Kapstream
—JANUS HENDERSON—

Kapstream Absolute Return Income Fund

KANGANEWS AWARDS 2017 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR
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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 (IG), absolute return-oriented global fixed income portfolio.

Fund Details

APIR code	HOW0165AU
Inception date	31 May 2007
Fund size	AUD 1962M
Distribution frequency	Quarterly
Management fee	0.41%
Buy/sell spread	Please contact us for latest spreads

Fund Statistics

Interest rate duration	0.82yrs
Credit spread duration	1.71yrs
Average credit rating	BBB+
No of issuers	74
Yield to maturity	5.05%

Fund Guidelines

Target return	cash plus 2-3%
Target volatility	less than 1.5% annualised
Duration limits	-2 to +2 years
Credit quality	>85% investment grade

Dan Siluk
Portfolio Manager

Dylan Bourke
Portfolio Manager

June 2025

Performance (%)	1 month	3 months	1 year	3 years p.a.	5 years p.a.	Annualised since inception
Fund Return (before fees and sell spread)	0.47	1.41	7.29	5.78	3.79	4.73
Fund Return (after fees, before sell spread)[1]	0.43	1.32	6.83	5.33	3.35	4.36
Fund Return (after fees and sell spread)[2]	0.43	1.32	6.84	5.33	3.38	4.36
RBA Cash Rate	0.32	0.98	4.26	3.80	2.33	2.88
Active return[3] (before fees and sell spread)	0.14	0.44	3.04	1.98	1.46	1.85
Active return[3] (after fees and sell spread)[2]	0.11	0.34	2.58	1.53	1.05	1.47
Bloomberg AusBond Bank Bills Index	0.32	1.02	4.39	3.88	2.34	3.08

Past performance is no guarantee of future results. After fee returns are inclusive of 0.41% annualised total expenses for class I units. Fund inception date 31 May 2007. 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 end of period sell spread of 0.07% and management fees. 3) Active return of the Fund compared to Benchmark (RBA Cash Rate).
Source: Fidante Partners Limited, 30 June 2025.

Performance Commentary

The Fund returned 0.43% in June, taking 12-month performance to 6.84% (after Class I unit fees), outperforming the cash benchmark. Market conditions remained supportive, with investors increasingly confident in a pivot toward easier monetary policy later this year. Credit spreads tightened modestly, while equities continued to climb - the S&P 500 reached new record highs - supported by easing geopolitical risks and resilient earnings. In fixed income, expectations firmed for U.S. rate cuts beginning in Q3, with Goldman Sachs now forecasting three 25bp cuts in 2025. This saw short-end U.S. yields lower, while long-end yields remained elevated on supply concerns, steepening the curve. The RBA held its cash rate at 3.85%, but domestic front-end yields drifted down on weaker economic data and a more dovish tone.

The portfolio's yield to maturity declined from 5.37% to 5.05% as Australian rates rallied and spreads slightly compressed. This mark-to-market movement reflects improved valuations but still leaves the portfolio offering a meaningful income premium over cash. Looking ahead, with central banks nearing the end of their tightening cycles, the fund remains positioned to deliver stable income and capital preservation, while maintaining flexibility to respond to further shifts in rate or credit conditions.

Market Commentary

Markets extended their recovery in June as the fallout from the "Liberation Day" tariffs continued to fade. With many of the proposed measures now watered down by legal challenges, exemptions, and bilateral backchannels, market attention shifted toward monetary policy and underlying economic resilience. Global risk assets responded positively, with the S&P 500 reaching new all-time highs by month-end, regaining ground lost during the April tariff volatility

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Fund Platform Availability

- AMP North, Wealthview, eWrap
- AMP PortfolioCare (Badge of Asgard)
- Asgard eWrap & Infinity
- Australian Money Market
- Australian Unity Lifeplan Investment Bond
- BT Panorama
- Centric Wealth (Findex)
- CFS Edge, FirstChoice & FirstWrap
- Clearstream/Ausmaq
- DASH
- Grow Wrap (Insignia)
- Hillross PortfolioCare (Badge of Asgard)
- HUB24
- Insignia – eXpand
- Insignia – Rhythm (private label HUB24)
- Insignia – Asset Administrator (BT Badge)
- Macquarie, Accumulator, Wrap IDPS and Super
- Mason Stevens
- Netwealth
- Praemium
- Powerwrap
- Oasis
- OnePath
- OneAnswer
- OneVue
- Platform Plus (Infocus)
- Voyage (Oasis Badge)
- Xplore Wealth

Credit markets remained firm. The Bloomberg U.S. Corporate Average OAS compressed by 6bps to finish the month at 83bps down from 88bps in May but still above the 74bps seen in late 2024. In contrast, the Bloomberg AusBond Credit Index spread to swap widened by 3bps to 91bps in June, suggesting a more cautious tone in the Australian credit market despite stable fundamentals.

