Income Plus Fund Class I		Kapstream Absolute Return Income Fund Class A		Kapstream Absolute Return Income Fund Class I	
Net assets attributable to unitholders	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000
Classification of net assets attributable to unitholders as at 30 June	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability
As at 1 July 2022 - Opening Balance	11	10	325,072	322,828	1,528,432	1,740,427	1,096,353	1,074,477
Applications for units	18	19	82,554	82,404	303,522	345,487	67,510	66,030
Units issued upon reinvestment of distributions	—	—	1,362	1,351	5,948	6,753	23,366	22,836
Redemptions of units	—	—	(56,406)	(56,235)	(539,316)	(613,783)	(407,732)	(398,809)
Movements in net assets attributable to unitholders - Liability	—	—	—	138	—	(5,856)	—	(3,942)
As at 30 June 2023 - Closing Balance	29	29	352,582	350,486	1,298,586	1,473,028	779,497	760,592

	Kapstream Absolute Return Income Fund Class P		Kapstream Absolute Return Income Fund Class X		Kapstream Absolute Return Income Fund ETF Class	
Net assets attributable to unitholders	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000
Classification of net assets attributable to unitholders as at 30 June	Liability	Liability	Liability	Liability	Liability	Liability
As at 1 July 2022 - Opening Balance	230	227	16,328	15,214	11,801	11,264
Applications for units	—	—	394	367	1,047	1,000
Units issued upon reinvestment of distributions	—	—	—	—	—	—
Redemptions of units	(230)	(226)	(7,360)	(6,851)	(2,094)	(2,000)
Movements in net assets attributable to unitholders - Liability	—	(1)	—	(50)	—	(37)
As at 30 June 2023 - Closing Balance	—	—	9,362	8,680	10,754	10,227

2. Net assets attributable to unitholders (continued)

	Kapstream Absolute Return Income Plus Fund Class A		Kapstream Absolute Return Income Plus Fund Class I		Kapstream Absolute Return Income Fund Class A		Kapstream Absolute Return Income Fund Class I	
Net assets attributable to unitholders	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000
Classification of net assets attributable to unitholders as at 30 June	Liability	Liability	Liability	Liability	Liability	Liability	Liability	Liability
As at 1 July 2021 - Opening Balance	11	299,842	298,912	—	1,864,354	2,195,326	1,818,824	1,848,251
Applications for units	—	—	138,681	139,817	303,754	356,328	163,070	164,757
Units issued upon reinvestment of distributions	—	—	1,132	1,139	8,176	9,615	38,917	39,498
Redemptions of units	—	—	(113,653)	(114,211)	(647,852)	(757,263)	(924,458)	(933,181)
Movements in net assets attributable to unitholders - Liability	—	(299,832)	—	296,083	—	(63,579)	—	(44,848)
As at 30 June 2022 - Closing Balance	11	10	325,072	322,828	1,528,432	1,740,427	1,096,353	1,074,477

	Kapstream Absolute Return Income Fund Class P		Kapstream Absolute Return Income Fund Class X		Kapstream Absolute Return Income Fund ETF Class	
Net assets attributable to unitholders	No. '000	\$'000	No. '000	\$'000	No. '000	\$'000
Classification of net assets attributable to unitholders as at 30 June	Liability	Liability	Liability	Liability	Liability	Liability
As at 1 July 2021 - Opening Balance	77	76	33,676	32,552	9,283	9,179
Applications for units	10,223	10,161	843	814	3,032	2,999
Units issued upon reinvestment of distributions	—	—	—	—	—	—
Redemptions of units	(10,070)	(9,896)	(18,191)	(17,499)	(514)	(500)
Movements in net assets attributable to unitholders - Liability	—	(114)	—	(653)	—	(414)
As at 30 June 2022 - Closing Balance	230	227	16,328	15,214	11,801	11,264

2. Net assets attributable to unitholders (continued)

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Total net assets attributable to unitholders	350,515	322,838	2,252,527	2,841,609

Capital risk management

The Trusts consider their unitholder funds as capital. The amount of unitholder funds can change significantly as the Trusts are subject to applications and redemptions at the discretion of unitholders. Applications and redemptions are reviewed relative to the liquidity of the Trusts' underlying assets by the Responsible Entity. Under the terms of the Trusts' Constitutions, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

3. Distributions to unitholders

In accordance with the Trusts' Constitutions, the Trusts distribute income adjusted for amounts determined by the Responsible Entity to unitholders by cash or reinvestment. Where unitholder funds are classified as a liability, these distributions are recognised in the statements of comprehensive income as finance costs.

The distributions for the year are presented below in dollars ('000) and cents per unit (CPU) for each class.

	Kapstream Absolute Return Income Plus Fund Class A		Kapstream Absolute Return Income Plus Fund Class I		Kapstream Absolute Return Income Fund Class A		Kapstream Absolute Return Income Fund Class I	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Distributions								
Distributions paid - September 2022	—	0.85	2,983	0.90	12,176	0.84	7,915	0.77
Distributions paid - December 2022	—	0.87	3,087	0.90	11,863	0.84	7,551	0.75
Distributions paid - March 2023	—	0.85	3,099	0.90	11,351	0.83	6,464	0.79
Distributions payable - June 2023	—	0.37	3,191	0.90	10,973	0.84	5,942	0.76
Total distributions - 30 June 2023	—	2.94	12,360	3.60	46,363	3.35	27,872	3.07

