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

ARSN 632 896 176

Fund Facts – 31 March 2022

CXA Ticker	XKAP		
Fund Inception Date	10 October 2019	**Fund Size**	$12.1 million
Underlying Fund Inception Date	31 August 2007	**Underlying Fund Size**	$3.2 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 2022

Fund Performance[1, 2]	1 month	3 months	CYTD	1 year	3 years	5 years	Since inception[3]
Fund	-0.42%	-0.53%	-0.53%	-0.35%	-	-	1.97%
RBA Cash Rate	0.01%	0.02%	0.02%	0.10%	-	-	0.25%
Excess Return	-0.43%	-0.55%	-0.55%	-0.45%	-	-	1.72%

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 2022.

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	-0.43%	-0.52%	-0.52%	-0.33%	0.99%	1.73%	4.02%
RBA Cash Rate[6]	0.01%	0.02%	0.02%	0.10%	0.42%	0.85%	2.74%
Excess Return	-0.44%	-0.55%	-0.55%	-0.43%	0.57%	0.88%	1.28%

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 December2007.
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 2022.

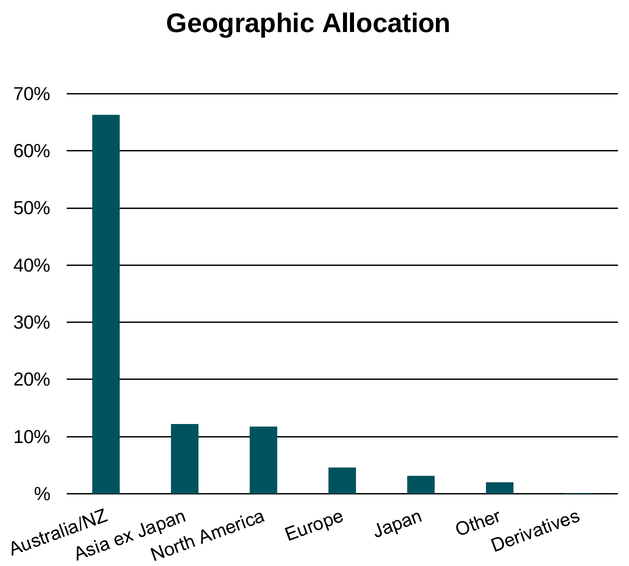
Fund Benefits
Unconstrained approach Investing wherever the best risk adjusted opportunities can be found by Kapstream irrespective of the benchmark index.
Conservative risk focus Priority is given to actively managing the Fund's investment risks within limits.
Flexibility Able to meaningfully shift 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.

