Kapstream
—JANUS HENDERSON—

ARSN 632 896 176

ActiveX Kapstream Absolute Return Income Fund (Managed Fund) (CXA:XKAP)

Fund Facts – 31 March 2024

CXA Ticker	XKAP		
Fund Inception Date	10 October 2019	**Fund Size**	$10.6 million
Underlying Fund Inception Date	30 September 2007	**Underlying Fund Size**	$2.1 billion
Distribution Frequency	Quarterly	**Unit Registry**	Link Market Services
Management Fee	0.55% p.a.	**Fund Issuer**	Fidante Partners Limited

Fund Overview

The ActiveX Kapstream Absolute Return Income Fund (Managed Fund) aims to deliver an alternative approach to fixed income. It provides access to global fixed income markets, in order to facilitate a steady income stream with capital stability across economic cycles.

Kapstream adheres to an active and less traditional approach to fixed interest management, one that blends top down macroeconomic outputs with bottom-up security selection. Unlike more mainstream competitors, it is not subject to the same benchmark relative constraints, providing the investment team with greater scope to incorporate best trade ideas and position the portfolio in response to varying market conditions.

Suits Investors Seeking

- Stable income across market cycles.
- Potentially higher levels of returns compared to cash.
- Low to moderate volatility.
- A diversified portfolio that can complement other asset classes.

Monthly Performance Report – 31 March 2024

Fund Performance[1, 2]	1 month	3 months	CYTD	1 year	3 years	5 years	Since inception[3]
Fund	0.54	1.08	1.08	5.46	2.10	-	2.58
RBA Cash Rate	0.34	1.07	1.07	4.11	2.08	-	1.51
Excess Return	0.20	0.01	0.01	1.34	0.02	-	1.08

-0.80

1 Performance figures are based on the Fund's net asset value, are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of likely future performance. All periods longer than 1 year are annualised.

2 The performance of the Fund will not exactly replicate that of the Underlying Fund, for example, where cash is held by the Fund.

3 The Fund's inception date is 10 October 2019.

Source: Fidante Partners Limited, 31 March 2024.

Underlying Fund

The Fund invests in Kapstream Absolute Return Income Fund (Underlying Fund). In this report, where we refer to the Fund's investments we generally do so on a 'look-through' basis; that is, we are referring to the underlying assets that the Fund is exposed to through its investment in the Underlying Fund.

Underlying Fund Performance[4]	1 month	3 months	CYTD	1 year	3 years	5 years	Since inception[5]
Underlying Fund	0.54	1.08	1.08	5.48	2.11	1.93	3.94
RBA Cash Rate[6]	0.34	1.07	1.07	4.11	2.08	1.47	2.78
Excess Return	0.20	0.01	0.01	1.37	0.03	0.45	1.16

4 Performance figures are calculated after fees have been deducted, assume distributions have been reinvested, and include the impact of sell spreads. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of likely future performance. All periods longer than 1 year are annualised.
5 The Underlying Fund's inception date is 31 March 2007.
6 From 1 February 2014 to 30 October 2019, the Fund's benchmark was a composite benchmark comprising 50% Bloomberg Ausbond 0-3 Yr Index & 50% Bloomberg Ausbond Bank Bill Index. Prior to 1 February 2014, the Fund's benchmark was the RBA Cash Rate.

Source: Fidante Partners Limited, 31 March 2024.

Fund Benefits
Unconstrained approach Investing wherever the best risk adjusted opportunities can be found by Kapstream irrespective of the benchmark index.
Conservative risk focus Priority is given to actively managing the Fund's investment risks within limits.
Flexibility Able to meaningfully shift exposure to different geographies, sectors and fixed income categories to meet its return and risk objectives.
Capital stability Conservatively managed, the Fund is well suited to investors looking for potentially higher levels of returns compared to cash with low to moderate volatility.
Income stream Investing predominantly in high quality bonds provides the potential for a stable quarterly income stream.
Diversification A flexible, unconstrained approach results in a diversified portfolio that can be complementary to other asset classes.
Fund Risks
The Fund is exposed to a number of risks including interest rate risk, market risk, and collateral risk. Please refer to the Product Disclosure Statement for more information.

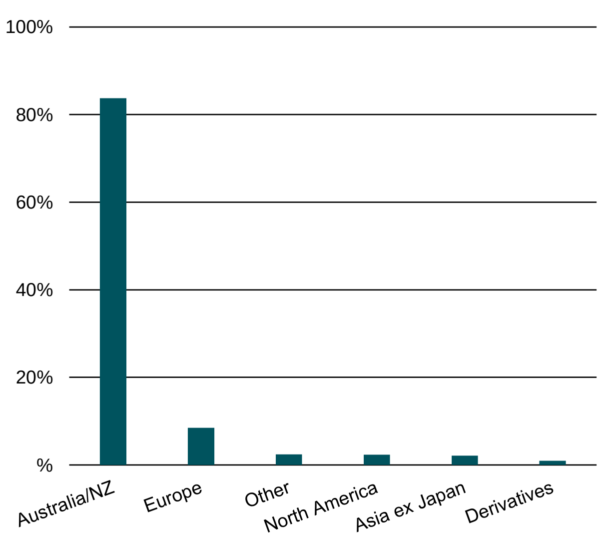
Underlying Fund Guidelines

Target Return	Target Volatility	Duration Limits	Credit Quality
Cash plus 2-3%	<1.5% annualised	-2 to +2 years	>85% investment grade