3. Distributions to unitholders (continued)

	Kapstream Absolute Return Income Plus Fund Class A		Kapstream Absolute Return Income Plus Fund Class I		Kapstream Absolute Return Income Fund Class A		Kapstream Absolute Return Income Fund Class I	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Distributions paid - September 2021	—	0.47	1,556	0.51	7,148	0.39	6,777	0.38
Distributions paid - December 2021	—	0.50	1,915	0.51	7,329	0.42	6,278	0.48
Distributions paid - March 2022	—	0.42	1,676	0.50	8,365	0.50	5,775	0.48
Distributions payable - June 2022	—	0.53	1,893	0.58	18,240	1.19	13,715	1.25
Total distributions - 30 June 2022	—	1.92	7,040	2.10	41,082	2.50	32,545	2.59

	Kapstream Absolute Return Income Fund Class P		Kapstream Absolute Return Income Fund Class X		Kapstream Absolute Return Income Fund ETF Class	
	\$'000	CPU	\$'000	CPU	\$'000	CPU
Distributions						
Distributions paid - September 2022	2	0.87	106	0.76	102	0.79
Distributions paid - December 2022	—	—	85	0.70	107	0.84
Distributions paid - March 2023	—	1.26	79	0.78	98	0.83
Distributions payable - June 2023	—	—	67	0.71	91	0.85
Total distributions - 30 June 2023	2	2.13	337	2.95	398	3.31

Distributions paid - September 2021	3	0.15	105	0.38	47	0.43
Distributions paid - December 2021	16	0.27	90	0.40	54	0.46
Distributions paid - March 2022	28	0.39	90	0.46	65	0.53
Distributions payable - June 2022	—	—	203	1.24	160	1.36
Total distributions - 30 June 2022	47	0.81	488	2.48	326	2.78

3. Distributions to unitholders (continued)

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Total distributions paid and payable - 30 June	12,360	7,040	74,972	74,488

The component of the final distribution for the year which was unpaid at the reporting date is shown in the statements of financial position.

4. Receivables

Receivables may include GST RITC, application monies, interest, dividends, trust distributions and other income accrued and unsettled trade purchases. They are recognised when the right to receive payment is established and are generally recovered within 30 days. The Trusts measure expected credit losses on a 12-month basis. Given the nature of the Trusts' receivables and the limited exposure of the Trusts to credit risk, no material expected credit losses have been recognised.

Amounts recoverable from related entities have no fixed repayment term and are non-interest-bearing.

All receivables are considered current.

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
As at 30 June	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Application for units receivable	3,528	21	440	946
GST receivable	28	25	204	264
Interest receivable	2,621	1,311	26,057	13,954
Total receivables	6,177	1,357	26,701	15,164

5. Financial assets at fair value through profit or loss

As at 30 June	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Derivatives				
Credit default swaps	—	—	120	291
Forward currency contracts	42	45	300	93
Index credit default swaps	37	42	196	204
Interest rate swaps	2,269	2,038	36,939	50,129
Overnight indexed swaps	451	91	3,414	872
Over-the-counter options	5	—	33	—
Total derivatives	2,804	2,216	41,002	51,589
Debt securities				
Agency bonds	—	—	—	6,058
Asset-backed securities	39,929	26,645	174,813	173,323
Commercial papers	7,980	1,000	44,518	10,997
Convertible notes	12,320	12,361	21,774	21,847
Corporate bonds	35,174	37,251	589,506	832,132
Discount securities	45,079	32,649	180,315	244,333
Floating rate notes	173,795	165,430	1,061,810	1,184,113
Government bonds	—	2,304	—	26,107
Income securities	1,434	1,373	—	—
Mortgage-backed securities	27,909	32,205	112,424	231,715
Repurchase agreement bonds	—	12,683	—	—
Supranational bonds	572	1,466	35,513	39,472
Total debt securities	344,192	325,367	2,220,673	2,770,097
Total financial assets at fair value through profit or loss	346,996	327,583	2,261,675	2,821,686

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in notes 10 and 11 respectively.

6. Financial liabilities at fair value through profit or loss

The Trusts may make short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or they may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

As at 30 June	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Derivatives				
Credit default swaps	68	59	581	1,227
Forward currency contracts	415	1,171	3,433	10,851
Index credit default swaps	283	4	2,369	40
Interest rate swaps	342	187	5,845	3,125
Overnight indexed swaps	—	—	37	10
Swaptions	—	89	—	—
Total derivatives	1,108	1,510	12,265	15,253
Debt securities				
Repurchase agreements	—	10,741	—	—
Total debt securities	—	10,741	—	—
Total financial liabilities at fair value through profit or loss	1,108	12,251	12,265	15,253

An overview of the risk exposures and fair value measurements relating to financial liabilities at fair value through profit or loss is included in notes 10 and 11 respectively.

7. Derivative financial instruments

In the normal course of business, the Trusts enter into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

7. Derivative financial instruments (continued)

Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Trusts' portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Trusts against a fluctuation in market values or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategies, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Trusts.

The Trusts hold the following derivative instruments:

Credit default swaps

A credit default swap is a credit derivative used to hedge credit risk or take a position on a basket or credit entity. It is an agreement between two parties whereby one party pays the other a fixed coupon for the specified term of the agreement. The other party makes no payment unless a specified credit event occurs.

Unlike a credit default swap, which is an over-the-counter derivative, an index credit default swap is a standardised credit security.

Forward currency contracts

A forward currency contract is primarily used by the Trusts to hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Trusts agree to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing market price at the end of each reporting period. The Trusts recognise a gain or loss equal to the change in fair value at the end of each reporting period.

Futures

A future is a contractual obligation to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange.

Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. The Trusts are exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value. Options are settled on a gross basis.

