KAPSTREAM
A JANUS CAPITAL Group Company

Kapstream Wholesale Absolute Return Income Fund

Responsible Entity	Fidante Partners Limited	Indirect Cost Ratio	0.70%	Report Date	**30-April-2017**
Contact	www.fidante.com.au	Liquidity	Daily	APIR Code	HOW0052AU

Fund Characteristics

Fund Size	Yield	Duration	Spread Duration	Avg Rating	# of Securities
AUD 5,138,918,452	**3.10%**	**0.35**	**3.01**	**A+**	**257**

Fund Performance

	1 month	3 months	Calendar year to date	1 year	2 years	3 years	4 years	5 years	7 years	Fund Inception (31/05/2007)
Kapstream Fund Total Return[1]	0.15%	1.01%	1.36%	3.25%	2.69%	3.21%	3.46%	4.24%	4.62%	5.18%
Benchmark[2]	0.23%	0.59%	0.84%	2.18%	2.24%	2.58%	2.59%	2.73%	3.25%	3.80%
Active Return	-0.09%	0.42%	0.52%	1.07%	0.45%	0.63%	0.86%	1.51%	1.36%	1.37%

Past performance is not a reliable indicator of future performance

[1]Performance figures are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

[2]As at 1 February 2014, the benchmark of the Fund was changed from the RBA Cash Rate to a composite benchmark comprising 50% Bloomberg AusBond Bank Bill Index & 50% Bloomberg AusBond Composite 0-3 Yr Index. The performance table above reflects this change in benchmark.

Other Fixed Income Benchmarks

	1 month	3 months	Calendar year to date	1 year	2 years	3 years	4 years	5 years	7 years	Fund Inception (31/05/2007)
RBA Cash Rate	0.13%	0.38%	0.50%	1.56%	1.78%	2.00%	2.14%	2.37%	3.00%	3.65%
UBS Bank Bills	0.15%	0.43%	0.59%	1.88%	2.07%	2.27%	2.39%	2.60%	3.25%	3.95%
UBS Composite (All Maturities)	0.75%	1.37%	1.99%	2.59%	2.98%	4.92%	4.35%	4.87%	6.03%	6.21%
Leh Global Agg (Hedged in $A)	0.74%	1.69%	1.43%	2.60%	3.89%	5.53%	4.96%	5.76%	6.87%	7.51%
Annualised CPI				2.13%	1.72%	1.59%	1.92%	2.04%	2.15%	2.47%

Fund Performance Attribution

Return Components (basis points)	1 month	3 months	Calendar year	1 year	2 years	3 years	4 years	5 years	7 years
Coupon Income	26	83	110	322	339	354	372	395	466
Rate Duration	3	4	6	-9	3	29	15	22	29
Spread Duration	5	20	19	40	-22	-19	5	47	18
Currency	0	2	4	3	9	15	20	20	17
Other/Selection	-13	10	21	39	10	12	3	9	8
Fund Fees	-6	-18	-23	-70	-70	-70	-70	-70	-70
Total (%)	**0.15%**	**1.01%**	**1.37%**	**3.25%**	**2.68%**	**3.21%**	**3.45%**	**4.23%**	**4.68%**

* Return attribution for periods longer than 1 month are not geometrically compounded, hence the small difference between actual fund performance and attribution

Fund Objectives

The Fund aims to provide a steady stream of income and capital stability over the medium term while aiming to outperform its benchmark through market cycles. Kapstream draws on information from many sources including economic roundtables, investment banks, brokers, ratings agencies and central banks. Kapstream employs a rigorous evaluation process for individual trades, first confirming that a prospective trade meets Kapstream's global macroeconomic view, then incorporates various risk variables such as duration, yield curve, country and currency positions. The Fund is intended for investors who are seeking potentially higher levels of returns compared to cash and cash-like securities with low to moderate volatility in the unit price.

