Kapstream Absolute Return Income Fund

Kapstream
— JANUS HENDERSON —

Monthly Report - Class A Units

KANGANEWS AWARDS 2023 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR
KANGANEWS AWARDS 2022 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR
KANGANEWS AWARDS 2021 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR
KANGANEWS AWARDS 2019 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR
KANGANEWS AWARDS 2018 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR
KANGANEWS AWARDS 2017 WINNER – AUSTRALIAN CREDIT FUND MANAGER OF THE YEAR

Fund Objective

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.

Fund Details

APIR code	HOW0052AU
Inception date	31 May 2007
Fund size	AUD 2,590m
Distribution frequency	Quarterly
Management fee	0.55%
Buy/sell spread	0.00%/-0.07%

Fund Statistics

Interest rate duration	0.68yrs
Credit spread duration	2.05yrs
Average credit rating	A-
No of issuers	78
Yield to maturity	5.90%

Fund Guidelines

Target return	cash plus 2-3%
Target volatility	<1.5% annualised
Duration limits	-2 to +2 years
Credit quality	>85% investment grade

Fund Platform Availability

AMP North
BT Panorama
CFS Edge
FirstChoice
HUB24
MLC Expand
Macquarie Wrap
Mason Stevens
Netwealth
Powerwrap
Praemium

Portfolio Managers

Dan Siluk
Portfolio Manager

Dylan Bourke
Portfolio Manager

May 2026

Performance	1 month %	3 months %	CYTD	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Inception % p.a.
Fund Return (Net)[1]	0.36	0.56	1.54	5.42	6.03	3.86	3.11	4.19
RBA Cash Rate[2]	0.34	1.01	1.60	3.77	4.10	3.00	2.04	2.89
Active Return[3]	0.02	-0.45	-0.06	1.65	1.93	0.86	1.07	1.30

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. After-fee returns are inclusive of annualised total expenses for Class A Units. Prior to 1 October 2019, management fees and costs were 0.70%. From 1 October 2019 these were reduced to 0.55%. To the extent that the Manager invests in other third-party managed funds or ETFs, these are not reflected in the management fees and costs quoted. No allowance is made for tax. Numbers may not add due to rounding. Past performance is not a guarantee of future results.

[2] From 1 February 2014 to 30 September 2019, the Fund's benchmark was a composite benchmark comprising 50% Bloomberg AusBond 0–3 Year Index and 50% Bloomberg AusBond Bank Bill Index. Prior to 1 February 2014, the Fund's benchmark was the RBA Cash Rate.

[3] Active return represents the Fund's return in excess of its benchmark (RBA Cash Rate).

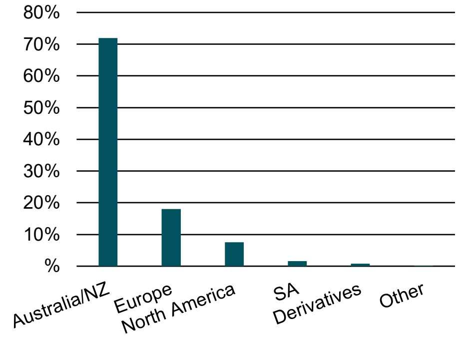
Source: Fidante Partners Limited, 31 May 2026

Quarterly Distribution Returns History (%[4])

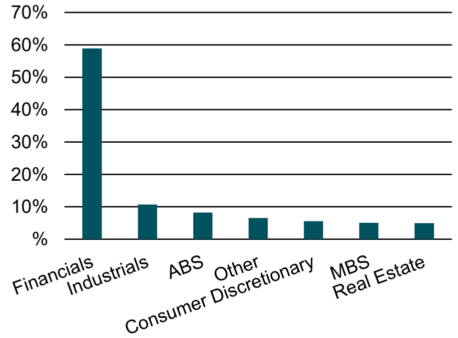
Year	Mar	Jun	Sep	Dec	FYTD[5]
2026	0.97%				
2025	1.50%	2.31%	0.98%	0.99%	6.23%
2024	1.06%	1.08%	1.09%	1.09%	4.41%
2023	0.73%	0.73%	1.01%	1.08%	2.97%
2022	0.43%	1.03%	0.74%	0.73%	2.11%
2021	0.28%	2.56%	0.33%	0.36%	3.75%
2020	0.48%	0.48%	0.43%	0.44%	1.94%
2019	0.78%	0.48%	0.48%	0.49%	2.73%
2018	0.66%	0.85%	0.66%	0.76%	2.98%
2017	0.80%	1.06%	0.76%	0.66%	3.19%
2016	0.62%	0.49%	0.51%	0.76%	2.38%
2015	0.39%	0.99%	0.62%	0.61%	3.04%
2014	0.70%	1.62%	0.87%	0.73%	3.62%
2013	1.76%	0.87%	0.40%	0.77%	5.52%
2012	1.02%	0.66%	1.28%	1.41%	2.50%
2011	2.66%	1.33%	0.00%	0.73%	5.99%
2010	1.80%	2.44%	0.10%	1.69%	5.96%
2009	0.00%	0.04%	0.12%	1.35%	0.49%
2008	-0.01%	0.00%	0.00%	0.02%	-0.50%
2007	0.00%	0.00%	0.00%	-0.06%	0.00%