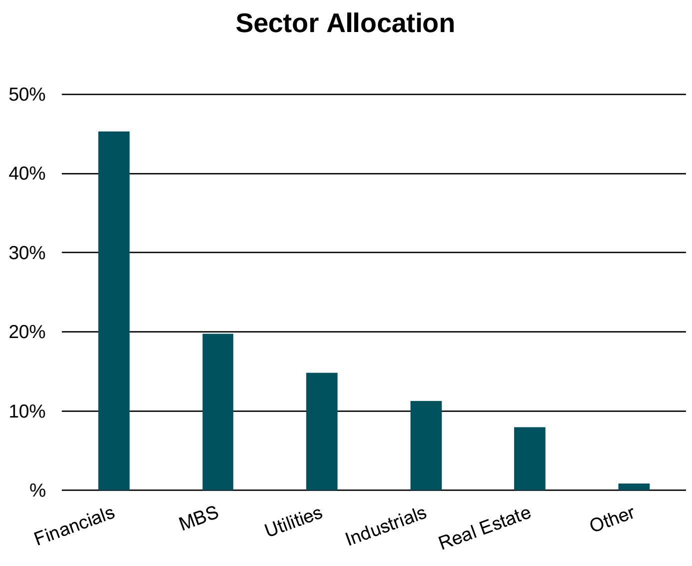
Underlying Fund Guidelines

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

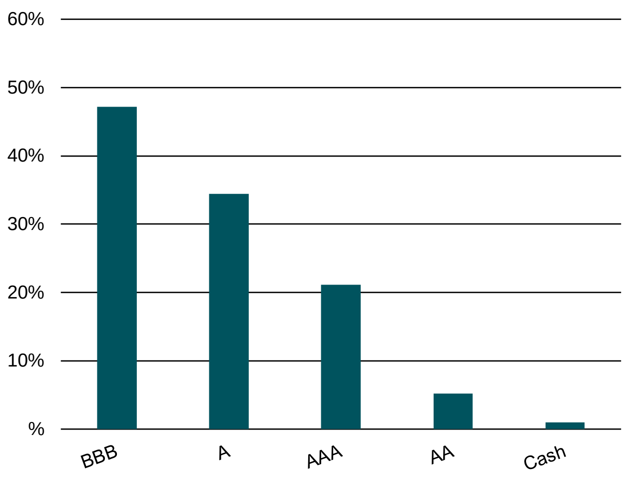
Underlying Fund Statistics

Interest Rate Duration	Credit Spread Duration	Average Credit Rating	Number of Issuers	Yield to Maturity
0.26yrs	2.75yrs	A-	102	3.55%

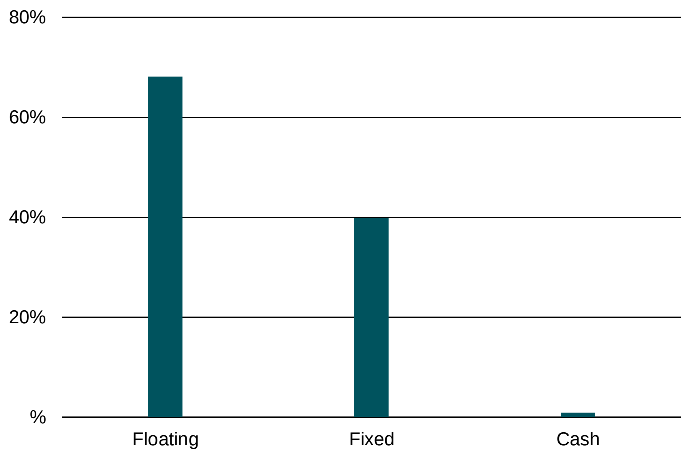




Credit Rating



Interest Type



Monthly Commentary

Performance & Market Commentary

While relative to the broader fixed income sector our portfolio displayed strong resilience, we were unable to avoid a modest negative return of -0.43% for March, which puts us at -0.52% for the calendar-year-to-date period (after class A unit fees). Coupon income remained consistently positive, though this was offset by credit spread widening, and rising sovereign yields also detracted from performance.

The combination of a number of widely reported factors have caused highly volatile financial markets in the 2022 year-to-date period; Russia's invasion of Ukraine, accelerating inflation, rising yield curves globally, the beginning of a hiking cycle from the US Federal Reserve (FED), anticipation of Quantitative Tightening (QT), as well as an inversion of the US 2s10s yield curve (a beloved indicator for financial market participants which suggests a recession is looming). Losses were seen across most asset classes; equities, credit and sovereign bonds all suffering. The only exception was seemingly commodities, where energy, metals and agricultural goods all saw gains, largely driven by the conflict in Ukraine as opposed to strong growth prospects. The Bloomberg AusBond Composite Index lost a further -3.75% in March and is now down -5.90% calendar-year-to-date, highlighting the enormous challenge for traditional fixed income investors.

