Kapstream
— JANUS HENDERSON —

Monthly Report – I class units

Kapstream Absolute Return Income Plus Fund

KANGANEWS AWARDS 2018 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR
KANGANEWS AWARDS 2019 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR
KANGANEWS AWARDS 2021 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR
KANGANEWS AWARDS 2022 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR
KANGANEWS AWARDS 2023 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR

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 application

Investors seeking to enhance their overall fixed income returns with a higher yielding, predominantly investment grade, absolute return-oriented global fixed income portfolio.

Fund details

Inception date	16 August 2018
Fund size	AUD 421m
Distribution frequency	Quarterly
Management fee	0.45% p.a.
Buy/sell spread	0%/0.2%

Fund statistics

Interest rate duration	1.31yrs
Spread duration physical	2.32 yrs
Yield to Maturity	6.81%
Average credit rating	BBB
Number of issuers	59

Fund guidelines

Target return	cash plus 3-4%
Target volatility	<3% annualised
Duration limit	-2 to +2 yrs
Credit quality	>75% investment grade

Dylan Bourke
Portfolio Manager

Daniel Siluk
Portfolio Manager

March 2024

Performance (%)	1 month	3 months	calendar year to date	1 year	3 years annualised	5 years annualised	since inception annualised
Fund Return *(before fees and sell spread)*	**0.70**	**1.56**	**1.56**	**7.16**	**4.22**	**3.63**	**3.75**
Fund Return *(after fees, before sell spread)*[1]	0.67	1.45	1.45	6.67	3.72	3.14	3.26
Fund Return *(after fees and sell spread)*[2]	0.66	1.45	1.45	6.66	3.73	3.12	3.25
RBA Cash Rate	0.34	1.07	1.07	4.11	2.08	1.47	1.48
Active return[3] ***(before fees and sell spread)***	**0.36**	**0.50**	**0.50**	**3.05**	**2.14**	**2.15**	**2.27**
Active return[3] *(after fees and sell spread)*[2]	0.32	0.38	0.38	2.55	1.66	1.65	1.77
Ausbond Bank Bill Index	0.37	1.09	1.09	4.19	2.08	1.51	1.57

Past performance is no guarantee of future results. Net of fee returns inclusive of 0.4632% annualised total expenses. No allowance is made for tax. Numbers may not add due to rounding. 1) For a continuing investor the actual return experienced based on the NAV performance of the Fund, after accounting for management fees. 2) The return experienced by a redeeming investor, based on the exit price performance of the Fund which accounts for the start and end of period sell spread level, and management fees. 3) Active return of the Fund compared to Benchmark (RBA Cash Rate). Source: Fidante Partners Limited, 31 March 2024.

Performance commentary

The Fund returned 0.7% before fees in March, and the rolling one year return at 7.16%, which is pleasing in light of the tightly managed risk budget. The largest contributor was coupon income. Credit spread compression was also additive, whilst rates detracted slightly. March signals 18 straight months of positive absolute returns, reinforcing the robustness and resilience of the portfolio. Our conviction on the outlook for 2024 remains strong given the fund's yield of 6.81%.

Portfolio strategy

The Fund invested in primary issuances with attractive new issue concessions mainly in financials and securitised. We're positioned for a European slowdown and a reduction in US growth exceptionalism, and for risk assets to provide some volatility. A slowdown may be driven by the delayed impact of aggressive interest rate hiking. However, strong recent US GDP prints, a recovery in large S&P500 technology companies' earnings, and acceptable inflation PCE prints increase the odds of a soft landing and reduce those of a hard landing. We view Australian credit spreads as around average, offering good relative value compared to historically tight US spreads. Nevertheless, a soft landing is still a landing of sorts, and we expect volatility, which should provide better entry points in credit. We maintained no CDX exposure and a short-datedcredit book. Level 1 liquidity reduced but is still high at ~9.2% (cash, commercial paper, SSGA) and Level 2 liquidity is ~12.0% (<1yr investment grade).

