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

ARSN 632 896 176

Fund Facts – 31 March 2021

CXA Ticker	XKAP		
Fund Inception Date	10 October 2019	**Fund Size**	$6.9 million
Underlying Fund Inception Date	31 May 2007	**Underlying Fund Size**	$4.5 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 2021

Fund Performance[1, 2]	1 month	3 months	CYTD	1 year	3 years	5 years	Since inception[3]
Fund	-0.12%	-0.18%	-0.18%	2.72%	-	-	3.58%
RBA Cash Rate	0.01%	0.02%	0.02%	0.19%	-	-	0.35%
Excess Return	-0.13%	-0.21%	-0.21%	2.53%	-	-	3.23%

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 2021.

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	-0.11%	-0.16%	-0.16%	2.81%	2.04%	2.51%	4.34%
RBA Cash Rate[6]	0.01%	0.02%	0.02%	0.19%	0.88%	1.15%	2.93%
Excess Return	-0.12%	-0.19%	-0.19%	2.62%	1.16%	1.36%	1.41%

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 May 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 2021.

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

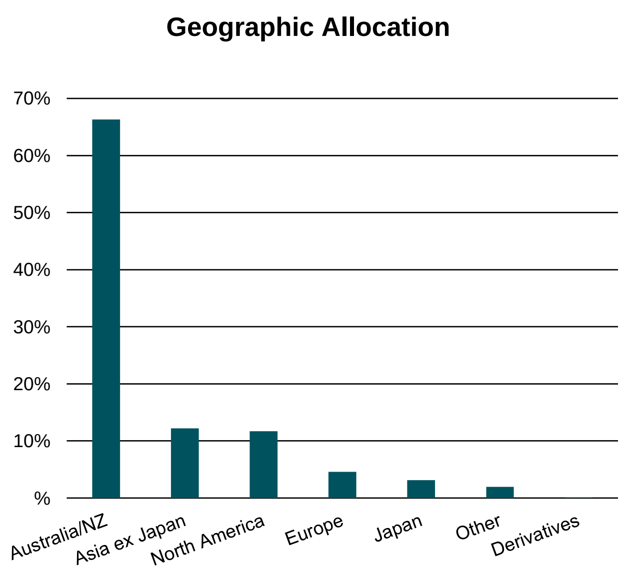
The Fund is exposed to a number of risks including interest rate risk, market risk, and collateral risk. Please refer to the Product Disclosure Statement for more information.

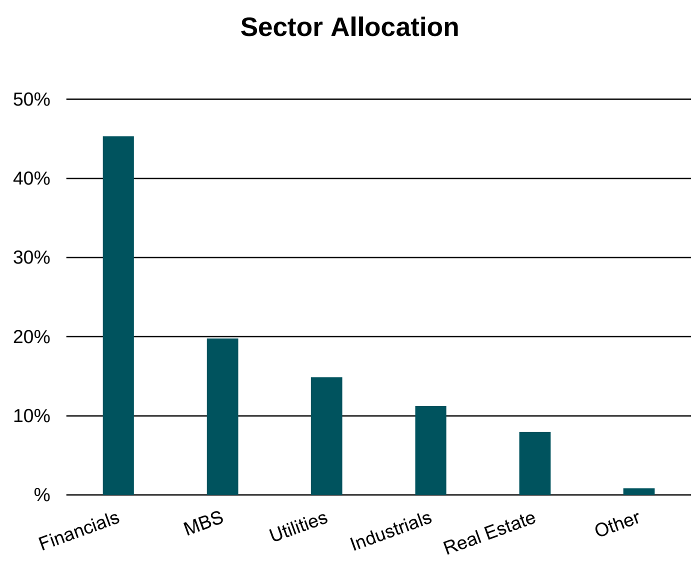
Underlying Fund Guidelines

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

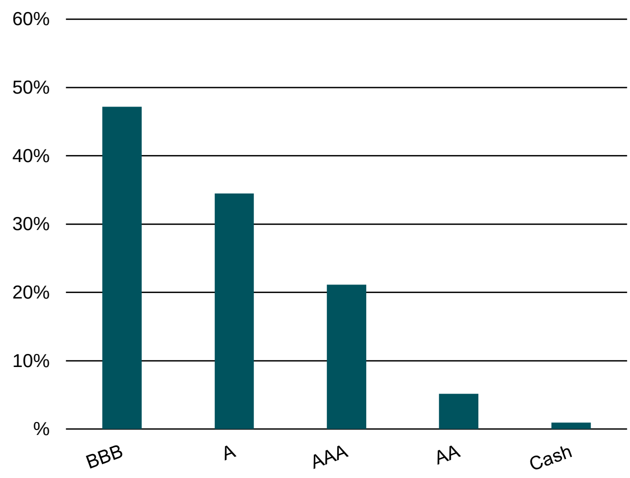
Underlying Fund Statistics

Interest Rate Duration	Credit Spread Duration	Average Credit Rating	Number of Issuers	Yield to Maturity
1.18yrs	2.63yrs	A	104	1.31%

