

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

ARSN 632 896 176

Fund Facts – 30 November 2021

| | | | |
|---------------------------------------|-----------------|-----------------------------|--------------------------|
| CXA Ticker | XKAP | | |
| Fund Inception Date | 10 October 2019 | Fund Size | \$11.2 million |
| Underlying Fund Inception Date | 31 August 2007 | Underlying Fund Size | \$4.0 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 2021

| Fund Performance ^{1, 2} | 1 month | 3 months | CYTD | 1 year | 3 years | 5 years | Since inception ³ |
|----------------------------------|---------|----------|--------|--------|---------|---------|------------------------------|
| Fund | -0.19% | -0.34% | -0.13% | 0.04% | - | - | 2.48% |
| RBA Cash Rate | 0.01% | 0.02% | 0.09% | 0.10% | - | - | 0.27% |
| Excess Return | -0.20% | -0.36% | -0.22% | -0.06% | - | - | 2.20% |

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, 30 November 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 | -0.19% | -0.34% | -0.09% | 0.08% | 1.61% | 2.07% | 4.14% |
| RBA Cash Rate ⁶ | 0.01% | 0.02% | 0.09% | 0.10% | 0.57% | 0.94% | 2.80% |
| Excess Return | -0.20% | -0.36% | -0.19% | -0.02% | 1.04% | 1.13% | 1.34% |

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 30 November 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 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.

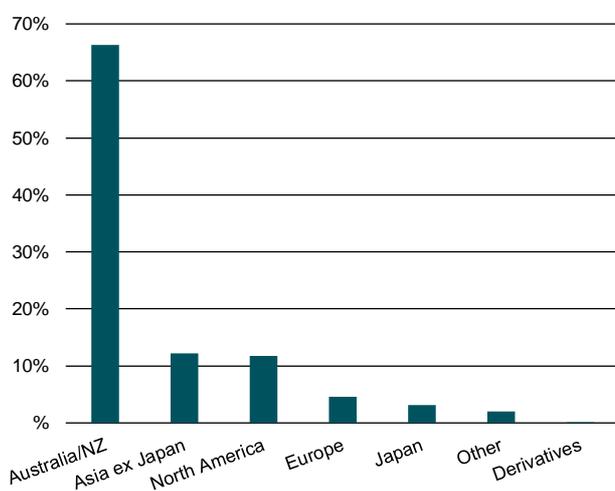
Underlying Fund Guidelines

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

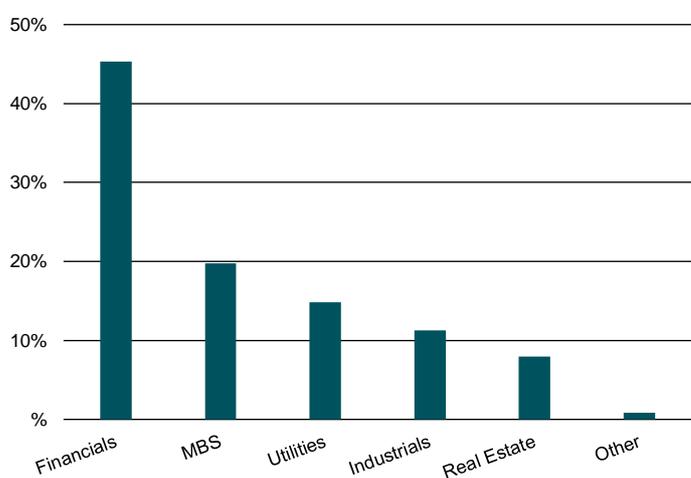
Underlying Fund Statistics

| Interest Rate Duration | Credit Spread Duration | Average Credit Rating | Number of Issuers | Yield to Maturity |
|------------------------|------------------------|-----------------------|-------------------|-------------------|
| 0.42yrs | 2.74yrs | A- | 95 | 2.14% |