7. Derivative financial instruments (continued)

Swaps

Swaps are derivative instruments in which two counter parties agree to exchange one stream of cash flow against another stream. Swaps may include cross currency swaps, equity swaps, FX rate swaps, inflation linked swaps, interest rate swaps, overnight indexed swaps, total return swaps and zero-coupon swaps.

Swaptions

A swaption is an option to enter into an interest rate swap. In exchange for an option premium, the buyer gains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date.

Refer to notes 5 and 6 for further information on derivative assets and liabilities.

An overview of the risk exposures and fair value measurements relating to derivative financial instruments are included in notes 10 and 11 respectively.

8. Payables

Payables represent unsecured non-derivative, non-interest-bearing financial liabilities in respect of goods and services provided to the Trusts prior to the end of the financial year. Payables may include redemptions payable, accrued expenses and unsettled purchases of financial instruments which are unpaid by the Trusts at the reporting date. Amounts are generally paid within 30 days.

Amounts payable to related entities have no fixed repayment term and are non-interest-bearing.

All payables are considered current.

As at 30 June	Note	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
		2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Amounts owing to the Responsible Entity	12	144	132	1,020	1,281
Outstanding trade settlements		109	—	691	—
Redemptions of units payable		148	9	2,998	3,961
Interest payable		636	223	8,621	5,044
Total payables		1,037	364	13,330	10,286

9. Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. As at 30 June 2023 there are no financial assets and financial liabilities that have been offset in the statements of financial position (2022: \$Nil).

Master netting arrangement – not currently enforceable

The Trusts present the fair value of their derivative financial assets and liabilities on a gross basis in the statements of financial position. Certain derivative financial assets and liabilities are subject to legally enforceable master netting arrangements, such as an International Swaps and Derivatives Association (ISDA) master netting agreement. In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

An ISDA agreement does not meet the criteria for offsetting in the statements of financial position as the Trusts do not have any current legally enforceable right to offset recognised amounts. The right to offset is enforceable only on the occurrence of a future event such as a default.

As at 30 June 2023, if these netting arrangements were applied to derivative financial instruments, derivative financial assets and derivative financial liabilities would be as follows:

As at 30 June	Derivative financial assets - netting arrangements		Derivative financial liabilities - netting arrangements	
	2023 \$'000	2022 \$'000	2023 \$'000	2022 \$'000
Trust name				
Kapstream Absolute Return Income Plus Fund	2,470	1,984	774	1,279
Kapstream Absolute Return Income Fund	34,463	45,182	5,725	8,847

Refer to notes 5 and 6 for further details on derivative financial instruments presented on a gross basis.

10. Financial risk management

Overview

The Trusts' activities can expose the Trusts to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Trusts' overall risk management program focuses on ensuring compliance with the Trusts' governing documents and seeks to maximise the returns derived for the level of risk to which the Trusts are exposed. The Trusts may use derivative financial instruments to alter certain risk exposures. The Responsible Entity is responsible for identifying the financial risks that arise from these financial instruments and for ensuring there are mechanisms in place to manage these risks.

10. Financial risk management (continued)

The allocation of assets between the various types of financial instruments are determined by the Trusts' Asset Manager who manages the Trusts' assets to achieve the Trusts' investment objectives.

Divergence from target allocations and the composition of the assets are monitored on a regular basis.

The Responsible Entity has a Risk Management Strategy in place for managing risk and the key elements of the Risk Management Framework (RMF). The risks covered by the RMF include, but are not limited to, financial risks, for example: market, investment, pricing risks, funding, liquidity and counterparty risk; as well as regulatory, strategic and operational risks. The key elements for managing these risks include:

- Documented policies and procedures;
- Post trade investment compliance monitoring by teams not involved in the dealing and investment management activity;
- Segregation of the dealing and investment management function from the investment administration and settlement function;
- Independently sourced valuations for securities;
- A risk and compliance team and Responsible Entity management team with separate reporting lines;
- Clearly defined reporting lines and accountability for managing risks;
- Clearly defined responsibility for maintaining the RMF and monitoring compliance with it; and
- Oversight of risk management activity and the risk profile of the business by the Board of the Responsible Entity and various risk and compliance and committees that the Responsibility Entity, and its ultimate parent, have established.

As part of its Risk Management Strategy, the Trusts may use derivatives including exchange traded derivatives, to manage exposures resulting from changes in index prices, equity risks and exposures arising from forecast transactions.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk includes (amongst others) three types of risk: interest rate risk (due to fluctuations in interest rates), currency risk (due to fluctuations in foreign exchange rates), and equity price risk (due to fluctuations in market prices).

The Trusts are exposed to market risks influencing investment valuations. The Trusts may utilise derivatives to manage this risk.

Price risk

Price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Trusts' investments are debt instruments carried at fair value, price risk is not considered to be a significant risk to the Trusts.

10. Financial risk management (continued)

Foreign exchange risk

Trusts that invest in international assets are exposed to foreign exchange risk. Foreign exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Asset Manager may enter into derivatives contracts (such as forwards, swaps, options and futures) through approved foreign exchange dealers to minimise risk. However, the use of these contracts must be consistent with the investment strategies and restrictions of the Trusts, and agreed acceptable level of foreign exchange risk.

The Trusts hold both monetary and non monetary assets denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non monetary assets and liabilities is a component of price risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates.

The Trusts also enter into forward currency contracts principally to hedge the foreign exchange risk implicit in the value of the portfolio securities denominated in foreign currencies and to secure a particular exchange rate for a planned purchase or sale of securities. The term of these contracts rarely exceeds 12 months and may not necessarily indicate the total effect on the Trusts' net assets attributable to unitholders of future movements in foreign exchange rates.

