Kapstream
—JANUS HENDERSON—

ARSN 632 896 176

Kapstream Absolute Return Income Active ETF (CXA:XKAP)

Fund Facts – 31 March 2025

CXA Ticker	XKAP		
Fund Inception Date	10 October 2019	**Fund Size**	$18.9 million
Underlying Fund Inception Date	31 March 2007	**Underlying Fund Size**	$2.0 billion
Distribution Frequency	Quarterly	**Unit Registry**	Link Market Services
Management Fee	0.55% p.a.	**Fund Issuer**	Fidante Partners Limited

Fund Overview

The Kapstream Absolute Return Income Active ETF 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 2025

Fund Performance[1, 2]	1 month	3 months	CYTD	1 year	3 years	5 years	Since inception[3]
Fund	0.31	1.39	1.39	6.91	4.51	3.16	3.36
RBA Cash Rate	0.34	1.03	1.03	4.36	3.50	2.14	2.02
Excess Return	-0.04	0.36	0.36	2.55	1.01	1.02	1.34

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 2025.

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	0.31	1.39	1.39	6.97	4.54	3.20	4.11
RBA Cash Rate[6]	0.34	1.03	1.03	4.36	3.50	2.14	2.87
Excess Return	-0.03	0.36	0.36	2.61	1.04	1.06	1.24

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 2025.

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.

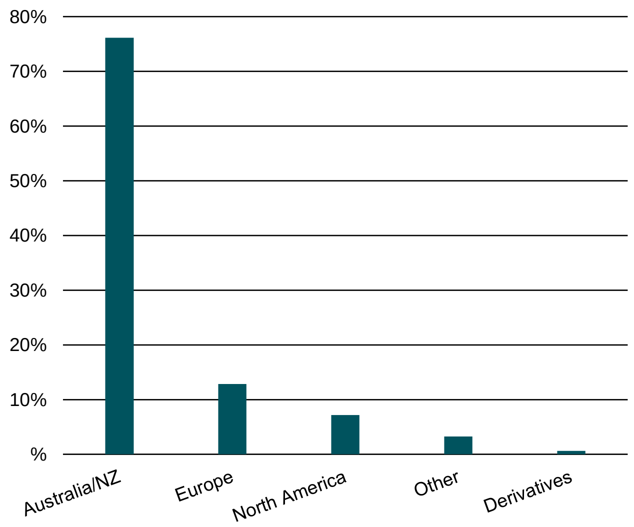
Underlying Fund Guidelines

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

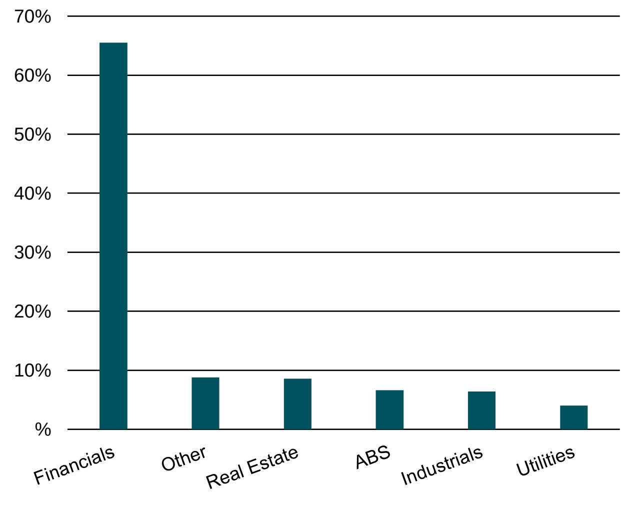
Underlying Fund Statistics

Interest Rate Duration	Credit Spread Duration	Average Credit Rating	Number of Issuers	Yield to Maturity
0.56yrs	2.06yrs	BBB+	74	5.44%