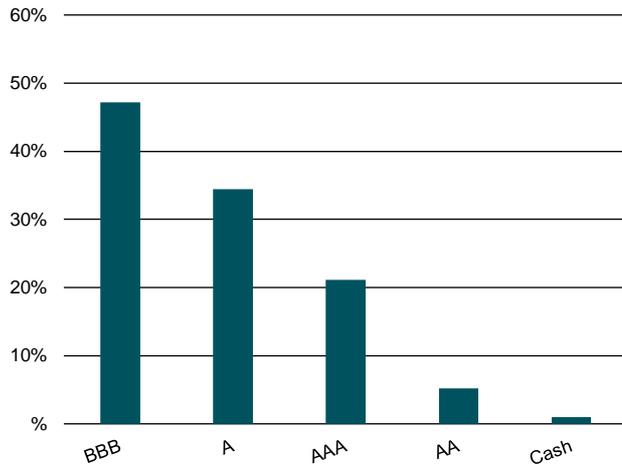
Geographic Allocation



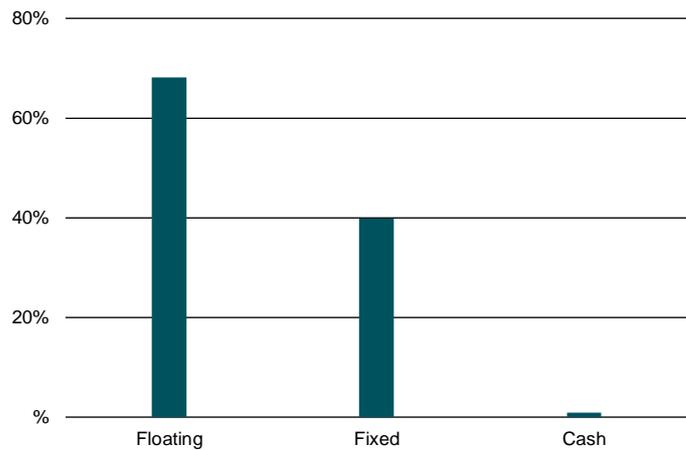
Sector Allocation



Credit Rating



Interest Type



Monthly Commentary

Performance & Market Commentary

The Fund returned -0.19% in November (after Class A Units fees). Despite broad market credit spreads being wider over the month, our issuer selection and sector allocation led to no loss (or gain) from credit spread movements, a good result given the market conditions. Coupon income was the primary positive contributor to returns, and we also took profits on our remaining long USD positions, realising a small gain. However these were entirely offset by swap-spread widening in Australia, where a 17 basis point widening in the 3-year point on the curve caused deduction in performance. The interest rate component of the portfolio's corporate assets are typically hedged by selling government bond futures, which naturally makes us long swap spreads.

November marked a turbulent month for financial markets with a spike in COVID-19 cases throughout Europe leading to a return of enhanced restrictions. Austria was the most severe example, being the first European country to make vaccinations mandatory from February 1st. And this was all before headlines of a new variant, Omicron, emerging from southern African nations, hit the wires. Omicron headlines came at an unfortunate time given (US) Thanksgiving-week illiquidity, which led to the biggest daily moves of the year across many asset classes. Risk assets lost ground on the month with the S&P500 -0.83% and the S&P/ASX200 -0.93%, credit indices were all wider with CDX IG +5.5, HY +23 and iTraxx Australia +8. However, one of the largest moves came in oil prices, down 20.7% (WTI) on concerns global growth would slow as well as speculation that Biden would tap the Strategic Petroleum Reserve (he went on to release 50m barrels).

As we approach the end of the year, we note risk sentiment has softened considerably; risk assets have had a strong year of performance and so profit taking, which began in November, we expect to carry into December, likely leading to heightened volatility, warranting a cautious approach.

In the US, early in November, the Federal Open Market Committee (FOMC) formally announced a tapering of asset purchases at a pace of USD 15bn per month, composed of 10bn in Treasuries and 5bn in Agency Mortgages. As the month wore on, FOMC members started to talk about the prospect of a faster taper and this led to the market pricing of rate hikes sooner. Federal Reserve (FED) Chair Jerome Powell was renominated for a further four year term, the continuity at the helm important for financial markets and the clarity of policy going forward. Powell did however give markets some headlines to trade upon in the final days of the month when he chose to "retire" the term "transitory" to describe inflation. While Powell described inflation as still being clearly connected with the pandemic, the fact that it has spread more broadly was evidenced with the data; November releases of October's headline inflation data, Consumer Price Inflation (CPI) of 6.2% and the FED's preferred measure Personal Consumption Expenditures of 5.0%, both at levels not seen in decades, lead the market to believe the pace of taper will be accelerated at the December meeting. The 2-year US Treasury rose 6.8 basis points to 0.565% while the 10-year fell 10.8 basis points to 1.44%.