The Trusts' underlying investments include foreign currency fixed interest securities. To manage foreign exchange risk, the Trusts may be fully or partially hedged back to Australian dollars as outlined in the Trusts' governing documents.

The table below summarises the Trusts' exposure to foreign exchange risk. The Trusts hold investments in foreign currencies other than those noted in the table, which have been grouped under the 'other' heading. These investments relate to amounts held in INR, CNH, CAD, NOK, CHF, KRW, and PLN are individually immaterial to the financial statements.

10. Financial risk management (continued)

Kapstream Absolute Return Income Plus Fund

30 June 2023

	AUD A\$'000	USD A\$'000	EUR A\$'000	NZD A\$'000	KRW A\$'000	JPY A\$'000	OTHER A\$'000	Total A\$'000
Assets								
Cash and cash equivalents	3,349	266	—	20	—	—	13	3,648
Collateral and margin accounts	5,107	897	—	—	189	—	—	6,193
Receivables	5,869	280	—	28	—	—	—	6,177
Financial assets at fair value through profit or loss	336,744	7,039	—	3,189	—	24	—	346,996
Total assets	351,069	8,482	—	3,237	189	24	13	363,014
Liabilities								
Collateral and margin accounts	2,237	4,851	—	52	—	—	23	7,163
Distributions payable	3,191	—	—	—	—	—	—	3,191
Payables	699	319	2	17	—	—	—	1,037
Financial liabilities at fair value through profit or loss	510	307	44	12	—	235	—	1,108
Total liabilities	6,637	5,477	46	81	—	235	23	12,499
Net assets attributable to unitholders	344,432	3,005	(46)	3,156	189	(211)	(10)	350,515

10. Financial risk management (continued)

Kapstream Absolute Return Income Plus Fund

30 June 2022

	AUD A\$'000	USD A\$'000	EUR A\$'000	NZD A\$'000	KRW A\$'000	JPY A\$'000	OTHER A\$'000	Total A\$'000
Assets								
Cash and cash equivalents	3,530	238	4,576	28	—	17	2	8,391
Collateral and margin accounts	2,021	340	28	—	186	—	1	2,576
Receivables	1,203	134	—	11	—	—	10	1,358
Financial assets at fair value through profit or loss	305,898	15,323	—	5,315	—	—	1,047	327,583
Total assets	312,652	16,035	4,604	5,354	186	17	1,060	339,908
Liabilities								
Collateral and margin accounts	1,954	430	177	—	—	—	—	2,561
Distributions payable	1,893	—	—	—	—	—	—	1,893
Payables	332	28	1	3	—	—	—	364
Financial liabilities at fair value through profit or loss	12,031	63	—	151	—	—	6	12,251
Total liabilities	16,210	521	178	154	—	—	6	17,069
Net assets attributable to unitholders	296,442	15,514	4,426	5,200	186	17	1,054	322,839

10. Financial risk management (continued)

Kapstream Absolute Return Income Fund

30 June 2023

	AUD A\$'000	USD A\$'000	EUR A\$'000	NZD A\$'000	GBP A\$'000	JPY A\$'000	OTHER A\$'000	Total A\$'000
Assets								
Cash and cash equivalents	27,488	1,311	—	—	—	—	206	29,005
Collateral and margin accounts	16,793	7,235	329	—	—	—	—	24,357
Receivables	24,223	2,313	45	120	—	—	—	26,701
Financial assets at fair value through profit or loss	2,204,011	43,010	14,270	84	—	300	—	2,261,675
Total assets	2,272,515	53,869	14,644	204	—	300	206	2,341,738
Liabilities								
Collateral and margin accounts	33,426	10,017	2,488	357	255	—	—	46,543
Distributions payable	17,073	—	—	—	—	—	—	17,073
Payables	10,596	2,593	21	120	—	—	—	13,330
Financial liabilities at fair value through profit or loss	7,272	2,608	707	84	—	1,594	—	12,265
Total liabilities	68,367	15,218	3,216	561	255	1,594	—	89,211
Net assets attributable to unitholders	2,204,148	38,651	11,428	(357)	(255)	(1,294)	206	2,252,527

10. Financial risk management (continued)

Kapstream Absolute Return Income Fund

30 June 2022

	AUD A\$'000	USD A\$'000	EUR A\$'000	NZD A\$'000	GBP A\$'000	JPY A\$'000	OTHER A\$'000	Total A\$'000
Assets								
Cash and cash equivalents	81,980	8,137	3	—	—	235	85	90,440
Collateral and margin accounts	10,593	27,907	291	—	—	—	—	38,791
Receivables	13,405	1,564	44	44	81	—	26	15,164
Financial assets at fair value through profit or loss	2,603,048	170,438	13,663	21,764	8,258	—	4,515	2,821,686
Total assets	2,709,026	208,046	14,001	21,808	8,339	235	4,626	2,966,081
Liabilities								
Collateral and margin accounts	61,512	2,503	2,600	—	—	—	—	66,615
Distributions payable	32,318	—	—	—	—	—	—	32,318
Payables	9,954	299	—	33	—	—	—	10,286
Financial liabilities at fair value through profit or loss	12,405	1,278	87	1,352	131	—	—	15,253
Total liabilities	116,189	4,080	2,687	1,385	131	—	—	124,472
Net assets attributable to unitholders	2,592,837	203,966	11,314	20,423	8,208	235	4,626	2,841,609

10. Financial risk management (continued)

The table in the summarised sensitivity analysis section of this note summarises the sensitivities of the Trusts' financial instruments to foreign exchange risk. The analysis is based on the assumption that the Australian dollar weakened or strengthened by 10% (2022: 10%) against the material foreign currencies to which the Trusts are exposed.

Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Trusts have established limits on the total interest rate exposure, which are monitored on a daily basis. The Trusts may use derivatives to hedge unexpected increases in interest rates.

The summarised sensitivity analysis section of this note demonstrates the sensitivity of the Trusts' net profit to possible changes in interest rates, with all other variables held constant. The analysis is based on the assumptions that interest rates increased by 100 bps (2022: 100 bps) or decreased by 100 bps (2022: 100 bps).

The sensitivity of the statements of comprehensive income is the effect of the assumed changes in interest rates on:

- the interest income for one year, based on the floating rate financial assets held at 30 June 2023; and
- changes in the fair value of investments for the year based on revaluing fixed rate financial assets at 30 June 2023.

Summarised sensitivity analysis

The following table summarises the sensitivity of the Trusts' net profit and net assets attributable to unitholders to applicable market risks. The possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, foreign exchange rates and market prices. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Trusts invest. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

Kapstream Absolute Return Income Plus Fund

	Impact on net profit/Net assets attributable to unitholders									
	Price risk		Interest rate risk				Foreign exchange risk			
	-10%	+10%	-100bps	+100bps	-10%	+10%	-10%	+10%	-10%	+10%
	USD	USD	EUR	EUR	NZD	NZD	USD	USD	EUR	EUR
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
30 June 2023	(5)	1,043	2,331	(2,249)	374	(374)	5	(5)	—	—
30 June 2022	—	—	1,229	(1,347)	(32)	32	(20)	20	12	(12)

10. Financial risk management (continued)

Kapstream Absolute Return Income Plus Fund

	Impact on net profit/Net assets attributable to unitholders					
	Foreign exchange risk					
	-10%	+10%	-10%	+10%	-10%	+10%
	KRW	KRW	JPY	JPY	OTHER	OTHER
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
30 June 2023	(19)	19	(250)	250	1	(1)
30 June 2022	19	(19)	2	(2)	58	(58)

Kapstream Absolute Return Income Fund

	Impact on net profit/Net assets attributable to unitholders									
	Price risk		Interest rate risk		Foreign exchange risk					
	-10%	+10%	-100bps	+100bps	-10%	+10%	-10%	+10%	-10%	+10%
					USD	USD	EUR	EUR	NZD	NZD
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
30 June 2023	(33)	7,487	15,531	(14,929)	2,381	(2,381)	25	(25)	36	(36)
30 June 2022	—	—	10,686	(10,265)	(267)	267	(554)	554	(52)	52

Kapstream Absolute Return Income Fund

	Impact on net profit/Net assets attributable to unitholders					
	Foreign exchange risk					
	-10%	+10%	-10%	+10%	-10%	+10%
	GBP	GBP	JPY	JPY	OTHER	OTHER
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
30 June 2023	26	(26)	(1,507)	1,507	(21)	21
30 June 2022	(35)	35	24	(24)	925	(925)

10. Financial risk management (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The Trusts aim to ensure that at all times they have appropriate credit risk management policies and practices in place and that the Board and senior management are appropriately informed of the Trusts' credit risks.

The main concentration of credit risk, to which the Trusts are exposed, arises from the Trusts' investment in debt securities. The Trusts are also exposed to counterparty credit risk on derivative financial instruments, cash and cash equivalents, amounts due from brokers and other receivables. The Trusts' exposure to credit risk is equal to the fair value of these instruments as disclosed in the statements of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Trusts manage counterparty risk in relation to over-the-counter derivatives by using only counterparties with an acceptable credit rating in accordance with the provisions of the Trusts' policies. Exposures to counterparties are monitored by the Asset Manager on a regular basis.

The credit quality of financial assets and derivatives are managed by the Trusts in accordance with the Trusts' governing documents, by taking into account any applicable external credit rating or internal credit assessment, prior to trading. The Trusts' exposure in each grade is monitored on a regular basis. This review process allows the Responsible Entity to assess the potential loss as a result of credit risk and take corrective action where required. Internal ratings are expressed on the basis of S&P rating definitions. Where an external rating (which will predominantly be Standard & Poor's, Moody's, Fitch, or another reputable credit rating agency) is available, the internal rating will ordinarily be no greater than the lowest external rating assigned. Assets that have not received any rating reference from external credit rating agency have been internally rated using market accepted method.

If no external rating is available, then they are internally rated by the credit risk team and labelled not rated (NR).

The following table details the breakdown by credit rating of the underlying investment assets and derivatives held by the Trusts:

10. Financial risk management (continued)

Bond and derivative credit ratings

Rating	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
	\$'000	\$'000	\$'000	\$'000
AAA	9,032	8,409	122,011	247,335
AA+	1,487	3,741	740	60,256
AA	3,003	—	66,125	56,845
AA-	51,280	14,301	229,710	187,574
A+	10,430	4,603	94,794	93,071
A	12,474	18,053	89,865	131,622
A-	34,908	23,350	229,059	229,346
BBB+	51,142	43,715	538,543	788,775
BBB	18,673	23,037	408,672	388,624
BBB-	92,449	120,425	296,106	443,456
BB+	13,126	12,905	17,355	15,432
BB	41,524	41,403	94,935	100,124
BB-	2,459	7,105	21,358	22,401
B	5,009	6,536	44,676	49,292
B-	—	—	7,726	7,533
Total bond and derivative credit ratings	346,996	327,583	2,261,675	2,821,686

Liquidity risk

Liquidity risk is the risk that the Trusts will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. This may result from either the inability to sell financial assets at their fair values, a counterparty failing on repayment of a contractual obligation, or the inability to generate cash inflows as anticipated.