The Fund's yield to maturity reduced by 11bps to 6.81% and continues to provide a strong tailwind for future returns. Physical spread duration ex. SSGA increased to ~2.3yrs from ~1.9yrs as we lifted T2 exposure in light of attractive new issue concessions. We'll likely drift back to 1.8-2.0yrs over coming weeks as we some take profit. There's significant capacity to add spread but we remain cautious on longer-dated credit. Repo exposure was nil.

The average credit rating of holdings was stable at BBB. High yield reduced to ~16%, in typically BB-rated short maturity assets. We continue to avoid exposure to companies with material default risk, those unable to pass on higher refinancing costs, and higher beta sectors such as commodities and energy. The portfolio is split across financials (~71%), corporates (~7%), and ABS/MBS and warehouses (~18%), with the residual in cash and SSGAs. We have a ~87%/13% split between Australia/New Zealand and international issuers.

Rate duration reduced to 1.31yr from 1.36yr, comprising 0.61yr in the US, 0.57yr in EUR, 0.05yr in NZD and 0.07yr in AUD. We believe the merit of holding some duration as a credit hedge, helping protect against a rapidly moving and unexpected risk-off scenario, allowing us to lock in attractive longer-term interest rates, providing more certainty on future income.

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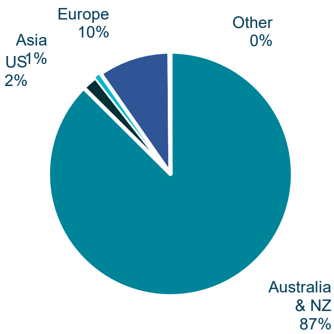
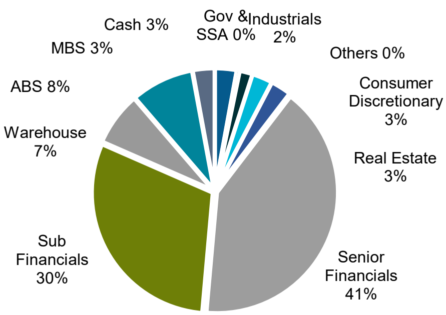
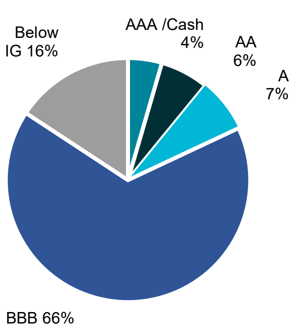
Geographic Allocation



Sector Allocation



Credit Rating



Outlook

March was characterised by risk markets rallying: the S&P500 rose ~3% and passed through its all-time high. Buoyed by US GDP of 3.4% above the 3.2% expectation and above trend growth, US CDX and US credit spreads (Bloomberg US Corporate Index OAS) tightened ~1bp and 6bps respectively, whilst Australian credit spreads widened 1bp (Bloomberg Australian Corporate Average ASW series). US2yr Treasuries (TUM4) sold off a little in the face of a US core inflation print of 3.8% which was 0.1% above consensus.

The debate on timing and pace of easing did not change wildly in March. Yields finished the month largely where they started in the US and were modestly lower elsewhere. This consolidated the sharp rise in yields that was seen in February, after markets got too far ahead of themselves in late 2023 in terms of the extent of easing expected from central banks.

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

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

We believe the uncertainty in 2024 will continue to reinforce the importance of active investment in conjunction with strong analysis, as passive index portfolios may face painful tail risks, such as defaults or AT1 write-offs leading to increased fundamental differentiation and dispersion of returns. Our portfolio held no exposure to US regional banks, Credit Suisse, or AT1 bonds in 2023 or 2024, which we have historically avoided due to their equity-like volatility during crises.

Our philosophy is to run a 'sleep-at-night' portfolio, quickly selling investments with any concerns to minimise potential price impacts, and we expect the attractive yield to generate a meaningful return for investors. Nevertheless, we remain positive on the outlook for stable and attractive portfolio returns, as the yield to maturity bounces around 7%, providing a rich buffer to the uncertainty of the macro backdrop. Additionally, the elevated levels of available portfolio liquidity and volatility budget provide us with ample ability to pounce on any opportunities, reinforcing our cautious optimism for returns in the period ahead.