



Fund objective

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

Fund target return

RBA Cash Rate plus 6% before fees

Fund application

Investors seeking to enhance and diversify their income with private debt investments with a focus on Australian and New Zealand private securitisation facilities (warehouses).

Fund details

Inception date	31 January 2024
Distribution	Monthly
Application	Monthly
Withdrawal	5% of NAV Quarterly
Management fee*	0.89% pa
Buy/sell spread	0%/0.2%

Fund statistics*

Interest rate duration	0.08yrs
Spread duration	0.70yrs
Yield to Maturity	10.79%
Average credit rating*	BB+
Number of issuers	9



Dylan Bourke
Portfolio Manager



Mark Bayley
Portfolio Manager

September 2024

Performance (%)	1 Month	2 Months	3 Months	6 Months	1 Year	2 Years	Since Inception ²
Fund Return (before Fees)	1.15%	2.50%	3.42%	6.25%			8.55%
Fund Return (after Fees)	1.08%	2.36%	3.19%	5.75%			7.89%
RBA Cash Rate	0.35%	0.71%	1.08%	2.16%			2.87%
Active Return¹ (before fees)	0.80%	1.79%	2.34%	4.09%			5.68%
Active Return ¹ (after fees)	0.73%	1.65%	2.11%	3.59%			5.02%
Kapstream Warehouse Composite	0.98%	1.93%	2.88%	5.68%	11.85%	10.99%	9.13%

Past performance is no guarantee of future results. After fee returns inclusive of Class I unit management fees. No allowance is made for tax. Numbers may not add due to rounding. 1) active return of the Fund compared to the RBA Cash Rate. Source: Artega Investment Administration 30 September 2024. 2) Inception date 31 January 2024 for the fund and all rows except for the Kapstream Warehouse Composite return which has an inception date of 7 May 2021.

Performance commentary

The Fund returned 1.15% in September (before fees), and since inception 8.55% which on an annualised basis equates to 13.09% p.a. Coupon income remains the key driver of returns, reinforcing our view on the robustness and resilience of the underlying assets and reflecting our opinion on the predictability of returns going forward. There was also a moderate contribution from gains in some of the bonds held.

Portfolio strategy

As the Fund grows, we are targeting an allocation of 90% in private securitisation facility (warehouses) assets. Currently the Fund has 65% in warehouses (30% consumer, 26% mortgages, 9% medical), 10% ABS, 6% MBS, and 18% in liquids, of which 7% is in the Kapstream Absolute Return Income Plus Fund and 11% in cash/cash-likes.

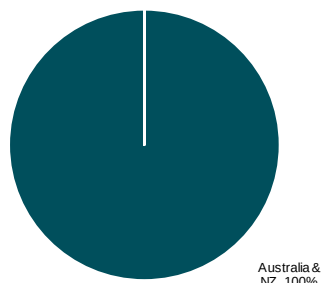
We continue to see an attractive pipeline of warehouses opportunities that should increase the Fund's current yield to maturity of 10.79%. On warehouse and bond assets, the weighted average credit spread of 654bp is comfortably above the fund's return objective of +600bp. Spread duration was 0.70yrs, and we expect that this will reduce further under <1yr, as we increase the allocation to warehouses. Rate duration was low at 0.08yrs, reflecting the floating nature of warehouse and securitised assets.

As previously flagged, we elected to be refinanced out of one of our warehouses, as we saw better relative value opportunities elsewhere. Warehouse investments are spread across seven notes from four different originators, diversified across 49,876 receivables. The credit quality remains strong and stable, with average minimum subordination of 4.7% and comfortably covering 90+ arrears of 0.8% by 5.6x, up from 4.1x.

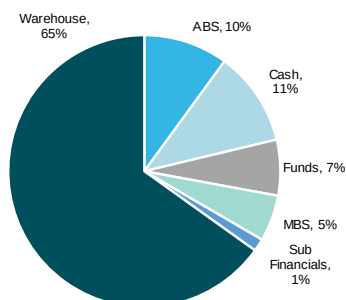
ABS/MBS deals comprise three notes in three public deals, with a bias to ABS, given shorter WALs and better relative value. Given the warehouse refinancing took place at the end of the month, our cash balance slightly increased. The Kapstream Absolute Return Income Plus Fund will likely continue to be a significant part of the targeted 10% liquid allocation, given it is daily liquid, has robust capital preservation credentials, has a credit spread of ~230bp, yield to maturity of ~6.25% and strong diversification.

