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

ARSN 632 896 176

Fund Facts – 30 November 2020

CXA Ticker	XKAP		
Fund Inception Date	10 October 2019	**Fund Size**	$5.0 million
Underlying Fund Inception Date	31 May 2007	**Underlying Fund Size**	$4.9 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 – 30 November 2020

Fund Performance[1, 2]	1 month	3 months	CYTD	1 year	3 years	5 years	Since inception[3]
Fund	0.48%	1.00%	5.14%	5.20%	-	-	4.66%
RBA Cash Rate	0.01%	0.05%	0.32%	0.39%	-	-	0.43%
Excess Return	0.47%	0.94%	4.82%	4.82%	-	-	4.23%

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 figures that are less than 12 months are for informational purposes only and are not to be relied upon when considering the likely future performance of the Fund.

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, 30 November 2020.

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	0.50%	1.00%	1.22%	1.29%	2.29%	2.67%	4.45%
RBA Cash Rate[6]	0.01%	0.05%	0.32%	0.39%	1.04%	1.28%	3.00%
Excess Return	0.49%	0.94%	0.90%	0.90%	1.25%	1.39%	1.45%

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.
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, 30 November 2020.

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.

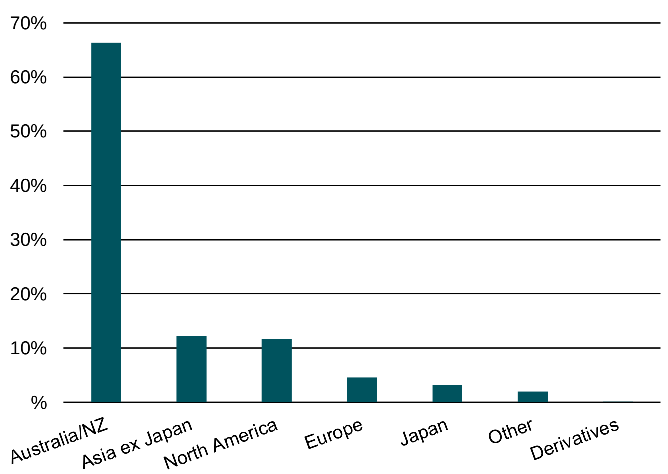
Underlying Fund Guidelines

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

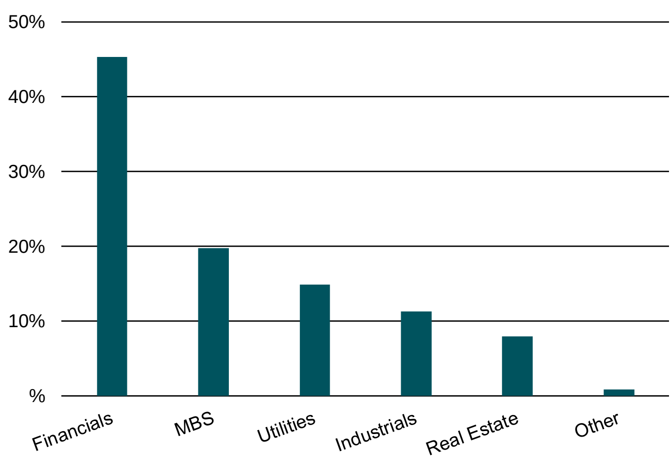
Underlying Fund Statistics

Interest Rate Duration	Credit Spread Duration	Average Credit Rating	Number of Issuers	Yield to Maturity
1.57yrs	2.01yrs	A	102	0.84%