Fund Holdings

Credit Quality	%
AAA/Cash	14
AA	16
A	41
BBB	28
Below IG	0
Total	**100**

Sector	%
Cash/Deposits	7
Govt/Agency	4
Consumer	4
Energy	3
Senior Financials	39
Sub Financials	7
Industrials	12
Utilities	15
MBS/ABS	9
Total	**100**

Region	%
Australia	61
US	17
Asia	15
Europe	2
Other	4
Total	**100**

Performance

The Fund returned 0.15% in April, 1.36% year-to-date and 3.25% over the 1-year period, after Wholesale Shareclass fees. Bond yields rallied toward post US election lows as a "risk-off" theme dominated market sentiment through most of April. The "no" Congressional vote on US healthcare changes – signalling further political gridlock combined with subdued US economic data and concern over French elections controlled market emotion leading to month-end. However, further clarity around US tax reform and Macron's likely victory in French elections allowed risk markets to rally and bond yields to rise at month-end. Australian 10-year government bond yields ended the month at 2.60%, down 0.10% from March. Likewise, US 10-year Treasuries yielded 2.35% at month-end, down 0.05%.

US Congress avoided a government shutdown (at least through September), agreeing on a compromised 2017 Financial Year budget while Macron won a decisive victory in the first round of French elections. Equity markets moved toward new record highs at month-end, with the Australian ASX up 1.04% and US S&P up 1.03%.

Markets continue to price in high probabilities for two more US rate hikes in 2017. In contrast, Australian markets price in virtually no probability of a 2017 rate hike and a small probability of one 0.25% cut.

Outlook & Strategy

We retained a more conservative focus, as we remain uncertain of Trump administration policies. In a market characterized by greater volatility we expect to continue to minimise low risk/return trades such as our interest rate (duration) position. Given our expectations for much economic policy being geared toward more growth and inflation, we will maintain very small duration positions, which is currently 0.35 years.

As policy focus moves away from immigration toward economic platforms, we remain concerned that increasing trade barriers and ending existing trade treaties will both raise inflation and lower US economic growth. We believe the Trump economic package will be revealed much later in 2017 which will cause continuing short-run volatility as markets price in rumor and innuendo.

More recent economic data lead us to remain neutral to the 2 more rate hikes over 2017. We view March's 98,000 weak payrolls number to be an aberration, believing 7+ years of stable and steady jobs growth will likely continue. Wage pressures remain a concern, with average hourly earnings at 2.7%. Nonetheless, we expect the United States Federal Reserve to tread carefully, given Brexit concerns, European banking volatility, and slower Asian growth.

We believe the European Central Bank will continue to struggle with the effectiveness of its quantitative easing programme, currently at €60 billion/month in sovereign and corporate bond purchases. We expect 2017 European growth and inflation will continue to underperform expectations amidst structural rigidities in labour and product markets, particularly in Peripheral regions. Despite low growth, low inflation and easy monetary policy, we have found bond opportunities limited given low/negative yields and too great risks associated with higher-yielding investments. We expect to continue to avoid Europe, given uncertainty surrounding the Brexit campaign, low yields and limited corporate profitability.

We continue to hold a positive view on investment grade credit in Australia, largely due to attractive real yields and robustness of issuers compared to other developed markets. Our portfolios continue to have material exposure to Australia, currently about 60% of our holdings. Favoured holdings remain 1) the banking sector due to attractive yields and greater liquidity, and 2) infrastructure-type assets such as airports and toll roads which offer attractive yields, systemic importance, monopolistic businesses, high regulation and quality underlying collateral.

Globally, we like systemically important, highly rated Asian issuers such as government-related energy, telecom and banking entities and the US 'too-big-to-fail' banks, whose bonds should be supported by an increasingly robust regulatory environment focused on less risk taking and greater capital requirements.

We have maintained the fund's "liquidity bucket" of government-related and cash instruments at our 10% target, back to our long-run average, taking advantage of attractive corporate issuance opportunities.

In managing fixed income portfolios, there are better risks to take:

- We expect corporate profitability to remain strong, aided by less regulation and lower taxes. We will continue to hold high-quality, investment-grade issuers. These corporate bonds currently yield approximately 3.2%.
- We expect the US to remain the main engine of global growth providing strong support for the US dollar vs. the rest of the world. We intend to continue to take long US dollar positions vs. a basket of Asian currencies and vs. the Euro.
- We expect US rates will underperform the rest of the world as US recovery continues. We will maintain positions which benefit from narrowing US vs. Australian and New Zealand rates.
- We still see risks in Europe. The European Central Bank will eventually increase the size of its quantitative easing programme, particularly as banking risks increase. However, we find little value in Europe given the low and negative yield environment.

Contact us
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