The Trusts aim to ensure that they have sufficient liquidity to meet their obligations on a short term, medium term and long term basis. In the current and preceding year, all payables have no fixed repayment term. The current balance of amounts payable to related entities will be repaid in full within 1 year of the reporting date.

The Trusts' governing documents allow for redemptions of units. The Trusts are therefore exposed to a liquidity risk of meeting unitholders' redemptions at any time.

10. Financial risk management (continued)

This risk is controlled through the Trusts' investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Trusts maintain sufficient cash and cash equivalents to meet normal operating requirements.

The Trusts' investments are considered to be readily realisable.

The investment management process includes the consideration of liquidity, both in terms of market quality and cash flow. In asset construction, securities/investments (including derivatives) are only purchased that meet investment criteria and this includes the assessment of saleability in different market conditions. Before entering into a transaction, consideration is given to (not limited to):

- whether the purpose of the investment is consistent with the investment strategies of the Trusts;
- the ease of selling the security should market conditions change unfavourably;
- whether there are sufficient assets to cover the underlying liabilities of that transaction; and
- the overall liquidity levels for the Trusts.

Under the terms of the Constitutions, the Trusts have the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until the funds are available to pay them.

Maturity analysis for financial liabilities

Financial liabilities of the Trusts comprise trade and other payables, distributions payable, collateral and margin accounts and net assets attributable to unitholders. Trade and other payables, distributions payable and collateral and margin accounts have no contractual maturities but are typically settled within 30 days.

The table below analyses the Trusts' derivative financial liabilities based on their contractual maturity. The Trusts may, at their discretion, settle derivative financial liabilities prior to their original contractual settlement date, in accordance with its investment strategy, where permitted by the terms and conditions of the derivative instruments.

Kapstream Absolute Return Income Plus Fund

30 June 2023

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Beyond 12 months \$'000	Total \$'000
Credit default swaps	—	24	—	44	68
Forward currency contracts	367	48	—	—	415
Index credit default swaps	—	—	—	283	283
Interest rate swaps	—	—	—	342	342
Swaptions	—	—	—	—	—
Total derivative financial liabilities	367	72	—	669	1,108

10. Financial risk management (continued)

30 June 2022

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Beyond 12 months \$'000	Total \$'000
Credit default swaps	—	—	—	59	59
Forward currency contracts	1,152	19	—	—	1,171
Index credit default swaps	—	—	—	4	4
Interest rate swaps	—	—	—	187	187
Swaptions	89	—	—	—	89
Total derivative financial liabilities	1,241	19	—	250	1,510

Kapstream Absolute Return Income Fund

30 June 2023

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Beyond 12 months \$'000	Total \$'000
Credit default swaps	—	203	—	378	581
Forward currency contracts	3,433	—	—	—	3,433
Index credit default swaps	—	—	—	2,369	2,369
Interest rate swaps	—	—	—	5,845	5,845
Overnight indexed swaps	—	—	37	—	37
Total derivative financial liabilities	3,433	203	37	8,592	12,265

10. Financial risk management (continued)

30 June 2022

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Beyond 12 months \$'000	Total \$'000
Credit default swaps	—	—	728	499	1,227
Forward currency contracts	10,647	204	—	—	10,851
Index credit default swaps	—	—	—	40	40
Interest rate swaps	—	—	—	3,125	3,125
Overnight indexed swaps	—	—	—	10	10
Total derivative financial liabilities	10,647	204	728	3,674	15,253

11. Fair value measurement

All financial assets and financial liabilities included in the statements of financial position are carried at fair value.

In accordance with AASB 13 Fair Value Measurement the Trusts are required to disclose fair value measurements by level using the fair value hierarchy. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Fair value in an active market (level 1)

The fair values of financial assets and liabilities traded in active markets are based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices at the reporting date, while financial liabilities are priced at current offer prices.

The quoted market price used for financial assets held by the Trusts is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Trusts hold derivatives with offsetting market risks, they use mid-market prices as a basis for establishing fair value for the offsetting risk positions and apply this bid or asking price to the net open position, as appropriate.

Fair value in an inactive or unquoted market (level 2 and level 3)

The fair values of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of other substantially similar instruments, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

11. Fair value measurement (continued)

Where debt securities, such as corporate and government bonds and treasury securities are held, and in the absence of a quoted price in an active market, these are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves. The fair values of investments in asset-backed securities, for which there is currently no active market, are calculated using a valuation model which is accepted in the industry. The model uses discounted cash flow analysis, which incorporates both observable and non-observable data. Observable inputs can include assumptions for current rates of interest. Unobservable inputs can include assumptions for expected future default rates and market liquidity discounts. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are observable, these investments are categorised as Level 2.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. For other pricing models, inputs are based on market data at the end of the reporting period.

The fair values of derivatives that are not exchange traded are estimated at the amount that the Trusts would receive or pay to terminate the contract at reporting date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black Scholes option valuation model.

The tables below set out the Trusts' financial assets and liabilities measured at fair value through profit or loss according to the fair value hierarchy.

