Kapstream

— JANUS HENDERSON —

Monthly Report – I class units

Kapstream Absolute Return Income Plus Fund

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 584m
Distribution frequency	Quarterly
Management fee	0.45% p.a.
Buy/sell spread	0%/0.2%
Interest rate duration	0.81yrs
Spread duration physical	2.12yrs
Yield to Maturity	5.95%
Average credit rating	BBB+
Number of issuers	69

Fund Guidelines

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

Platforms

- AMP North (Class A)
- Asgard Infinity
- BT Panorama
- Insignia - Asset Administrator (Badge BT)
- Netwealth

Dylan Bourke
Portfolio Manager

Daniel Siluk
Portfolio Manager

February 2025

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)*	**0.65**	**1.96**	**1.30**	**9.17**	**6.12**	**4.29**	**4.49**
Fund Return *(after fees, before sell spread)*[1]	0.61	1.84	1.23	8.66	5.63	3.80	4.00
Fund Return *(after fees and sell spread)*[2]	0.61	1.84	1.23	8.66	5.63	3.78	3.99
RBA Cash Rate	0.32	1.06	0.69	4.34	3.38	2.08	1.88
Active return[3] ***(before fees and sell spread)***	**0.33**	**0.89**	**0.62**	**4.82**	**2.74**	**2.21**	**2.62**
Active return[3] *(after fees and sell spread)*[2]	0.29	0.78	0.54	4.31	2.24	1.70	2.12
Ausbond Bank Bill Index	0.34	1.10	0.72	4.48	3.44	2.10	1.97

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, 28 February 2025.

Performance Commentary

The Fund returned 0.65% before fees in February and the rolling one-year return was a very strong 9.17%. The main contributors were carry and credit spread compression, as new issuances performance well, while rates duration also added to performance. The fund's high coupon is providing return stability, due to an above-average credit spread from shorter-term assets and an attractive cash rate. The yield to maturity of nearly 6% offers a strong basis for returns looking forward.

Portfolio Strategy

The portfolio's physical spread duration increased back above 2yrs to 2.12yrs, as we participated in attractive new corporate and financial primary deals which offered good new issue concessions, while taking profit on some bonds that had performed well. While we no longer expect a recession, spreads globally are at the lower end of historical ranges. We plan to maintain our spread duration at around 2.0 - 2.2 years in the upcoming months. This will continue to be skewed towards Australian dollar credit where we see good relative value. Barring a severe global downturn and considering the sustained interest from yield-seeking high-net-worth and Asian investors, we anticipate that Australian spreads will likely play catch-up to the US by moving towards the lower end of their historical ranges.

The average credit rating of holdings remained at BBB+. High yield exposure decreased slightly to 15% from ~16%, in typically BB-rated short maturity assets. The portfolio is split across financials (~65%), corporates (~12%), and ABS/MBS and warehouses (~15%), with the residual in cash and SSGAs. We have a ~78%/22% split between Australia/New Zealand and international issuers, as primary opportunities were more skewed towards offshore issues.

Portfolio liquidity remains solid over the month, with 'Level 1' liquidity at ~14% (cash, commercial paper, SSGA). 'Level 2' liquidity was fairly stable at 11% (<1yr investment grade). We believe the high level of liquidity gives us the flexibility to buy attractive credits or take advantage of a better entry point should there be a sell-off.

Rates duration positioning increased slightly over February to 0.81yr from 0.68yr. We no longer think that deep easing cycles from here are the most likely scenario, reflecting that much of the restrictiveness from monetary policy has already been removed. The mix also remains diverse in nature, reflecting our increasingly global focus, with risk spread across Europe (0.29yr), the US (0.20yr), Canada (0.15yr), Australia (0.09yr) and New Zealand (0.08yr) - regions where we still expect rate cuts. This amount of duration no longer has the same amount of negative carry that it did a year ago and would still protect the portfolio should risk sentiment take an unexpected downturn.

