Kapstream — JANUS HENDERSON —

Kapstream Wholesale Absolute Return Income Fund

Responsible Entity	Fidante Partners Limited	Indirect Cost Ratio	0.70%	Report Date	**31-August-2017**
Contact	www.fidante.com.au	Liquidity	Daily	APIR Code	HOW0052AU

Fund Characteristics

Fund Size	AUD 5,891,246,536	Yield	3.00%	Duration	0.81	Spread Duration	2.98	Avg Rating	A+	# of Securities	268

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]	0.24%	0.71%	2.45%	2.70%	3.06%	3.08%	3.51%	3.96%	4.49%	5.11%
RBA Cash Rate	0.13%	0.38%	1.00%	1.50%	1.70%	1.89%	2.04%	2.23%	2.85%	3.58%
Active Return	0.11%	0.33%	1.45%	1.20%	1.36%	1.19%	1.47%	1.73%	1.64%	1.53%

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.

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)
Fund's Benchmark[2]	0.10%	0.30%	1.40%	1.73%	2.08%	2.38%	2.50%	2.60%	3.11%	3.73%
UBS Bank Bills	0.14%	0.43%	1.18%	1.76%	1.99%	2.16%	2.29%	2.46%	3.10%	3.87%
UBS Composite (All Maturities)	-0.01%	-0.66%	2.50%	-0.66%	2.71%	3.89%	4.64%	4.16%	5.33%	6.05%
Leh Global Agg (Hedged in $A)	0.96%	1.11%	3.21%	1.04%	4.92%	4.88%	5.97%	5.34%	6.28%	7.44%
Annualised CPI				1.93%	1.48%	1.49%	1.87%	1.97%	2.09%	2.42%

[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.

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	25	75	211	317	330	343	362	380	450
Rate Duration	-1	-7	7	-39	4	18	25	13	21
Spread Duration	-3	15	45	55	26	-11	15	43	28
Currency	0	1	7	5	6	17	14	20	17
Other/Selection	9	5	23	3	11	12	5	10	14
Fund Fees	-6	-18	-47	-70	-70	-70	-70	-70	-70
Total (%)	**0.24%**	**0.71%**	**2.46%**	**2.71%**	**3.07%**	**3.09%**	**3.52%**	**3.96%**	**4.60%**

* 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	16
AA	13
A	40
BBB	31
Below IG	0
Total	**100**

Sector	%
Cash/Deposits	6
Govt/Agency	4
Consumer	3
Energy	3
Senior Financials	38
Sub Financials	6
Industrials	11
Utilities	17
MBS/ABS	10
Total	**100**

Region	%
Australia	65
US	15
Asia	13
Europe	3
Other	5
Total	**100**

Performance

The Fund returned 0.24% in August and 2.45% year-to-date, after Wholesale Shareclass fees.

Outlook & Strategy

We expect to retain a conservative focus, remaining cautious of growing geopolitical risks including US political turmoil, conflicts in Russia, North Korea, Syria and the South China Sea. We will maintain duration in the 0.60 to 0.90 range, as we believe bond yields are closer to the top of their trading range given little global inflation expectations. Being at 0.81 years currently, we are closer to the top end of our duration range.

US political drama will continue to drive global bond markets. Controversy surrounding the healthcare/immigration/tax reform debate and the latest addition/purge in the revolving show circus that has become the White House inner-circle are the smaller of our political concerns. But the growing potential for US Congress to fail to raise the US debt ceiling, creating a government shutdown and prospects for US Treasury default, remain our biggest political/economic concern in the near term.

2 of the 3 branches of government are currently broken. The Republican led Congress currently views the debt ceiling as a secondary issue, messaging their continuing focus on a healthcare overhaul bill, expanding upon the vast progress they've made over the past 7 years. A Republican House minority stated they would force a Treasury default and government shutdown unless their demands that Obamacare was repealed and funding for building the wall across the Mexican border were met. This faction shut down the government for 16 days in 2013 over a similar set of hostage demands, all of which failed. As expected, Congress declined to extend their current session to deal with the debt ceiling, as having another 1-1/2 month vacation was deemed too important to the welfare of the country. We have little confidence in Treasury secretary Mnuchin's stature and ability to push Congress into raising the debt ceiling. And with a career epitomized by defaulting on investors, it's hard for us to foresee President Trump having anything positive to add to situation other than finding a way to blame Hillary Clinton and Obama for the upcoming chaos. Whilst the rationale for not extending the debt ceiling is likely to change based upon funding for the crisis du jour, resolution is at a minimum delayed until the last possible moment, putting a cap on sentiment and bond yields.

The recent Houston floods will provide some impetus toward resolve the ongoing deadlock, improving the probability of both a debt ceiling increase and a moderate fiscal spending increase, albeit at the last minute. While initial calls for about $7 billion in aid will provide little toward fiscal stimulus, the estimated $75 billion in total loss could deliver an additional 0.2% to 0.4% growth over the next few quarters.