The average credit rating of the fund's assets was BB+. All assets have performed as expected, and we anticipate these to provide ongoing support to returns. High yield (and unrated) exposure was 56%; typically, short maturity and high conviction investments. As the Fund grows and we switch ABS/MBS exposures towards warehouses, the level of exposure to high yield will likely reduce over time towards 30-55%.

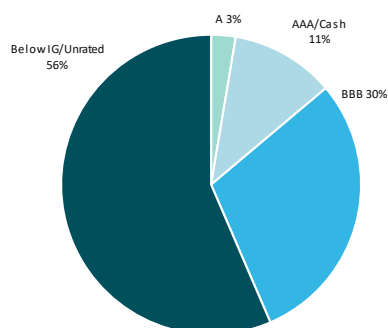
Geographic Allocation*



Sector Allocation*



Credit Rating*



Outlook

Themes in markets for the past few months continued uninterrupted in September. Risk sentiment improved as recession fears subsided, while yields fell as the global easing cycle gets more and more priced in. However, risks and exceptions remain.

In the absence of clear indicators of a recession in the US, economic and earnings expectations are supporting risk sentiment. The S&P 500 rose 2.0% in September, posting new record highs. Credit spreads compressed, with the US credit aggregate index in 4bps to 90bps in the month and close to the post-GFC lows of 80bps.

As Australian interest rates seem likely to be cut only gradually over time, private debt, remains attractive. Within private debt, we have specifically chosen to focus on warehouses because of their relatively short asset maturities, significant diversification and historically low default rates. We believe that expected default rates will remain low when compared to the other two major private debt sectors – real estate and corporate.

Investing in warehouse debt provides key benefits over real estate private debt, especially for many investors who are already invested in real estate. Real estate debt's opacity, with its potentially misleading LVRs of 60-80% versus a more accurate loan-to-cost ratio often at 100%, highlights the risk if projects fail or approvals are not forthcoming. Additionally, we view warehouse investments as carrying less cyclical risk, being diversified across industries, unlike the real estate sector's singular focus.

Corporate private debt often involves longer-term loans (5-7 years) to highly leveraged businesses or riskier SMEs, heightening default risks. In contrast, the Australian securitisation market, including warehouses, has seen minimal defaults over the past two decades. S&P reported that the global high yield market's LTM default rate was 4.8% as at June 2024. Furthermore, according to S&P, the leveraged loan distress ratio (the percentage of performing loans priced below 80), which steadily fell between November 2023 and March 2024, has since rebounded nearly 1ppt, to 5.83% in July.

We invest in nonbank warehouse debt and prioritise asset classes where borrowers are willing to pay a premium for faster underwriting, handling complexity, or receiving customised services. We favour niche markets such as consumer personal loans, particularly those to homeowners with lower default risks. We like non-conforming mortgages for self-employed borrowers with company/trust structure complexity, and we also find value in specialised financing areas like medical/dental, where borrowers, often short on time, are willing to pay for the convenience of after-hours.

We hold a positive outlook on warehouse debt and our investment pipeline, recognising its ability to simultaneously preserve capital, limit volatility, and match or even outpace the expected returns of asset class stalwarts like US equities, with return expectations of around 10%. This opinion is supported by the attractive yields to maturity in the 10-12% range for BB to BBB manager-rated warehouses, with an average expected maturity of ~0.5 years. Our optimism is further underpinned by the sound lending track record of our warehouse originators, which positions the fund so that it may deliver returns to our investors, even amidst macroeconomic uncertainties.

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* Excludes indirect exposure from look through to the Kapstream Absolute Return Income Plus Fund except for a BBB+ average rating. Average credit rating includes manager rated as well as categorises non manager rated as B-. The management fee quoted doesn't include additional costs which would be incurred by investors relating to GST