Kapstream Absolute Return Income Plus Fund

Kapstream

— JANUS HENDERSON —

Monthly Report – I class units

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 460m
Distribution frequency	Quarterly
Management fee	0.45% p.a.
Buy/sell spread	0%/0.2%
Interest rate duration	0.61yrs
Spread duration physical	2.33yrs
Yield to Maturity	6.10%
Average credit rating	BBB
Number of issuers	67

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

April 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)*	**0.24**	**1.34**	**1.99**	**8.76**	**6.39**	**5.13**	**4.48**
Fund Return *(after fees, before sell spread)*[1]	0.20	1.22	1.83	8.25	5.90	4.63	3.99
Fund Return *(after fees and sell spread)*[2]	0.20	1.22	1.83	8.25	5.90	5.13	3.98
RBA Cash Rate	0.33	1.00	1.36	4.30	3.60	2.21	1.93
Active return[3] ***(before fees and sell spread)***	**-0.09**	**0.34**	**0.63**	**4.46**	**2.78**	**2.92**	**2.55**
Active return[3] *(after fees and sell spread)*[2]	-0.13	0.23	0.48	3.96	2.29	2.92	2.05
Ausbond Bank Bill Index	0.35	1.04	1.43	4.46	3.68	2.21	2.03

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, 30 April 2025.

Performance commentary

The Fund returned 0.24% before fees in April and the rolling one-year return was a very strong 8.76% despite extremely turbulent market conditions - a testament to the capital preservation objectives of the strategy. Adverse credit spread movements broadly offset the carry, while rates duration added 17bps, as front end yields fell on additional rate cuts being priced in. The yield to maturity finished April at 6.10%, which, when combined with a 53bp increase in the portfolio's credit spread to swap, remains a solid base for absolute and relative-to-cash returns looking forward.

Portfolio strategy

Physical spread duration was higher at 2.33yrs as we took advantage of the sell-off to pick up corporate and financial bonds at attractive levels. The high coupon is also providing higher return stability, thus making us cautiously optimistic about future return prospects.

We plan to maintain our spread duration at around 2 - 2.5 years in the upcoming months, balancing the expectation a credit cycle extension, offset by the possibility of short bouts of tariff induced volatility. The exposure has been skewed towards AUD credit as spreads were closer to their long-term average compared to much tighter spreads observed in the US before this sell-off. However, opportunities are now more balanced between USD and AUD credit and we were active in USD for short-term trading opportunities over the month. Considering the sustained interest from yield-seeking high-net-worth and Asian investors, we anticipate that Australian spreads will likely move back towards the lower end of their historical ranges, unless disrupted by an unforeseen macro event.

The average credit rating of holdings was BBB. High yield exposure was slightly higher at 18%, in typically BB-rated short maturity assets. The portfolio is split across financials (~69%), corporates (~15%), and ABS/MBS and warehouses (~19%), with the residual in cash and SSGAs. We have a ~69%/31% split between Australia/New Zealand and international issuers.

Portfolio liquidity remained, despite lower 'Level 1' liquidity at ~9.6% (cash, commercial paper, SSGA) as we deployed some cash after the Liberation day sell-off and 'Level 2' liquidity was fairly strong at 11.9% (<1yr investment grade), giving us the flexibility to buy attractive credits or take advantage of a better entry point should there be a sell-off.

The previous stalling in core inflation globally had unfortunately seen us lighten up on duration heading into Liberation day. However, pre-existing duration neutral positions such as curve steepeners in Canada and New Zealand performed strongly as the back end of the US became dysfunctional and rose sharply in yield. Total duration was marginally longer at 0.61yr, split between USD (0.27yr), EUR (0.18yr), CAD (0.14yr), NZD (0.10yr), while we maintained a slightly negative bias in Australia (-0.09yr).