Bond markets moved lower across the curve. In the U.S, yields fell at both the front and long end, resulting in a modest curve flattening. The 2-year Treasury yield declined 18bps to 3.72%, as markets continued to price in rate cuts from the Federal Reserve beginning as early as September. The 30-year yield fell 16bps to 4.77%, driven by a combination of safe-haven demand, slower growth expectations, and continued strong demand at Treasury auctions.

Outside the U.S., movements varied. Canada's 2-year yield finished unchanged at 2.59%, as investors awaited further guidance from the Bank of Canada. Germany's 2-year Bund yield rose 9bps to 1.86%, driven more by resilient growth data and cautious ECB messaging than by inflation, which continued to ease toward target levels. In Australia, the RBA held the cash rate at 3.85%, and the 3-year government bond yield fell 7bps to 3.26%, reflecting weaker domestic data and soft forward guidance.

The U.S. dollar weakened further in June, marking one of its softest first-half performances in decades. A fading U.S. rate premium and reduced "exceptionalism" narrative contributed to improved sentiment across commodities and emerging markets.

Overall, June saw markets continue to stabilise. With policy risks fading, credit and rates markets benefited from improving sentiment, supportive central bank signals, and gradually moderating inflation pressures.

Outlook

As we enter the second half of 2025, the investment environment remains shaped by a shifting macroeconomic regime one in which traditional signals such as inflation, growth, and policy guidance are proving less predictable. In fixed income, near-term rate cuts are increasingly priced in across major developed markets. However, with policy rates still elevated and long-end yields under pressure from fiscal dynamics, the front end of the yield curve continues to offer attractive risk-adjusted returns. Short-dated government and investment-grade credit remain well supported by carry, liquidity, and central bank positioning.

Government bonds in Europe and Australia appear relatively well-anchored in the near term, aided by stable inflation prints and a more cautious monetary policy tone. Meanwhile, credit remains supported by benign default conditions and still-healthy corporate balance sheets, though spread compression has reduced the buffer against idiosyncratic risk.

Looking ahead, portfolios are positioned to benefit from carry at the front end of the curve, while maintaining flexibility to respond to changes in rate expectations or risk sentiment, are likely to be best placed. In a regime defined by shifting drivers, agility and selectivity remain central to managing risk and capturing opportunity.

Portfolio Strategy

Credit carry and spread tightening also added to returns in June. The portfolio's spread duration reduced at headline level, as we de-risked driven by taking profits, being cautious ahead of the passage of the big beautiful bill, tariff uncertainties and maintaining a steady risk level as new issues have tended to be higher beta. We added new issues we found attractive in corporates, corporate hybrids and T2 financial bonds. We bought credits with higher new issue concessions and tended to have a higher beta. The fund's high coupon is providing higher return stability due to an above-average credit spread from shorter-term assets and an attractive cash rate. This makes us cautiously optimistic about future return prospects.

The outlook for risk assets is nuanced, now they have rallied back significantly. Over the next few months there is risks to sentiment from tariff negotiations, with our key focus on the European negotiations. The risk of the EU negotiations spiralling into retaliatory action is still not off the table and offers the opportunity for shorter term wobbles that we expect to be resolved. Over the medium term, the Trump Administration will likely need a strong economic tailwind leading into the 2026 mid-term elections, with positive economic actions likely starting in the second half of 2025. As such lower taxes, and a likely boom in corporate investment in the US may provide a solid underpinning for US earnings and global sentiment.

Whilst headline spread duration is lower during this period of increased risks, we expect spread duration to increase to 2 - 2.5 years in the upcoming months, balancing our view that we expect the US government to potentially extend the credit cycle, offset by the possibility of short bouts of tariff and policy induced volatility. The exposure is skewed towards Australian credit because credit spreads were closer to their long-term averages compared to the significantly tighter spreads observed in the US before this sell-off. 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 macro events.

In terms of asset allocation, the portfolio can be split across three major 'buckets'; financials (~64%), corporates and REITs (~24%), and asset and mortgage-backed securities (<15%), with the residual in cash and liquids. Close to ~76% of the portfolio is held in Australian & New Zealand names, and by currency <5% is held in non-AUD denominated securities.

Portfolio liquidity remains strong with 'Level 1' liquidity at ~10% (cash, commercial paper, SSGA) and at the high end of the range for 'Level 2' liquidity at ~17% (<1yr investment grade paper).

Rates positioning was broadly unchanged through June, with no adjustments made to our existing exposures across the U.S., Europe, Australia, or Canada. The portfolio remains positioned near its structural average duration, reflecting our view that current levels offer a reasonable balance between carry and convexity. While the bulk of the yield adjustment this year has already occurred, we continue to see value in maintaining a modest core of duration exposure as insurance against downside risk. With rate cuts now largely priced in, further rallies may be more limited, but the asymmetry remains attractive should growth or risk sentiment deteriorate suddenly.