Vladimir Ilyich Ulyanov, better known by his alias Lenin, was a Russian revolutionary and politician, the head of government in Soviet Russia between 1917-1924. Lenin once said *"there are decades where nothing happens, and there are weeks where decades happen".* This statement certainly rings true when describing the events of recent weeks, both geo-politically and economically. The dissolution of the USSR in 1991 marked an end to the Cold War and brought a decade or so of steadiness within the former-USSR, and also in regards to relations between Russia and the West. Today, however, Putin continues to oversee a military regime change in the region which has seen him exert his influence in Georgia (2008), annexing Crimea (2014) and more recent atrocities in Ukraine. This has been met with an economic regime change by the West. In an attempt to undermine Russia's economy and creditworthiness the West has imposed punitive economic sanctions and plan to wean themselves off Russian energy, a time consuming yet equally punitory process.

From an economic perspective, concerns have shifted from pandemic-induced inflation, which largely impacted supply chains, to conflict-induced inflation, which is having a greater influence on energy and food prices. The latter, being more salient components of a consumers' basket, we expect will lead to a drop in discretionary spending and confidence and ultimately a slowdown in growth. Despite the approaching economic slowdown, central banks believe they face a greater risk of policy mistake in not combating inflation, than they do from slower growth, and will therefore continue with their aggressive rate policy normalisation over the coming months. Financial market uncertainty as measured by volatility (both realised and implied) is higher today than for most of the post-global financial crisis cycle and we expect this theme to continue. We believe volatility will be structurally higher going forward, which implies yields and credit spreads too, will ultimately settle at structurally higher levels. For the moment, this means maintaining a low-duration position within portfolios, but at some point front-end carry and roll down will be too attractive to pass on.

Turning to US economic data, labour market tightness continues with non-farm payrolls beating expectations and both unemployment (3.8%) and underemployment (7.2%) trending lower and approaching historic lows. The FED hiked rates for the first time this cycle with a 25 basis point increase to 0.5% (at the upper bound), with Chair Powell highlighting that price stability is the Board's number one priority. Given headline consumer price index (CPI) and personal consumption expenditures (PCE) printed 7.9% and 6.4% respectively, and continue to climb, the FED have a long way to go before they can claim any credibility on the inflation fighting front. The dot plot released at the March Federal Open Market Committee (FOMC) meeting implied a 1.75% increase in cash rates over the course of the calendar year, up from 0.75% at the December meeting. James Bullard, the most hawkish of FOMC members, was the only voter to favour a move higher by 50 basis points and continues to call for an even more rapid removal in accommodation, with suggestions of 3% cash rates by year end. The front end of the Treasury curve sold off aggressively over the month with the 2-year Treasury up +90 basis points to 2.33%, while the 10-year rose +51 basis points to 2.34%.

Europe is quite a different region today compared to the one which saw an economically damaging sovereign crisis envelop during 2011-12, leading to fiscal austerity, ultra loose monetary policy, no yield for savers and anaemic levels of growth. Today Europe has a larger current account surplus and a healthier corporate balance sheet. As such, the response to Russia/Ukraine has been more cohesive than we would have expected a decade ago. Decisions to sanction the Russian economy, plans to reduce reliance on Russian energy and the re-settling of millions of Ukrainian refugees will pose problems for Europe in the near term, not least a deceleration in an otherwise sanguine growth environment of recent years, ushering in a prolonged period of higher inflation and fiscal injections required to meet social welfare needs. Some European Central Bank (ECB) members, such as Olli Rehn of Finland, suggest withdrawing too early from stimulus measures, before the impact of Russia/Ukraine is known, poses a risk to European growth. Nonetheless, ECB President Lagarde did announce that the taper of asset purchases has been brought forward to the third quarter this year, paving the way for rate hikes toward the end of the year, yet stressing data dependence and optionality. German 2-yr government bond yields rose 46 basis points -0.07%, while the 10-yr rose +41 basis points to 0.55%.