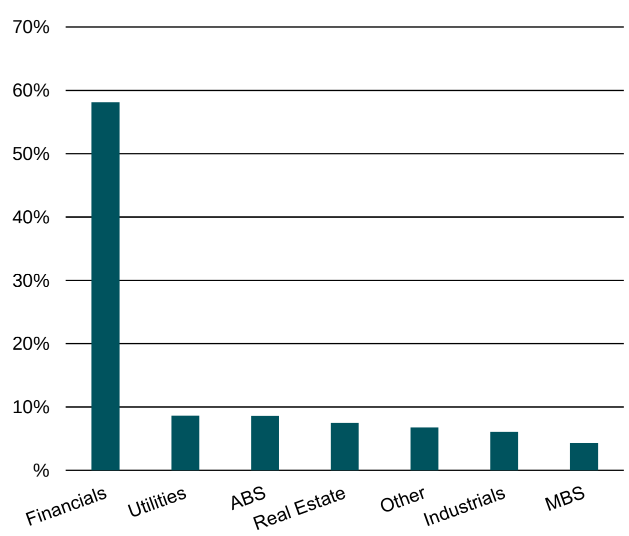
Underlying Fund Statistics

Interest Rate Duration	Credit Spread Duration	Average Credit Rating	Number of Issuers	Yield to Maturity
1.30yrs	2.07yrs	BBB+	74	5.96%

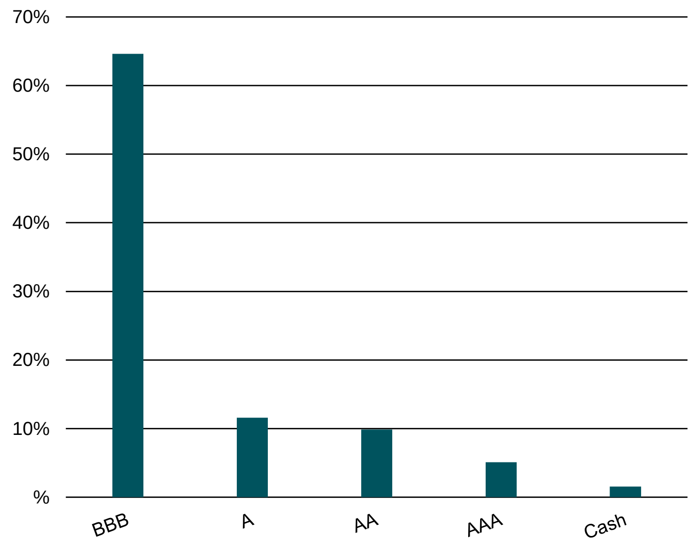
Geographic Allocation



Sector Allocation

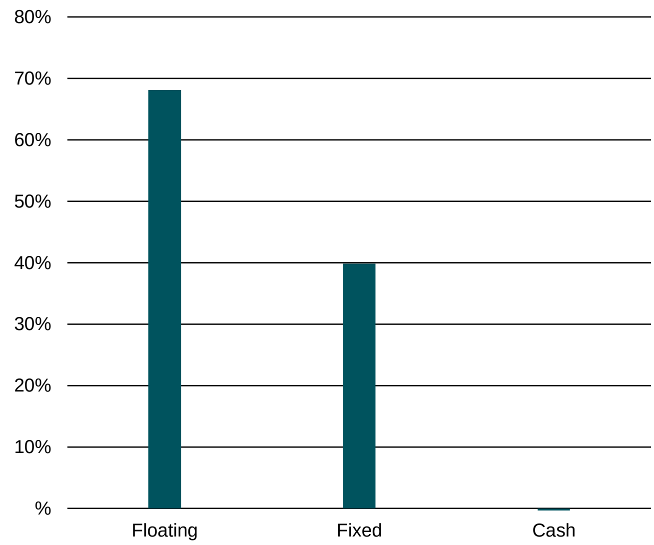


Credit Rating*



*of which 4.36% of Investment Grade and 2.17% of High Yield were internally rated

Interest Type



Monthly Commentary

Performance Commentary

The Fund returned 0.54% in March and 1.08% calendar year-to-date 2024. Risk markets improved modestly in the month against a backdrop of still strong economic growth, particularly in the US. Yield movements were more restrained compared to February, as we continue to edge closer to central bank rate cuts across the developed world, with inflation returning towards target. Portfolio duration positioning had little impact (positively or negatively) on performance, but continues to provide an important ongoing hedge against unforeseen adverse changes to the credit environment. We continue to hold high conviction that positive duration positioning will add to performance in 2024 as central banks ease policy. Returns over the first quarter were held back a little as a result of rising yields in February. A longer-term picture, which also includes the larger and expected fall in yields of late 2023, shows strong returns over the past twelve months. The portfolio yield to maturity remains high at ~6%, modestly down in the month but still providing strong support for expected future returns. Portfolio liquidity remains high, in line with our strategic objectives and to enable us to take advantage of opportunities as they arise.

