



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	0.12yrs
Spread duration	0.85yrs
Yield to Maturity	11.63%
Average credit rating*	BB+
Number of issuers	8



Dylan Bourke
Portfolio Manager



Mark Bayley
Portfolio Manager

June 2024

Performance (%)	1 month	2 months	3 months	1 year	2 year	Since inception ²
Fund Return (before fees)	0.90%	1.88%	2.73%			4.96%
Fund Return (after fees)	0.82%	1.71%	2.48%			4.55%
RBA Cash Rate	0.35%	0.71%	1.07%			1.78%
Active return¹ (before fees)	0.55%	1.17%	1.67%			3.18%
Active return ¹ (after fees)	0.47%	1.00%	1.41%			2.78%
Kapstream Warehouse Composite	0.92%	1.77%	2.73%	11.48%	10.43%	8.91%

Past performance is no guarantee of future results. After fee returns inclusive of Class I unit management fees of 0.91% including GST. 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 June 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 0.90% in June (before fees), and since inception 4.96% which on an annualised basis equates to 12.31% p.a. Coupon income was 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.

Portfolio strategy

As the Fund grows, we are targeting an allocation of 90% in private securitisation facility (warehouses) assets. Currently the Fund has 73.6% up from 51.9% in warehouses (32.3% consumer, 26.6% mortgages, 14.7% medical), 15.1% down from 29.5% in ABS/MBS (9.3% ABS, 5.9% MBS), 11.3% from 18.6% in liquids, of which 7.0% in the Kapstream Absolute Return Income Fund and 4.2% in cash/cash-likes.

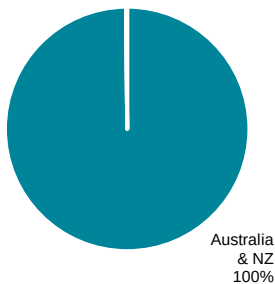
We continue to see an attractive pipeline of warehouses opportunities that should support or increase the Fund's current yield to maturity of 11.63%. The weighted average credit spread of 703bp is comfortably above the fund's return objective of +600bp. Spread duration was 0.85yrs down from 1.11yrs, and we expect this will reduce further under <1yr as we increase the allocation to warehouses during the ramp-up period. Rate duration was low at 0.12yrs, reflecting the floating nature of warehouse and securitised assets, as well as a small duration exposure from the Plus fund investment.

Warehouse investments are spread across seven notes from five different originators, diversified across 65,914 receivables up from 55,214. The credit quality remains strong and stable, with simple average minimum subordination of 5.2% and average subordination of 8.8% and comfortably covers 90+ arrears of 1.0%.

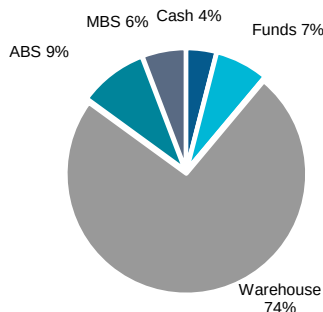
ABS/MBS deals comprise two notes in two public deals, with a bias to ABS, given shorter WALs and slightly better relative value. We switched out of liquids and took profits on ABS/MBS to buy attractive warehouse opportunities over the month. The Kapstream Absolute Return Income Plus Fund will likely continue to be a significant part of the targeted 10% liquid allocation, given it is daily liquid, has robust capital preservation credentials (one of the few daily liquid funds to make positive returns in 2022), has a credit spread of ~247bps, yield of ~7.0% and strong diversification.

The average credit rating of the fund's assets was up a notch to BB+. This was lower than our normal BBB average rating of warehouses because of more exposure to lower rated public ABS/MBS deals. All assets have performed as expected, and we anticipate these to provide ongoing support to returns. High yield (and unrated) exposure was down to 58.1% from 61.3%; typically, short maturity and investments we have conviction in. 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%.

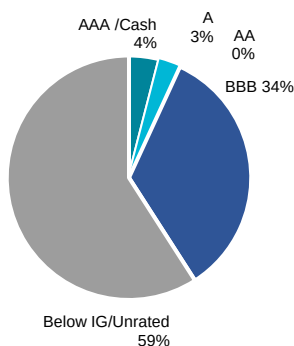
Geographic Allocation*



Sector Allocation*



Credit Rating*



* 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

Outlook

France's June election announcement, hinting at a possible loss of majority for the current coalition and potential political instability or a larger budget deficit—especially if the far-right Rassemblement National, with over 30% of first-round votes, wins—raised global concerns. The gap between French and German 10-year Government bond yields increased to 80bps, a decade high but still below the 200bps from the 2011 crisis. European credit spreads widened 16bps, while US credit spreads widened 11bps in physical and 4bps in CDX, increased but stayed close to historical lows.

Given the likelihood that interest rates seem likely to be cut gradually over sometime, fixed income more broadly and private debt specifically, continues to appear attractive. Within private debt we have chosen to focus on warehouses because of their relatively short asset maturities, significant diversification of loans 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, including better portfolio diversification, especially for those already heavily invested in real estate. It offers lower default risks by depending on the borrower's existing income, unlike real estate debt which often hinges on future property value uplifts from construction or planning approvals. Real estate debt's opacity, with its potentially misleading loan-to-value ratios 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 various industries, unlike the real estate sector's singular focus.

Warehouse debt stands out against corporate private debt lending with its shorter loan terms, enhanced diversification, and lower default risk. 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, a stark difference from the global high yield market's frequent defaults, exemplified by 4.9% default over the last twelve months to April 2024 according to S&P Global Ratings. The high yield corporate debt market in the US, reflects larger corporates with better credit access, serves as a proxy for the default risks in corporate private debt.

We focus on nonbank warehouse debt given the additional spread and the originators' willingness to reward our partner/service led lending model. Our investment strategy prioritises asset classes for the warehouse facility where borrowers are willing to pay a premium for quicker underwriting, handling complexity, or providing customised services. We avoid the competitive prime mortgage segment, instead favouring niche markets, like consumer personal loans – especially those extended to homeowners, which exhibit significantly lower default risks yet offer attractive returns – and nonconforming mortgages designed for self-employed individuals or those with intricate financial structures who value speedy credit assessments. Furthermore, we identify value in specialised financing areas like medical/dental, where borrowers, often short on time, are willing to pay for the convenience of after-hours service and deep industry expertise.

We hold a highly positive outlook on warehouse private debt and our investment pipeline, recognising the rarity for credit-based assets to simultaneously preserve capital, limit volatility, and match or even outpace the expected returns of asset class stalwarts like US equities, with long term return expectations of around 10%. This confidence is supported by the attractive yields to maturity in the 10-12% range for BBB manager-rated warehouses, with an average expected maturity of 0.5 years. Our optimism is further underpinned by the strong lending track record of our warehouse originators, offering a solid safeguard against macroeconomic uncertainties and positioning the fund well to deliver substantial returns for our investors.

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