In Australia, the Reserve Bank of Australia (RBA) formally discontinued its Yield Curve Control (YCC) target, effectively removing the guidance associated with a first hike in 2024. The RBA highlighted two main reasons for the end of YCC, i) a fundamental improvement in the economy and an earlier than expected return to its inflation target and ii) operational challenges around additional purchases of government bonds, having already owned a significant proportion of outstanding bonds across the Australian Commonwealth Government Bond curve. We believe it is this latter reason which will lead the RBA to also taper purchases under its Quantitative Purchases (QE) program at a more rapid pace, the next review is set for after Australian summer holidays in February. Governor Lowe did attempt to strike a dovish tone; he was adamant in ruling out 2022 rate hikes which market pricing had begun to suggest. On the data front, the employment report was weaker than anticipated, a hangover from recent lockdowns, but this is set to improve in the coming months. Business Conditions and Confidence numbers reflected improving sentiment, while current account surplus surged to a record high for Q3. The yield on the 3-year Australian Government Bond fell 36 basis points (having risen 91 basis points in October) to close the month at 0.865%, while the 10-year fell 40 basis points to 1.69%.

Across the Tasman, the Reserve Bank of New Zealand (RBNZ) hiked its overnight cash rate by 25 basis points to 0.75%, as broadly expected by the market. The statement afterwards all but ruled out a 50 basis point hike which some market commentators had anticipated, preferring the “considered steps” approach to monetary policy. The Q4 inflation expectations survey jumped while employment is expected to remain above the maximum sustainable level into the coming year, which points to further removal of accommodation. At its peak, the market had priced in 8 hikes by July 2022, which we believed to be too aggressive and hence began buying the 2-year NZ Government Bond in a range of 2.05-2.10%. The 2-year NZ Government Bond fell 22 basis points to close the month 1.83%, the 10-year fell 15 basis points to 2.49%.

In Europe, the European Central Bank (ECB) continues to stick to its stance of highly accommodative monetary policy. ECB President Lagarde warned that conditions to start raising rates “are very unlikely to be satisfied next year” and Vice President de Guindos noted that inflation will slow next year, “without a doubt”. Relative to US and other developed market central banks, this divergent policy stance led to the EURUSD hitting a 16-month low of 1.1186. German 2-year rates fell 15 basis points to -0.74%, close to its lows on the year of -0.79% seen in August.

Meanwhile, in the UK, the Bank of England (BoE) voted to keep its policy rate at 0.1%, surprising market participants who had anticipated a 15 basis point hike in response to more concerning language from BoE officials in recent months around the persistence of inflation. Officials noted that the Omicron strain has the potential to blow off track the view by policymakers that the economic recovery is mature. 2-year UK Treasury yields fell 22.6 basis points to 0.48% while the 10-year fell a similar magnitude, down 22.5 basis points to 0.81%.

In China, we saw some improvements to headline economic data with both retail sales and industrial production rebounding. CPI and Producers Price Index (PPI) were above market expectations. PPI at 13.5% annualised is at levels last seen in the early 1990s. Despite the solid economic data, the Peoples Bank of China (PBoC) downgraded China’s economic outlook, perhaps a sign of uneasiness as the pandemic continues to dictate the global economic recovery. Evergrande’s issues remain unresolved, debt restructuring the most likely path out for the embattled property developer.

Outlook & Portfolio Strategy

Portfolio yields remained largely unchanged at just above 2%, down slightly from the end of October on the move lower in front end Australian rates. We continue to run a more acute barbell-shaped strategy, for example preferring shorter dated BBB credits over longer dated A credits given their similar spread and lower losses in a sell-off. Credit spread duration remained little changed over the month. 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 today and this underscores our confidence in being able to deliver our return objective on a forward looking basis.

While interest rate volatility has been trending higher since mid-year, November saw volatility across other asset classes begin to rise, namely equities and credit. As we move into the calendar year end, noting the lighter liquidity witnessed during the US Thanksgiving week and our expectation this theme is to remain throughout December, we have been taking profits on some issuers and sectors, and increasing our exposure to liquids and risk free bonds. It is our expectation that we will see better opportunities to deploy this capital in the coming months.

In terms of asset allocation, the portfolio can be split across three major ‘buckets’; financials (~1/3rd), corporates (~40%), and asset and mortgage-backed (<15%) with the residual in cash and liquids. Geographically, we currently have a roughly 80%/20% split between Australian & New Zealand and international issuers.

In rates, while headline portfolio duration exposure remained little changed at 0.4 years, this overlooks positioning changes intra-month. In the final weeks of November, we increased duration to as high as 0.8 years as we felt risk sentiment was softening. Omicron headlines led to a decent rally in rates, allowing us to take profits on the longer duration position, returning to our neutral level which has been between 0.4 and 0.5 years in recent months. On curve positioning, we retain our bias for flatter curves in Australia and have also added a small curve position in the US, also to express a flattening bias.

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