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
As at 30 June	2023	2022	2023	2022
Financial assets	\$'000	\$'000	\$'000	\$'000
Level 2 financial assets				
Agency bonds	—	—	—	6,058
Asset-backed securities	39,929	26,645	174,813	173,323
Commercial papers	7,980	1,000	44,518	10,997
Convertible notes	12,320	12,361	21,774	21,847
Corporate bonds	35,174	37,251	589,506	832,132
Credit default swaps	—	—	120	291
Discount securities	45,079	32,649	180,315	244,333
Floating rate notes	173,795	165,430	1,061,810	1,184,113
Forward currency contracts	42	45	300	93
Government bonds	—	2,304	—	26,107
Income securities	1,434	1,373	—	—

11. Fair value measurement (continued)

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
As at 30 June	2023	2022	2023	2022
Financial assets	\$'000	\$'000	\$'000	\$'000
Index credit default swaps	37	42	196	204
Interest rate swaps	2,269	2,038	36,939	50,129
Mortgage-backed securities	27,909	32,205	112,424	231,715
Overnight indexed swaps	451	91	3,414	872
Over-the-counter options	5	—	33	—
Repurchase agreement bonds	—	12,683	—	—
Supranational bonds	572	1,466	35,513	39,472
Total level 2 financial assets	346,996	327,583	2,261,675	2,821,686

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
As at 30 June	2023	2022	2023	2022
Financial liabilities	\$'000	\$'000	\$'000	\$'000
Level 2 financial liabilities				
Credit default swaps	68	59	581	1,227
Forward currency contracts	415	1,171	3,433	10,851
Index credit default swaps	283	4	2,369	40
Interest rate swaps	342	187	5,845	3,125
Overnight indexed swaps	—	—	37	10
Repurchase agreements	—	10,741	—	—
Swaptions	—	89	—	—
Total level 2 financial liabilities	1,108	12,251	12,265	15,253

12. Related party transactions

Responsible Entity

The Responsible Entity of the Trusts is Fidante Partners Limited whose immediate parent company is Challenger Funds Management Holdings Pty Limited and ultimate parent company is Challenger Limited.

Key management personnel

Directors

Key management personnel includes persons who were Directors of Fidante Partners Limited at any time during the financial year and up to the date of the report as follows:

A Bofinger	Director	
J Coomer	Director	(Resigned 26 June 2023)
R Grimes	Director	(Resigned 22 November 2022)
A Judin	Director	(Appointed 13 July 2023)
J O'Keeffe	Director	
V Rodriguez	Director	(Appointed 9 December 2022)
T Roxburgh	Director	(Appointed 13 July 2023)
Y Sodhi	Director	(Resigned 30 May 2023)

Other key management personnel

The Responsible Entity is considered to be the key management personnel with authority for the strategic direction and management of the Trusts.

The Asset Manager, Kapstream Capital Pty Ltd, is a related party to the Trusts as it is a member of the same group as the Responsible Entity.

Key management personnel unitholdings

At 30 June 2023 no key management personnel held units in the Trusts (2022: Nil).

Key management personnel compensation

No amount was paid by the Trusts directly to the Directors of the Responsible Entity.

Compensation is paid to the Responsible Entity in the form of fees and is disclosed below.

12. Related party transactions (continued)

Responsible Entity's fees and other transactions

Under the terms of the Trusts' Constitutions the Responsible Entity is entitled to receive management fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders). For the year ended 30 June 2023 these rates are as follows:

For the year ended 30 June		Fee Rate	
		2023	2022
Trust name	Class	%	%
Kapstream Absolute Return Income Plus Fund	Class A	0.60	0.60
	Class I	0.46	0.46
Kapstream Absolute Return Income Fund	Class A	0.55	0.55
	Class I	0.41	0.41
	Class P	0.45	0.45
	Class X	0.45	0.45
	ETF Class	0.00	0.00

These fees are inclusive of GST, net of RITC available to the Trusts per annum.

In addition to the management fee, the Responsible Entity is also entitled to receive performance fees for various classes in the Trusts. The performance fees are calculated at the below listed benchmark. For the year ended 30 June 2023, in accordance with the Trusts' Constitutions, the Responsible Entity received performance fees as listed below (inclusive of GST, net of RITC, available to the Trusts) per annum.

For the year ended 30 June			Performance Fees	
			2023	2022
Trust name	Benchmark	Class	%	%
Kapstream Absolute Return Income Fund	20% of the difference between the Trust's daily return (after fees and expenses) above the performance benchmark, being the RBA cash rate.	Class A	0.00	0.00

Other classes of units not shown above are not subject to performance fees.

12. Related party transactions (continued)

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Trusts and the Responsible Entity were as follows:

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
	2023	2022	2023	2022
	\$	\$	\$	\$
For the year ended 30 June				
Management fees for the year	1,519,502	1,515,221	12,373,712	17,003,261
Management fees payable	144,318	131,881	1,020,257	1,280,759

Related party unitholdings

Parties related to the Trusts (including Fidante Partners Limited, its related parties and other schemes managed by Fidante Partners Limited), held units in the Trusts as follows:

Kapstream Absolute Return Income Plus Fund

For the year ended 30 June 2023

Unitholder	No. of units held opening (Units)	No. of units acquired (Units)	No. of units disposed (Units)	No. of units held closing (Units)	Interest held (%)	Distributions paid/payable by the Trust (\$)
Kapstream Capital Pty Ltd	10,556	381	—	10,937	0.00	316
Total related party unitholdings	10,556	381	—	10,937	0.00	316

For the year ended 30 June 2022

Unitholder	No. of units held opening (Units)	No. of units acquired (Units)	No. of units disposed (Units)	No. of units held closing (Units)	Interest held (%)	Distributions paid/payable by the Trust (\$)
Kapstream Capital Pty Ltd	10,409	147	—	10,556	0.04	201
Total related party unitholdings	10,409	147	—	10,556	0.04	201