Source: Fidante Partners. Past distributions are no indication of future distributions. 4. Calculated as the cents per unit (CPU) distribution at quarter end divided by the ex-distribution unit price at the start of the quarter. 5. Annual distribution return (Financial -Year-to-Date) is calculated as the Total Return (after fees) minus Growth Return. Total Return (after fees) is calculated using pre-distribution quarter end withdrawal unit price, and assumes distributions are reinvested. Growth Return equals the percentage change in unit price.

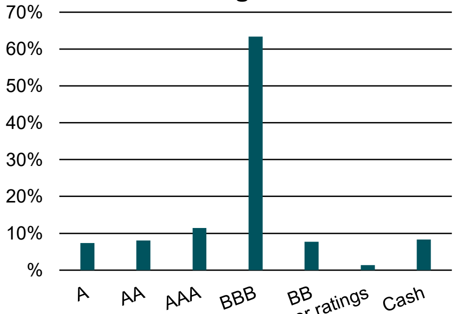
Geographic Allocation



Sector Allocation

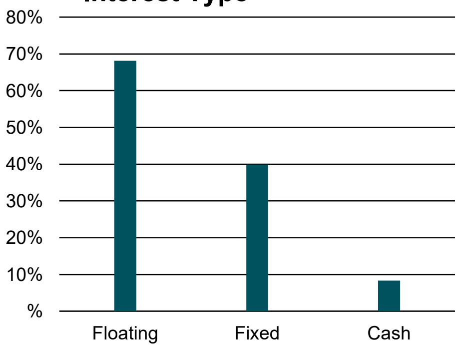


Credit Rating

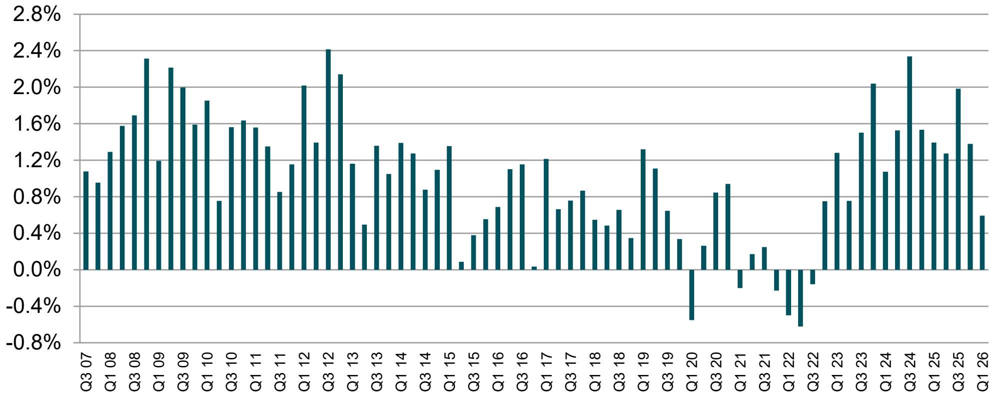


*of which 7.2% of Investment Grade and 0.9% of High Yield were internally rated

Interest Type



Quarterly Performance History[1]



Source: Kapstream Capital, 31 May 2026

Performance and Market Commentary

The fund returned 0.36% net of fees in May, taking 12-month net performance to 5.42%. This exceeded the RBA Cash Rate benchmark return of 0.33% for the month and significantly surpassed the 12-month performance benchmark return of 3.78%. Carry remained the primary driver of returns, consistent with the fund's design as a carry focused strategy. In addition, credit spread positioning was additive as US spreads compressed to multi-decade lows. Australian spreads were more stable but new issue compression continued to benefit the fund. This was partially offset by a duration headwind, as US 2-year Treasury yields rose 14 basis points over the month, although yields elsewhere in the developed world fell significantly. The fund's yield to maturity was unchanged at 5.90%, providing a solid base for expected returns.