Like US dollar strength, global bond yields will remain a barometer of the markets' faith in Trump's economic plans. Over the remainder of 2017, we expect those plans will continue to be delayed as internal missteps, controversies, resignations and investigations cause continuing short-run volatility as markets price in rumor and innuendo. Whilst jobs growth remains mostly robust, wage increases and inflation remain well contained. The US may be close to full employment as strong payrolls data, less job openings and quit rates point to a strong labour market. Nonetheless, inflation remains well contained, as wage inflation remains low, driven by weak labour bargaining power.

Further political turmoil, little policy progress and concern that potential US policies, which include increasing trade barriers and ending existing trade treaties, will undermine US economic growth will continue to weigh on bond yields.

Considering US political disorder and a succession of soft Consumer Price Index prints, the US Federal Reserve (Fed) is unlikely to hike again in 2017. Goods inflation is less closely linked to decreasing unemployment as spare global capacity makes cheap imports a viable alternative to domestic products. We had been surprised by the Fed's hawkish tone in the 2nd quarter, stating that inflation was only running "somewhat" below target and that "conditions are in place for inflation to move up." YTD payroll gains corroborate the last 7+ years of stable and steady jobs growth, but the story is so far non-inflationary. We expect unemployment to remain close to the current 4.4%, a near 16-year low. Wage pressures will eventually become a concern, with average hourly earnings at 2.5% and the ratio of job seekers to number of available jobs moving from 9:1 toward 1:1. But not in 2017. We believe core inflation will remain contained until wage gains move beyond 3%, a level not seen since 2009.

Normalization of the Fed's balance sheet is expected begin later this year, but we expect only modest reinvestment tapering which would also reduce prospects for a larger set of rate hikes in 2018. The June statement, indicating initial monthly tapering caps of $6 billion and $4 billion for Treasuries and Mortgage Backed Securities, respectively, peaking at $30 billion and $20 billion through progressive quarterly caps, indicate a $1 trillion taper over the next 3-1/2 years leaving the Fed with a $3.3 trillion balance sheet. Nonetheless, we expect the Fed to tread carefully, given Brexit concerns, European banking volatility, slower Asian growth, geopolitical risks and little progress in Trump's economic plans.

We remain sympathetic to the Fed's Kashkari's belief that recent rate hikes have been "doing real harm" to the US economy, leading to "slower job growth, leaving more people on the sidelines, leading to lower wage growth and leading to lower inflation and inflation expectations." Overestimating labour market tightness and its impact on inflation will become a more central theme as the Fed leaves rates on hold longer than markets currently anticipate.

In global bond markets we continue to favour Australian rates versus the rest of the world. Like the US Fed, we expect the Reserve Bank of Australia (RBA) to remain on hold for the remainder of 2017. Housing and labour markets will remain key factors in future growth and inflation expectations and we expect the RBA will await further data before acting.

Chinese growth will remain key for Australia and we remain bullish despite a deceleration in credit provisions. Gross Domestic Product remaining near 7%, in line with targets, remains our base case and should continue through to the 19th Party Congress later in the year.

Strong Chinese and global growth, core inflation reaching 1.8%, employment gains (particularly the recent gain in full-time hiring) and improved terms of trade provide for a solid domestic story and our expectations for continuing the string of 26 years of recession free growth. However, non-mining investment and a lack of wage growth will cause the RBA to tread carefully. Whilst recent employment gains remain solid, globalization and technology advancements mean wage growth is likely to remain well contained. 240k jobs gains over the past 3 quarters and an unemployment rate at 5.6% reconfirm a solid, firm jobs story.

However, the latest wage data also confirm weak wage growth at an annualised 1.8%, the lowest level in more than 25 years, suggesting core inflation will likely remain below the RBA's 2% to 3% target. The underemployment rate remains at 8.8%, the second highest reading on record. A need for Australia to become more competitive in a global world, technological change and weaker labour bargaining power will likely continue to keep downward pressure on wages. The impact of macro-prudential policy changes have yet to filter through the economy, but we believe inflation risks will remain to the downside, keeping the RBA on hold well into 2018. While the RBA will tolerate a stronger currency, financial conditions are tightening and limiting the RBA's ability to eventually increase rates.

We continue to hold a positive view on investment grade credit in Australia, largely due to attractive real yields and healthiness of issuers compared to other developed markets. Our portfolios continue to have material exposure to Australia, currently about 64% 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, solid cashflows, systemic importance, monopolistic businesses, high regulation and quality underlying collateral. Whilst Australian banks came under further pressure with the revelation of a new bank tax and rating agency downgrades of 2nd tier banks and 1st tier hybrids, we remain bullish on Australian senior bank debt given conservative business models, strong profitability and implicit government support.

We remain less supportive of European bond opportunities. In the nearer-term, political risks have decreased following the French elections and near-term growth has improved, aided by increased consumer spending and improving employment, but we see little inflationary pressures. We believe the European Central Bank will continue to struggle with the effectiveness of its quantitative easing (QE) programme, currently at €60 billion/month in sovereign and corporate bond purchases. Prospects for a greater QE programme later in 2017 or 2018 are increasing despite market expectations for a further QE decrease. We expect 2017 European growth and inflation to continue to underperform expectations amidst structural rigidities in labour and product markets, particularly in Peripheral regions. Low/negative bond yields already reflect this scenario.

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, particularly with the uncertainty surrounding Brexit.

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.

Contact us
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