Market Commentary

We continue to edge towards an easing in monetary policy from central banks globally. Inflation continues to fall from the lofty heights seen in 2022, but is not yet at target. Furthermore the pace of decline is uneven through time and across jurisdictions, meaning that the timing of the first easing in each region remains uncertain and varied. It can be argued that this aspect, combined with the performance of underlying economies and labor markets, will significantly influence the pace and extent of this easing.

Unlike February, the debate on timing and pace of easing did not change wildly in March. Yields finished the month largely where they started in the US and were modestly lower elsewhere. This consolidated the sharp rise in yields that was seen in February, after markets got too far ahead of themselves in late 2023 in terms of the extent of easing expected from central banks. The broader perspective reveals that yields currently sit at approximately the midpoint of their range over the last 18 months, below the highs of late 2023 as tightening cycles drew to a close, but above the over-stretched lows in January 2024 and in the aftermath of the US regional banking crisis in early 2023.

The US Federal Reserve Meeting came and went without too much reaction in markets. US inflation forecasts were raised for this year, in response to the strength seen in January and February, but the median amount of easing this year in the Fed's 'dots' stayed at 75bps. However, the Fed's expectations for where the Fed Funds rate will be beyond 2024 was increased, which was somewhat overlooked by markets. The expected June start to the easing cycle therefore remains on a knife's edge, with the US election later in the year. The European Central Bank also left rates on hold but remains committed to cuts beginning in June, with the Swiss National Bank being the first developed market central bank to ease, with a 25bps reduction to 1.5%. Central banks in Australia, New Zealand and Canada all showed a somewhat neutral bias, with inflation still too high above target to consider easing. That said, the resumption of a downtrend in inflation in Canada means that a move towards a dovish bias may be seen in coming months.

In March, risk markets were exceptionally well-supported, buoyed by the ongoing narrative of a soft landing. US GDP growth posted an above-trend 3.1% yearly gain over 2023. Early estimates for the first quarter are for a solid 2% annualised pace, supporting earnings expectations and the soft landing (or dare we say, no landing, theme). US equities posted a 3% gain and hit record highs. Credit spreads also declined, but the extent of this is limited by how low they already are. The US Bloomberg Corporate Aggregate OAS Credit spread series declined by 6bps to 90bps as at the end of March, well inside the historical average of 150bps. Australian physical credit spreads continue to lag the global backdrop, with the Bloomberg Ausbond OAS credit spread declining by 1bp to 142bps, but still remaining above its historical average of 133bps.

Portfolio Strategy

The high coupon continues to provide a return robustness which hasn't been seen for around a decade. The quality of this coupon is strong given it is comprised of a higher than average credit spread, despite being focused on shorter dated assets. Given this high coupon we remain cautiously optimistic. Additionally as the odds of a sof landing (rather than hard landing) in the US continues to increase given strong GDP and unemployment data, we expect to hold spread duration around 1.8-2yrs over the coming months in Australian credit, as home market credit spreads remain around long term averages, whilst US credit spreads are significantly tighter against averages, and our view that if the global macro environment remains stable, Australian spreads will eventually follow the US lead.

In terms of asset allocation, the portfolio can be split across three major 'buckets'; financials (~60%), corporates and REITs (~25%), and asset and mortgage-backed securities (<15%) with the residual in cash and liquids. Close to ~85% of the portfolio is held in Australian & New Zealand names, and by currency <5% is held in non-AUD denominated securities.

Portfolio liquidity remains high and was fairly stable as we chose to take profits on previous new issues to fund investments into 'new' new issues, mainly in AUD credits with 'Level 1' liquidity at ~9% (cash, commercial paper, SSGA) and at the high end of the range for 'Level 2' liquidity at ~17% (<1yr investment grade). We believe this mix provides the flexibility to buy attractive credits.

Outlook

The pace of decline in inflation and official interest rates remains the key focus of financial markets. Bond yields are lower than where they were towards the middle and end of last year and we have a high conviction view that this will continue to be a major theme over 2024. However, financial markets rarely move in a straight line, and the start of the year has been a good example of that. We also see the end point of the coming easing cycles as being too high. Once central banks begin to ease we expect this to be reflected via the pricing in of a more aggressive cutting cycle than is currently anticipated.

The risks of a hard landing in the US have declined, but not disappeared. A lagged response to the official interest rate hikes seen over 2022 is still possible. Furthermore, economic activity outside the US has already slowed below trend, a point seemingly overlooked by financial markets looking at current pricing. In Australia economic growth has slipped to 1.5% in the year to Q4, below the trend number closer to 3%. New Zealand has slipped into a technical recession already, with two consecutive quarters of negative growth to finish 2023. Growth in the Eurozone has slipped to just 0.1% as at the end of 2023. We still believe some caution is therefore warranted on the economic outlook and consequently risk markets.

CONTACT US

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