Kapstream Absolute Return Income Plus Fund

Kapstream
— JANUS HENDERSON —

Monthly Report – A class units

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	6 November 2019
Fund size	AUD 498m
Distribution frequency	Quarterly
Management fee	0.60% p.a.
Buy/sell spread	0%/0.2%
Interest rate duration	0.76yrs
Spread duration physical	2.36yrs
Yield to Maturity	6.04%
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

May 2025

Performance (%)	1 month	3 months	calendar year to date	1 year	3 years annualised	5 years annualised	since inception annualised
Fund Return *(after fees and sell spread)*	0.79	1.33	2.54	8.03	6.02	4.85	3.70
RBA Cash Rate	0.32	1.00	1.69	4.26	3.71	2.27	2.09
Active return[1] *(after fees and sell spread)*[2]	0.46	0.33	0.85	3.77	2.31	2.58	1.61
Ausbond Bank Bill Index	0.34	1.05	1.78	4.42	3.79	2.28	2.13

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) Active return of the Fund compared to Benchmark (RBA Cash Rate). Source: Fidante Partners Limited, 31 May 2025.

Performance commentary

The Fund returned 0.79% before fees in May and a strong 8.03% on a rolling one-year basis, as the market walk back much of the negative reaction to Liberation Day tariffs. Coupon income and credit spread compression were strong contributors to performance, while rated duration detracted as bond yields finished the month mixed. US 2-year yields have recovered to their early April levels, while longer-dated yields such as US 30-year yields are well above on supply concerns. Nonetheless, the yield to maturity on the portfolio remained attractive at 6.04%, providing a solid base for absolute and relative-to-cash returns looking forward.

Portfolio strategy

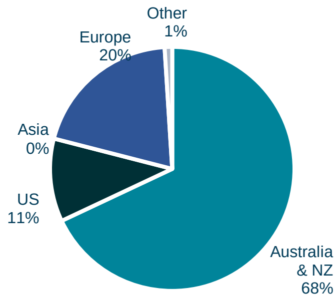
Physical spread duration was marginally higher at 2.36yrs as we recycled risk into attractive new opportunities with primary markets re-opening after the April volatility. We plan to maintain our spread duration at around 2 - 2.5 years in the upcoming months. While we continue to expect volatility in the coming months given various risks, we expect any short term wobbles to correct quickly because of the likely lower tax rates, and boom in corporate investment in the US which will provide a solid underpinning for US earnings and global sentiment, especially given the Trump Administration will likely need a strong economic tailwind leading into the 2026 mid-term elections. The exposure has been skewed towards AUD credit but 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 investors and Asian investors, we anticipate that AUD 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 flat higher at 18%, in typically BB-rated short maturity assets. The portfolio is split across financials (~65%), corporates (~13%), and ABS/MBS and warehouses (~18%), with the residual in cash and SSGAs. We have a ~68%/32% split between Australia/New Zealand and international issuers.

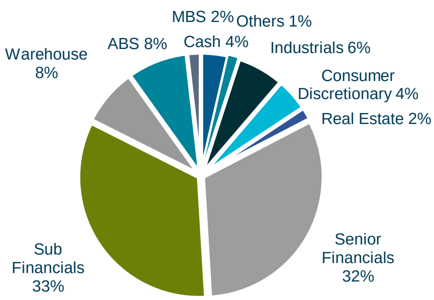
Portfolio liquidity remained strong, with 'Level 1' liquidity at ~9.9% (cash, commercial paper, SSGA) and 'Level 2' liquidity at 9.1% (<1yr investment grade), giving us the flexibility to buy attractive credits or take advantage of a better entry point should there be a sell-off.

Rate reductions implemented in April were unwound in May as yields rebounded, taking total rates duration to 0.76yr from 0.61yr. Kapstream views this as being particularly important as a hedge against other sharp deteriorations in risk sentiment that could occur. This risk remains spread in not just the US (0.35yr) but several regions where we think it's of the most value: namely Europe (0.29yr) and New Zealand (0.09yr). Our exposures in Canada (0.12yr) have been trimmed with recent increases in core inflation.

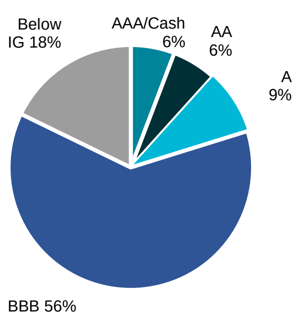
Geographic Allocation



Sector Allocation



Credit Rating



Outlook

Just as the tariffs have been wound back from their initial levels, so has the market's reaction reversed. Deals, delays, exceptions and even courts striking the tariffs down (albeit temporarily) have all seen the size and economic implications of the tariffs reduce. Many of the moves that had begun to be unwound from early April, continued into May. Risk markets continued to climb and ended the month around half-way between the Liberation Day levels of early April (ie before the big moves in response) and the record highs of February before the tariff fears became the dominant market theme. S&P500 closed 6.15% higher. In contrast, the US dollar has not rebounded with one market narrative being that the US exceptionalism premium is being unwound.

Like equities, credit spreads are broadly back to Liberation Day levels but are not making fresh lows for the recent cycle. The Bloomberg US Aggregate Corporate Average OAS index compressed 17bps to 88bps in May, remaining above the 74bps low seen in November. CDX IG closed at 56bps, 11bps tighter over the month but ~10bps wider that its tights in February. The Australian Credit Index spread to swap fell 5bps to also be at 88bps, above the lows of 81bps in late February.

Bond markets are painting a much more mixed picture. US 2-year yields were up 29bps in the month and are now back to their pre-Liberation Day level, as fears about economy killing sized tariffs have reduced, balanced out by inflation fears. However, US 30-year yields have risen to now be back to their 2023 highs (2-year yields are ~100bps below as the Fed has cut rates). This steepening reflects additional term premium built in to compensate for the significant amount of bond issuance that is forecast with the currently expected policy outlook. Outside of the US, yields at the front end of the curve are generally considerably below the early April levels. For example, Australian 3-year yields were up just 1bp, as the RBA continued with a second 25bp easing this cycle to 3.85% and presented a very dovish outlook due to tariff-related downside risks to economic activity. German 2-year yields were up 9bps to 1.78%, while Canadian 2-year yields were up 11bps.

Policy uncertainty moderated in May, though April set a low bar. Markets are being reminded of President Trump's modus operandi: begin with extreme positions and settle on something still bold but more palatable. This pattern is expected to persist throughout the next four years. While markets have largely rebounded from tariff-related announcements, the economic impact lingers, with even a modest 10% tariff hike representing a significant jump in the context of the past 100 years. Central banks will have to wrestle with the inflationary impacts of the tariffs versus what will be a notable negative impact on activity on what amounts to an increased tax on trade. The positive benefits from any fiscal boost from the big, beautiful bill are expected to offset these, which is why we remain defensive in the rates space

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. 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.