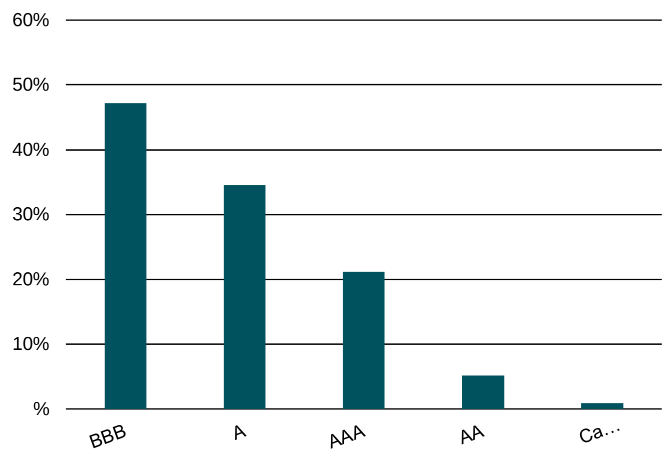
Geographic Allocation



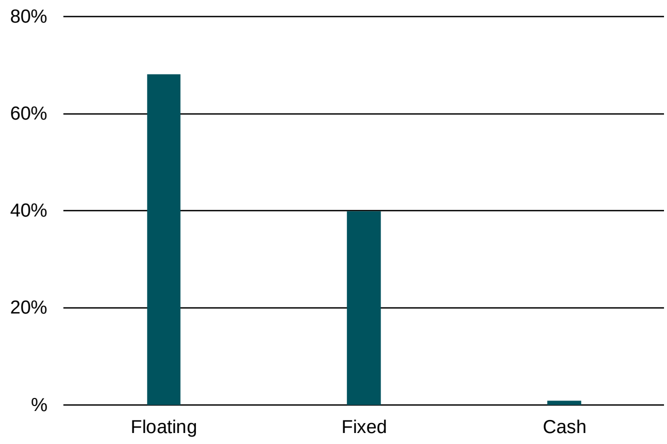
Sector Allocation



Credit Rating



Interest Type



Monthly Commentary

Performance & Market Commentary

The Fund performed well in November returning 0.48%, and 5.14% calendar-year-to-date (after class A unit fees)[1]. Positives over the month included coupon income and capital appreciation from our corporate bond exposures. Our interest rate duration of approximately 1.6 years was a modest detractor from returns. Our active currency positions, namely a long Norwegian krona position (versus the USD) aided returns whilst our long Thai baht and Korean won vs. the US dollar was a slight negative for returns. More recent events including announcement of a viable vaccine and a clear US election outcome make us more positive, and accordingly we have reduced our 'liquidity bucket' of cash and government-related securities from 10% to 7%.

Global bond markets remained relatively stable over the month, although US yields slightly rose. Corporate bonds, particularly in Australia, outperformed as investors sought higher yields in a low interest rate environment. Improving global data, including payrolls and retail sales aided risk appetites, but the recent surge in COVID-19 cases kept a lid on market bullishness.

Outlook & Portfolio Strategy

We have become more optimistic on global recovery, perhaps seeing global GDP return to pre-COVID-19 levels by Q3 2021, the primary driver being good news on the vaccine front. As telegraphed over the prior month, we have reduced cash levels given penalty rates for holding cash, combined with our more optimistic growth outlook. A clear US election outcome (despite current noise), strong consumer balance sheets and solid employment data add to our more optimistic outlook. The apparent appointment of Janet Yellen as Treasury secretary is a large positive, indicating better coordination between the government and the Federal Reserve. However, stronger than anticipated COVID-19 reinfection rates, new lockdowns and the resulting negative impact to businesses in Europe and the US, and a likely Republican-held Senate reducing the likelihood of meaningful US fiscal stimulus will continue to make us cautious in the months ahead. We will maintain lower credit default protection and continue to hold interest-rate duration in the 1.6 to 2.0 year range. Democrats winning the two Georgia Senate seats could lead to a positive surprise for US fiscal stimulus while further virus spread and risks to the approval, acceptance and distribution of a viable vaccine could lead to a negative surprise. We will await further information before further increasing risk positions.

Whilst we remain biased for lower short-term rates, they have already been priced in. Low short-term rates are a given for the next 12 to 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 3-7 year bonds remain attractive given their yield advantages over cash rates, and also 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 (~34%), and mortgage-backed (~19%) with the residual in 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 continue to be protecting the portfolio from a further sell-off in risk assets and corporate bond spreads.

A final note on fund sell spreads

The fund sell spread was reduced from 0.12% to 0.10% over the month, reflecting lower but still moderately elevated market transaction costs in fixed income securities. Sell spreads exist solely to protect unitholders from the impact of higher trading costs that the whole fund would otherwise face in meeting requests from the few investors who on any given day wish to withdraw any of their investment. It is not a manager fee, rather a mechanism that pays directly back into the Fund that ensures only withdrawing unitholders meet the still modestly elevated transaction costs of a withdrawal. Please stay abreast of current sell spread levels which are published as a Continuous Disclosure Notice on our Responsible Entity's website https://www.fidante.com/investment-managers/kapstream-capital.

CONTACT US

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