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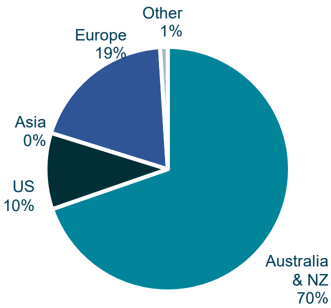
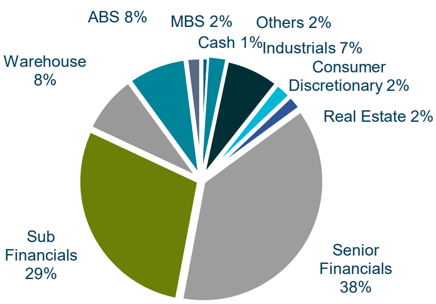
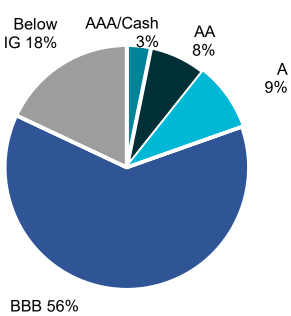
Geographic Allocation*



Sector Allocation*



Credit Rating*



** Adjusted for repo*

Outlook

‘Liberation Day’ in the US saw President Trump announce tariff rates well in excess of expectations and to a level that would represent the highest levels in over a century. The economic implications roiled financial markets. Equities, which were already 8% off their highs in anticipation of tariffs, fell an additional 15%. The implied volatility in equity markets, or VIX, rose from a low in March of 17% to an intraday high of 60%! This saw it share illustrious company over the past twenty years - including just one day during the post Japanese rate hike decline in its equity market in mid-2024, as well as for more extended periods such as following COVID period in 2020 and the Global Financial Crisis in 2008. US credit spreads widened 25bps to 119bps intra-month, accordingly. The US dollar fell notably, down 4.5% against the Euro. Bond yields fell dramatically, with US 2-year yields falling more than 40bps in three days. Then the back end of the US Treasury market began dysfunctioning, with sellers driving the US 10-year yield up 30bps on April 7th. The bond market cracking more than the credit market and yields rising is unusual for a time of crisis. Possible explanations include an unwind of the optimism that marked the lead up to the new administration, or more serious an unwind of the US exceptionalism story that has been a feature of markets for many years now.

President Trump blinked first and walked back the timing and magnitude of increases for most countries. China’s tariffs were increased but exemptions were carved out over following days. Markets responded by unwinding most of the price action of the preceding three sessions. The S&P 500 rebounded to finish the month largely unchanged, down just 0.8% (but are still down around 10% from the recent record highs). US credit spreads closed at 106bps, up 12bps on the month. US 2yr yields finished the month down 28bps to 3.60%, whilst 10-year yields declined ‘just’ 4bps to 4.16% in a notable steepening of the curve. Offshore markets largely followed suit, but with some notable exceptions. Front end yields outside of the US did not bounce back to the same degree in Australia and Europe. Australian credit spreads were also not marked significantly tighter in the second half of the month in line with offshore moves, closing at 98bps, 10bps wider over the month, after reaching wides of +14bps.

The overused phrase that there is a greater than average degree of uncertainty seems appropriate at this juncture. The eventual rate of tariffs to be implemented remains unknown and subject to ‘deals’ being struck, making the economic impacts even harder to forecast. It’s also not clear what the central bank reaction function will be: will higher inflation be the focus on the fall in activity and related rise in the unemployment rate? The timing of corporate tax cuts later in the year also remains unknown.

Our base case is that the tariff increases, while significant, are not expected to cause a deep or protracted recession. The unemployment rate is set to rise, but arguably from a low level and not the sharp or double-digit style numbers seen in harsher times. Inflation will rise under the direct impacts of higher tariffs, but also with a possible supply side shock as Chinese shipments are reportedly almost halving already. We therefore see easing cycles in markets are largely overdone. On credit spreads, there may still be some room for recovery if the current issues subside. However, the recent episode highlight that headline risks remain high and future episodes are likely. Perhaps the highest conviction view for 2025 is therefore volatility - making active management and short-duration fixed income as relevant as ever. As such, we continue 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.