In Australia, the Reserve Bank of Australia (RBA) met early in the month, keeping policy rates on hold. Governor Lowe maintains that while inflation risks are to the upside, the Board believe inflation and wage price dynamics differ in Australia to other jurisdictions globally and therefore *"patience"* is warranted. Unemployment dipped to 4%, the lowest level since 2008 and we wonder whether the legacy Governor Lowe desires to be known for is seeing unemployment below 4% for the first time in half a century. GDP growth ended the 2021 calendar year at 4.2%, slightly above expectations, boosted by household spending as the economy emerged from lockdowns. While the RBA can point to domestic conditions as driving monetary policy, the reality is Australian yield curves continue to exhibit a high correlation to US yields, in particular the front-end. The yield on the 3-year Australian Government Bond rose +80 basis points to 2.34%, while the 10-year rose +70 basis points to 2.84%.

Outlook & Portfolio Strategy

The portfolio yield-to-maturity rose sharply over March, to well over 3%, driven by a combination of factors including i) the move higher in risk-free rates ii) the shift wider in credit spreads and iii) the addition of attractive opportunities, particularly USD-denominated credit. Overall portfolio liquidity remains high at ~13% for *'Level 1'* investments (cash, commercial paper, term deposits, government, semi-government, and supranationals) and ~15% in *'Level 2'* investments (less than 1 year investment grade bonds). We anticipate reducing *'Level 1'* liquidity to 10% (normal range being 5-10%) as we use a backdrop of volatility from FED rate hikes, tapering, possible balance sheet run-off and geopolitical risks to gradually add discounted credits.

Spread duration ex SSGA increased to ~2.44yrs from 2.28yrs reflecting additions of new issues. Macro volatility provides good opportunity to add credit with idiosyncratic mispricing, and we have been adding credits where a significant new issue concession exists, or where we believe the secondary market is mispriced. We are aiming to incrementally increase our spread duration as credits cheapen, shifting from an underweight to a more neutral credit positioning. This places us in a strong position to provide a stable and appealing income stream, well insulated from the various headwinds faced, and maintaining a yield in the mid 3% range, higher in a spread sense than for several years.

This is possible as a result of the more acute barbell-shaped strategy we've pursued in the portfolio for some time to limit losses and provide liquidity at opportune points. This approach (1) underweights longer dated A-rated credits and overweights shorter dated lower rated credits (mainly BBB assets), assets with equal carry but less spread compression providing greater resilience in sell-offs, and (2) invests in a small bucket of higher spread assets to subsidise an overweight position in liquid assets which provide the ammunition to add cheap new credits.

The credit protection strategies we employed during January have paid dividends, dampening volatility of physical assets and hence driving some positive return contribution. As such, we have largely taken profits on the remaining two-thirds of protection positions in a disciplined and systematic manner.

From a spread per unit of risk perspective, the excess yield the portfolio is able to earn above the risk-free rate remains near historical highs, highlighting the robustness of the portfolio and underscoring confidence in being able to deliver to our return objective on a forward looking 'over the cycle' basis.

In terms of asset allocation, the portfolio can be split across three major 'buckets'; financials (~35%), corporates (~40%), and asset and mortgage-backed securities (<15%) with the residual in cash and liquids. By currency, we currently have a 90%/10% split between Australian & New Zealand and international issuers, adding around 5% to foreign currency denominated bonds during the month, mostly USD-denominated, given attractive spreads and above average new issue concessions.

R ate markets continue to be volatile. The MOVE index, a measure of implied volatility across a number of points on the US Treasury yield curve, continued to rise throughout the back half of March despite volatility across traditionally riskier asset classes, equity and foreign exchange, trending lower over that period. We don't believe the market has reached peak-hawkishness and as such maintain a low duration portfolio, closing the month with ~1/3rd of a year in overall interest rate exposure.

CONTACT US

For further information, contact Fidante Partners Investor Services on 13 51 53 or email info@fidante.com.au

For investor enquiries, please contact Link Market Services on 1800 441 104 or email activex@linkmarketservices.com.au

For financial planner enquiries, please contact your local BDM or email bdm@fidante.com.au

www.fidanteactivex.com.au