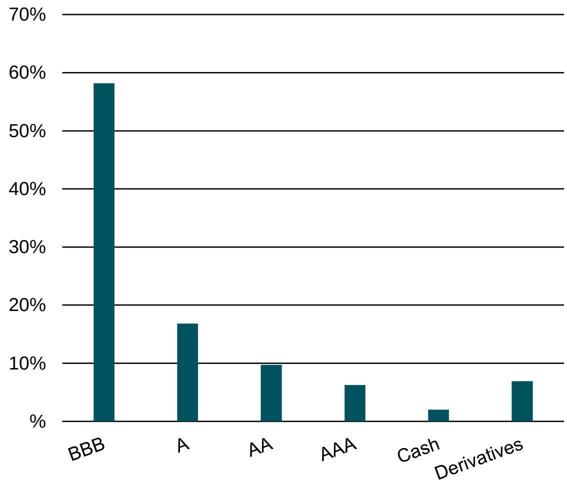
Geographic Allocation



Sector Allocation

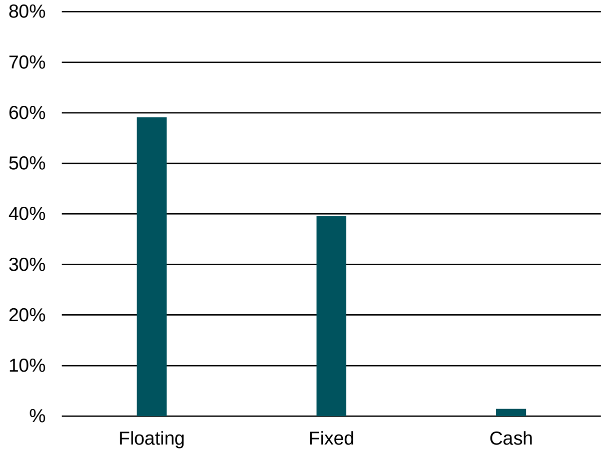


Credit Rating*



*of which 2.83% of Investment Grade and 0.54% of High Yield were internally rated

Interest Type



Monthly Commentary

Performance Commentary

The Fund added 0.31% in March, taking 12 month returns to 6.91% after accounting for class A unit fees. Monthly returns were in line with the cash benchmark, despite a significant deterioration in risk sentiment as tariff-related uncertainty plagued financial markets. The related widening in credit did negatively impact performance in the month, broadly offsetting the benefits from the credit carry in the portfolio. Rates also contributed positively given our focus on the front end where yields fell, despite longer-dated yields rising in many regions around the world in March. Annual returns remain close to their highest levels in over a decade and well in excess of a declining cash rate, with the yield to maturity of 5.42% maintaining a strong basis for returns looking forward.

Market Commentary

Policy uncertainty was again the key driver of financial markets over March. The threat of tariffs (and reciprocal tariffs), combined with a potentially-related softening in US economic data, saw US equity markets finish the month of March down 8.7% from the latest record highs posted in February. To put this into perspective, this takes us back to levels seen in September 2024. Credit spreads widened in sympathy with sentiment, with the US Bloomberg Corporate Agg Average OAS index out 7bps (and 15bps over the past two months) to 94ps. European Credit spreads also widened 7bps in February, but are only out 7bps over the past two months as defence spending plans supported economic growth expectations. Australian credit spreads to swap performed similarly, with the Bloomberg Credit Index out 7bps to +88bps. The disparity relative to historical ranges remains - US spreads are still 31bps inside their historical median whereas Australian spreads are in line.

* Kapstream's flagship and plus funds have placed in the top quartile of various consultant return universe over the past 1, 3 and 5 years as at June 2024 including Mercer and Zenith, whilst being ranked in the bottom quartile for volatility.

** Kapstream has calculated the monthly return correlation with the Australian based indices used in APRA's annual performance test for the Australian superannuation industry and analysed 1yr, 3yr and 5yrs of the Australian indices.

Central Banks have arguably tougher decisions looming. Inflation appeared to have stabilised in recent months at an above trend rate in many regions, namely the US, Canada and Europe. This calls into question the depth of easing cycles that were underway, reducing the risk of below neutral monetary policy settings. Tariffs pose at least a one-off upward shift to inflation, with risks of second round impacts. However, markets and central banks are (correctly) focused more on the negative growth implications from disposable spending being sapped, combined with the detrimental impacts of higher uncertainty. This is why markets moved to price in more rate cuts over the month despite the inflationary impacts of tariffs, with US 2-year yields down 11bps in March. Front end yields outside the US generally moved by less, with German 2 year yields actually rising 2bps as the significant increase in fiscal expenditure dragged German 10-year yields up 33bps in the month to 2.74%.