12. Related party transactions (continued)

Kapstream Absolute Return Income Fund

For the year ended 30 June 2023

Unitholder	No. of units held opening (Units)	No. of units acquired (Units)	No. of units disposed (Units)	No. of units held closing (Units)	Interest held (%)	Distributions paid/payable by the Trust (\$)
Kapstream Capital Pty Ltd	6,123,291	276,037	—	6,399,328	0.30	198,019
ActiveX Kapstream Absolute Return Income Fund	11,800,921	1,046,572	(2,093,774)	10,753,719	0.51	398,797
Total related party unitholdings	17,924,212	1,322,609	(2,093,774)	17,153,047	0.81	596,816

For the year ended 30 June 2022

Unitholder	No. of units held opening (Units)	No. of units acquired (Units)	No. of units disposed (Units)	No. of units held closing (Units)	Interest held (%)	Distributions paid/payable by the Trust (\$)
Kapstream Capital Pty Ltd	5,880,140	243,151	—	6,123,291	0.23	157,545
ActiveX Kapstream Absolute Return Income Fund	9,283,268	3,032,427	(514,774)	11,800,921	0.44	326,489
Total related party unitholdings	15,163,408	3,275,578	(514,774)	17,924,212	0.67	484,034

13. Reconciliation of profit/(loss) to net cash inflows/(outflows) from operating activities

Reconciliation of profit/(loss) to net cash inflows/(outflows) from operating activities

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
For the year ended 30 June	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Reconciliation of profit/(loss) to operating cash flow				
Net profit/(loss) before finance costs for the year attributable to unitholders	12,498	3,291	65,086	(35,120)
Net (gains)/losses on financial instruments at fair value through profit or loss	4,158	8,668	24,446	120,994
Net foreign exchange (gains)/losses	534	(1,266)	7,567	(20,601)
Proceeds from sale of financial instruments at fair value through profit or loss	425,535	318,482	2,604,277	4,108,158
Purchase of financial instruments at fair value through profit or loss	(459,773)	(343,826)	(2,083,757)	(2,888,280)
Net change in receivables and other assets	(1,313)	12	(12,043)	2,791
Net change in payables and other liabilities	425	205	3,316	3,784
Net cash inflows/(outflows) from operating activities	(17,936)	(14,434)	608,892	1,291,726

Components of cash and cash equivalents

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
As at 30 June	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Cash at bank, on hand and at custodian	3,648	8,391	29,005	90,440
Total cash and cash equivalents	3,648	8,391	29,005	90,440

Non-cash investing and financing activities

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
For the year ended 30 June	2023	2022	2023	2022
	\$'000	\$'000	\$'000	\$'000
Reinvestment of unitholder distributions	1,351	1,139	29,589	49,113

14. Remuneration of auditor

	Kapstream Absolute Return Income Plus Fund		Kapstream Absolute Return Income Fund	
For the year ended 30 June	2023	2022	2023	2022
Amounts received or due and receivable by Ernst & Young for:	\$	\$	\$	\$
Audit and review of the financial report of the Trusts	7,800	7,400	7,800	7,400
Total remuneration of auditor	7,800	7,400	7,800	7,400

The cost incurred for auditing the financial report of the Trusts is paid directly by the Responsible Entity.

15. Events occurring after the reporting period

No significant events have occurred since the reporting date which would impact on the financial position of the Trusts as at 30 June 2023 or on the results and cash flows of the Trusts for the year ended on that date.

16. Contingent assets and liabilities and commitments

At balance date the Trusts have no contingent assets, liabilities or commitments (30 June 2022: Nil).

Directors' declaration

In the opinion of the Directors of the Responsible Entity for the below listed Trusts:

- Kapstream Absolute Return Income Plus Fund
- Kapstream Absolute Return Income Fund
- a. the financial statements and notes set out on pages 9 to 50 are in accordance with the Corporations Act 2001, including:
 - i. complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the Trusts' financial position as at 30 June 2023 and of their performance for the financial year ended on that date;
- b. the financial statements and notes comply with International Financial Reporting Standards as disclosed in note 1.1; and
- c. there are reasonable grounds to believe that the Trusts will be able to pay their debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.

On behalf of the Board of Fidante Partners Limited.



A Judin
Director

Sydney
15 September 2023

Independent auditor's report

To the unitholders of the following Kapstream Capital Managed Trusts (the "Trusts"):

- Kapstream Absolute Return Income Plus Fund
- Kapstream Absolute Return Income Fund

Opinion

We have audited the financial report of the Trusts, which comprises the statements of financial position as at 30 June 2023, the statements of comprehensive income, statements of changes in unitholder funds and statements of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Trusts is in accordance with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the Trusts' financial position as at 30 June 2023 and of their financial performance for the year ended on that date; and
- b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Trusts in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial report and auditor's report thereon

The directors of Fidante Partners Limited as the Responsible Entity of the Trusts (the "Responsible Entity") are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Trusts' ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Trusts or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.



As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trusts' internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trusts' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trusts to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young
Ernst & Young

Rita Da Silva

Rita Da Silva
Partner
Sydney
15 September 2023

Directory

Responsible Entity

Fidante Partners Limited
ABN 94 002 835 592
AFSL 234 668

Registered office and principal place of business

Level 2
5 Martin Place
Sydney NSW 2000

Custodian

Citigroup Pty Limited
Level 23
2 Park Street
Sydney NSW 2000

Auditor

For the Responsible Entity and the Trusts
Ernst & Young
200 George Street
Sydney NSW 2000

Asset Manager

Kapstream Capital Pty Ltd
Level 5
151 Macquarie Street
Sydney NSW 2000