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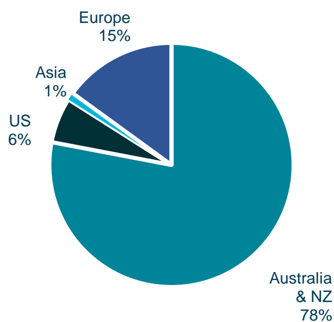
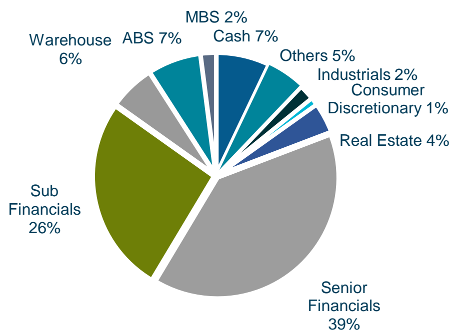
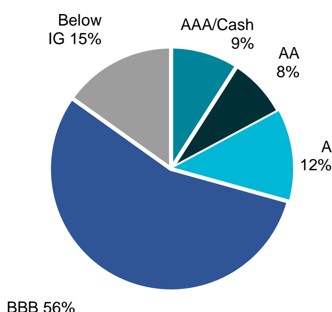
Geographic Allocation



Sector Allocation



Credit Rating



Outlook

The changing of the guard in US politics continued to have the inevitable and market moving announcements relating to policy changes in February. President Trump's repeated threats of tariffs on China, Canada and Mexico initially dented sentiment, only for this to be unwound when the threats didn't materialise. The negative impacts of tariffs on economic growth lower earnings expectations, which saw the S&P 500 finish the month down 1.4% (but a slightly larger 3.1% from its intra-month record highs). US credit spreads, such as the Bloomberg Corporate Aggregate average OAS, moved out 8bps to 87bps in sympathy, but remained near the lower end of the historic range. The deterioration over the month whilst notable, needs to be put against the context of overall strength. Australian credit spreads such as the Bloomberg Ausbond Credit 0+Index (to swap) bucked the global trend in February by compressing 3.4bps to 81.4bps 'catching up' some prior months of US credit spread tightening. This still has Australian spreads sitting just inside the historical average of 89bps.

The policy outlook posed a thorny problem for Central Banks and bond markets, as the negative impacts of tariffs on economic growth are accompanied by a positive direct impact on inflation. This comes at a time when core inflation globally is trending sideways, at a rate above central banks' targets. Nonetheless, the disruptive element from tariffs was clearly the dominant theme in February, pushing yields lower, in the US in particular. US 2-year yields were down 21bps in the month to just below 4% and their lowest since late September. US 10-year yields were down a larger 33bps to 4.21%, flattening the curve. Most other countries followed suit, but to a smaller degree in the high single digits. Australia being an exception with the RBA starting its easing cycle with a 25bps cut to 4.10%. This saw Australian 10-year yields fall an 'outsized' 14bps in February to 4.32%.

The uncertainty around tariffs has impacted economic actors more than markets. A bringing forward of purchases into Q4 to avoid potential tariffs has left a hole in forecasts for US GDP in Q1. The Atlanta Fed GDPNow series now suggests quarterly GDP may be negative for the first time in three years. If the expectations of a greater than 2% decline as at the time of writing come to fruition, it would be the worst quarterly outcome since the COVID-impacted Q2 of 2020. Beyond the next quarter's GDP, the uncertainty about the policy regime will weigh on business investment and potentially consumption, particularly if large public sector job cuts are implemented. This represents a challenge to the broadly accepted narrative that Trump's presidency and the Republican clean sweep will be positive for the economy and risk markets. Kapstream remains cautiously optimistic but expect periods of volatility throughout the year as the economy and headlines ebb and flow.

For rates markets the uncertainty largely relates to how far the current easing cycle, and therefore bond yields, will extend. The impact of tight monetary policy may not have led to the recession that history and many may have suggested, meaning that below neutral interest rates may not be required. In addition, the stalling of inflation above target hints at the possibility that above-neutral rates may be needed, at least for a time. Given that many markets have a further reduction in monetary policy restrictiveness priced in, this raises the prospect of a more sideways range in bond yields in 2025 than we had previously envisaged. Kapstream foresees that higher conviction may therefore come from not from a generalised global decline in bond yields but looking at opportunities in specific regions. The ability to be global in focus and not beholden to the direction of just one region should therefore be a source of additional alpha over 2025.

As far as risk assets are concerned, we contain 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. Additionally, the elevated levels of available portfolio liquidity and volatility budget provide us with ample ability to take advantage of expected volatility and pounce on any opportunities.

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