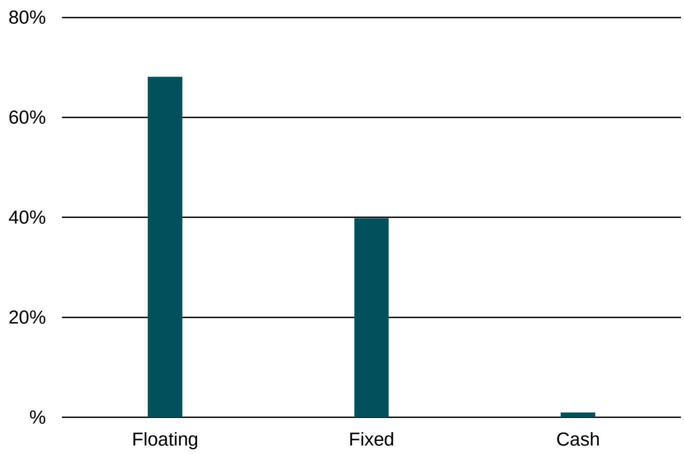




Credit Rating



Interest Type



Monthly Commentary

Performance & Market Commentary

The Underlying Fund returned -0.11% in March and -0.16% calendar year-to-date 2021 (after Class A Unit fees)[4]. While coupon income remained the primary positive contributor, this was offset by detraction from the funds' interest rate exposure of 1.2 years' duration, given the continued moves higher in rates and rates volatility amidst renewed inflation concerns. Increased prospects for US fiscal stimulus and stronger jobs data led markets to believe growth would rebound quicker than anticipated, leading to increased inflation expectations. We don't believe in material inflation risk and expect to continue to hold bonds predominantly with 2-7 year maturities, with expectation that central banks will keep rates low for the next three years. Default risks in high-quality corporate bonds remain small although current pricing more accurately reflects this decreased risk. We implemented a small USD short position vs. the CAD, GBP, JPY and Euro, which added about 3bps to performance over the month.

The yield on 10 year US Treasuries continued to rise, reaching 1.74% by month's end, up 0.34%. Australian government bond yields fell -0.07%, reaching 1.84% at month end, unwinding some of February's +0.78% yield increase.

Outlook & Portfolio Strategy

We remain optimistic on global recovery, perhaps seeing global GDP return to pre COVID-19 levels by Q3 2021, the primary driver being further good news on the vaccine front. We expect greater levels of vaccination will open businesses sooner and permeate to additional pockets of global economies. However, the effects of the pandemic will remain with us throughout 2021 and 2022. Although we expect a temporary spike in inflation, persistently high inflation is not a story for this year, given it will take many years to reach full employment, globally. We remain confident being on the front end of the yield curve as there has been less volatility and we believe that will remain the case.

It will take years for US jobs to fully recover the more than 20 million lost over the crisis. We expect the Federal Reserve to continue its bond purchases and keep rates at zero for the intermediate term. In Australia, the Reserve Bank will also maintain low rates while continuing its purchase program, preventing any sharp rise in yields. Job growth will be the key, with the RBA maintaining ultra-accommodative policies until unemployment falls below 5%, a minimum target for inflation to move into the RBA's 2-3% target range. With unemployment currently at 6.8%, it may take a few years to reach this.

As telegraphed, we have maintained very low cash levels given penalty rates. A clear US election outcome, strong consumer balance sheets and expectations for solid employment data (once distribution of the vaccine has more widespread success) add to our more optimistic outlook. The ability for Democrats to pass budget legislation including greater COVID-19 relief programs mean both fiscal and monetary stimulus will be running on all cylinders. Whilst we believe bond yields have risen beyond our medium term expectations, we will maintain slightly shorter interest-rate duration in the 1.0-1.5 year range as volatilities have increased.

Low short-term rates are a given for the next 12-18 months. We are not believers in the consensus view for a steeper yield curve as massive deficits fuel record Treasury bond issuance. Lessons from Japan and Europe demonstrate longer-term deflation risks combined with central bank purchases override supply concerns. Nonetheless 2-7 year bonds remain attractive given their yield advantages over cash rates and prospects for 'roll-down' gains or yields falling as these bonds move closer toward maturity.

Bond market liquidity continues to improve toward pre COVID-19 levels. We remain 100% investment grade, biased toward shorter dated (<7yr) issues, and with a continued avoidance of more volatile or higher beta sectors (such as commodity, energy, gaming, tourism and autos) as well as the worst affected regions. We maintain only a modest exposure to China (and only in USD-denominated quasi-sovereign issuers), and otherwise nothing in emerging markets. Our portfolio can be simply split across three major 'buckets'; financials (~40%), corporates (~35%), and mortgage-backed (~18%) with the residual in governments and cash. Geographically, we have maintained a roughly 2/3rds to 1/3rd split between Australian and international issuers (the latter divided between the US and developed Asia). Again, we have no greater concern with default risk across any portfolios we manage as we did before the turmoil in markets began.

For the coming period our main goal will remain protecting the portfolio from a further sell-off in risk assets and corporate bond spreads.

CONTACT US

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