Portfolio Strategy

Positioning did not change significantly in the presence of the policy certainty outlined above. In the rates space, duration positioning was lightened around 0.2 years in aggregate to 0.55 years. This reflect a declining conviction in the monetary policy easing cycles outlined above, with exposures in Canada and Europe reduced modestly. Our conviction around lower yields in New Zealand remains in place. More broadly, yields falling towards the bottom of recent ranges is also supportive of having duration a little lighter than is usually the case, in what we continue to expect will be a sideways range over the course of this year. Active foreign exchange trades in the form of US dollar weakness also made a modest contribution to returns in March.

Credit carry continued to support returns in March whilst spread detracted slightly overcoming the credit carry. The underlying portfolio's physical spread duration increased slightly as we added to new issues we found attractive throughout the volatility.

We are unsurprised that the market has shifted its focus to potential negatives after inauguration driven by potential tariff induced trade wars, unpredictable executive orders and significant fiscal spending cuts causing increased uncertainty for individual company earnings profiles. However, our focus is the opposite of the market, focusing on the likely longer term stronger earnings driven by 15% US corporate tax rates, and a likely 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, with economic actions likely starting in the second half of 2025.

Despite maintaining a fairly short-dated book, we have captured strong credit spread compression compared to many short-dated credit indices over the last year and were pleased to still outperform the local market in that respect. This month we participated in various financial and corporate deals.

The underlying fund's close to decade 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.

We plan to maintain our spread duration at around 2 - 2.5 years in the upcoming months, balancing our view that we expect the Republican victory to potentially extend the credit cycle, offset by fairly tight US credit spreads and the ability for bouts of short tariff induced volatility. The exposure has been skewed towards Australian credit because credit spreads are closer to their long-term averages compared to the significantly tighter spreads observed in the US. Considering the sustained interest from yield-seeking high-net-worth and Asian investors, we anticipate that Australian spreads will likely play catch-up to the US by moving towards the lower end of their historical ranges, unless disrupted by an unforeseen macro event.

In terms of asset allocation, the underlying portfolio can be split across three major 'buckets'; financials (~65%), corporates and REITs (~15%), and asset and mortgage-backed securities (<15%), with the residual in cash and liquids. Close to ~78% of the underlying portfolio is held in Australian & New Zealand names, and by currency <5% is held in non-AUD denominated securities.

Underlying portfolio liquidity remains high and fairly stable with 'Level 1' liquidity at ~13% (cash, commercial paper, SSGA) and at the high end of the range for 'Level 2' liquidity at ~16% (<1yr investment grade paper). We believe the high level of liquidity provides the flexibility to buy more attractive credits should there be a sell-off.

Outlook

Financial market volatility in response to policy uncertainty will remain a feature over the year as a whole. A speedy resolution around tariff arrangements does not mean that the response of economic actors is clear or minor. For example, we suspect that part of the weakness in Q1 US economic activity reflects a bring forward of activity into Q4 of last year. Markets appear to be extrapolating this weakness beyond Q1, with the weakness in soft data being seen as circumstantial evidence supporting the idea. This is not known. Furthermore, the negative impacts of trade policy, combined with the negative employment impacts from efficiency savings is also well known, whereas the tax cuts that have been promised are not as yet on the radar. These are expected to be strongly supportive for economic growth later in the year, which could provide something of a floor to how far the current risk off move may extend.

Rates markets are not immune to the uncertainty surrounding the future path of global economic growth in the presence of a trade war. However, we feel that this has overshadowed the stabilisation of inflation above target even before the impact of tariffs impacts the balance between demand and supply. We had previously expected many regions to move rates below neutral, supporting an extended cycle in bond yields. Our conviction around this in areas such as Europe and Canada has therefore diminished. The year of the bond will therefore have to wait for another year, or the next recession. In that context, the benefit of longer-duration funds diminishes and the flexibility of underlying funds to pivot away from lazily capturing medium term up-trends in price and towards the alpha generated from relative value trading will be even more apparent.

CONTACT US

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