Global bond markets experienced considerable volatility in May, driven by the ongoing conflict in Iran and disruptions related to the closure of the Strait of Hormuz. Yields surged to multi decade highs in the middle of the month as oil prices pushed above US$110 per barrel, reigniting inflation concerns and forcing markets to reassess central bank rate expectations. The selloff reversed in the second half of May as progress in peace talks and weaker economic data eased concerns about further tightening. The US was the notable underperformer in government bond markets, with 2 year yields rising 14 basis points, as resilient economic activity and elevated inflation (core PCE at 3.3% year on year) on the back of the AI investment boom in particular kept the Federal Reserve on hold.

In contrast, yields fell meaningfully across other developed markets. Australian 3 year yields declined 29 basis points despite the RBA delivering its third consecutive rate hike, as weaker employment data and a conservative budget with proposed tax changes negatively impacting the housing sector tempering expectations for further tightening. UK 2 year yields fell 24 basis points and German 2 year yields declined 11 basis points. Credit markets performed well, continuing to unwind the Iran-related widening in March, with US Bloomberg Corporate Agg OAS spreads tightening approximately 6 basis points back to multi-decade lows of 72bps, while the S&P 500 rallied 5.1%. Australian credit spreads were flat by comparison, with the Bloomberg Ausbond 0+ Credit index spread to swap unchanged at 75bps, still some way from the historic lows of 57bps.

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Outlook and Positioning

The outlook remains unclear, with the trajectory of the Iran conflict and its implications for energy prices and inflation the key variables for markets. Central bank policy has diverged, with the RBA tightening on local inflation concerns, the RBNZ a whisker away from following suit and the US Federal Reserve and other central banks on hold as they weigh inflation against the growth impact of elevated energy costs. As such there is a broad range of plausible scenarios ahead of us, from inflation-induced tightening cycles, a resolution to the conflict may see oil prices and yields fall and the possibility, of an energy price induced recession if consumers tighten their belts. For now though, the positive growth benefits from the AI thematic are keeping the probability of this latter scenario in check.

Portfolio positioning remains cautious on the back of the risks around the outlook. In the short term, we believe that equity and credit markets are not fully pricing in the full range of risks of a prolonged supply shock from the war in Iran reducing the supply of oil, gas, fertilisers and helium supply globally. However this is tempered by a medium term view that any more material sell-offs are likely a buying opportunity given the continued US support from lower taxes, de-regulation, corporate investment as well as the government remaining incentivised to maintain optimism through to the November midterms.

During the month, the fund selectively added credit exposure, with spread duration increasing 0.2 years to a still modest 2.1 years, including a c10% CDX credit hedge, as at the end of May. The portfolio spread increased 5bps to 168 basis points, reflecting the addition of higher spread names rather than adverse market movements. The credit exposure is skewed towards Australian credit because of additional yield and it tends to behave as lower beta in a sell-off. We continue to focus on investment grade credit with sound fundamentals.

Rates duration was broadly unchanged at 0.68 years, remaining on the shorter side of historical averages given the upside risks to inflation, rate hikes and bond yields, with the majority of exposure concentrated in US rates. The fund maintains small long positions in New Zealand and the UK. Other regional positioning was largely maintained through the month. Portfolio liquidity remains firm, with the level 1 and level 2 liquid sleeve of the portfolio around the upper arm of our target range of 15 to 30%.

At the portfolio level, higher yields provide a strong starting point for absolute return expectations. This contrasts with the market back drop in 2022 when yields were close to zero and provided significantly less buffer, alongside the scope for a ~400-500 rise in official interest rates and bond yields is also more limited, given many central banks did not reach or move below neutral. We continue to favour a short duration approach to limit sensitivity to market volatility in either direction, thereby generating consistent above cash returns through credit carry during these uncertain times.