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

ARSN 632 896 176

Fund Facts – 30 September 2020

CXA Ticker	XKAP		
Fund Inception Date	10 October 2019	**Fund Size**	$3.9 million
Underlying Fund Inception Date	31 May 2007	**Underlying Fund Size**	$5.2 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 – 30 September 2020

Fund Performance[1, 2]	1 month	3 months	CYTD	1 year	3 years	5 years	Since inception[3]
Fund	0.22%	0.91%	4.33%	-	-	-	4.52%
RBA Cash Rate	0.02%	0.06%	0.29%	-	-	-	0.46%
Excess Return	0.20%	0.85%	4.04%	-	-	-	4.07%

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 September 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	0.22%	0.92%	0.43%	0.77%	2.26%	2.60%	4.44%
RBA Cash Rate[6]	0.02%	0.06%	0.29%	0.48%	1.11%	1.34%	3.04%
Excess Return	0.19%	0.86%	0.14%	0.29%	1.15%	1.26%	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.
5 The Underlying Fund's inception date is 31 May 2007.

6 From 1 February 2014 to 30 September 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 September 2020.

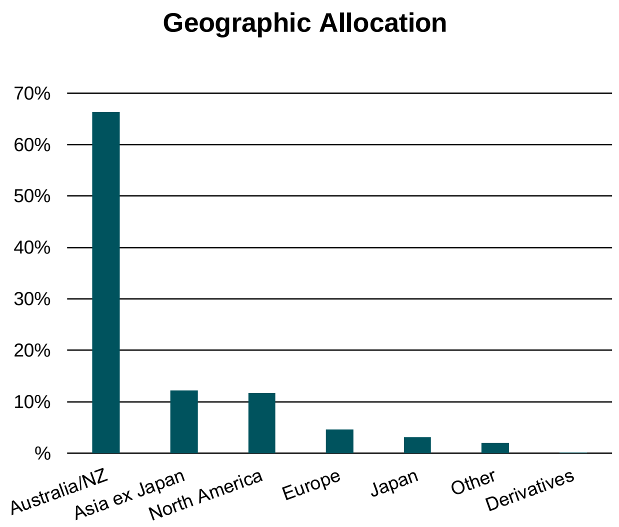
Fund Benefits
Unconstrained approach Investing wherever the best risk adjusted opportunities can be found by Kapstream irrespective of the benchmark index.
Conservative risk focus Priority is given to actively managing the Fund's investment risks within limits.
Flexibility Able to meaningfully shift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

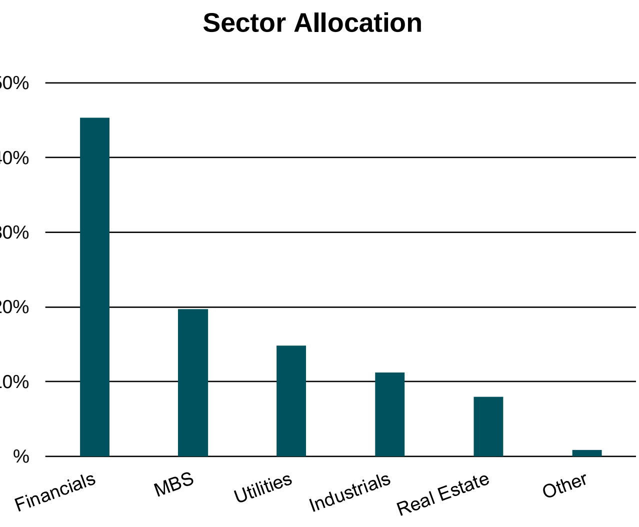
Underlying Fund Guidelines

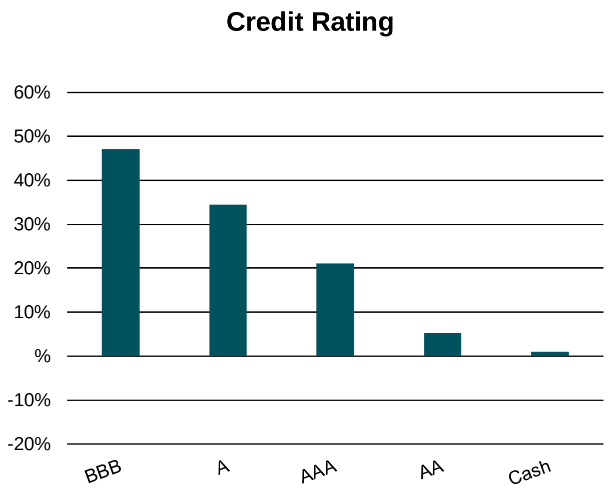
Target Return	Target Volatility	Duration Limits	Credit Quality
Cash plus 2-3%	<1.5% annualised	-2 to +2 years	>85% investment grade

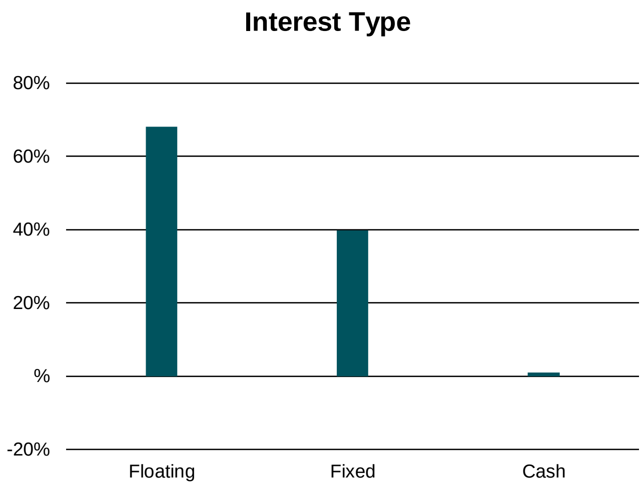
Underlying Fund Statistics

Interest Rate Duration	Credit Spread Duration	Average Credit Rating	Number of Issuers	Yield to Maturity
1.61yrs	2.71yrs	A+	101	1.50%









Monthly Commentary

Performance & Market Commentary

The Underlying Fund returned 0.22% in September and 4.33% calendar year-to-date 2020 (after Class A unit fees)[1]. Positives over the month included coupon income stemming from our corporate bond exposure and hedges protecting against widening corporate bond spreads. Currency positions were slightly negative as our long Norwegian krona position (versus the USD) detracted from returns while our Long Asian currency and AUD positions slightly aided returns. Our concern over longer-term growth, corporate profitability and the lingering effects of the global shutdown cause us to continue with more conservative positioning.

Markets continued to balance global economic carnage caused by COVID and further lockdowns against prospects for a vaccine and central bank support until global recovery. After reaching new record highs early in the month, US equity markets retreated about 8% post 2nd September, as prospects for a new fiscal stimulus plan appeared to fade. Global equity markets followed the US, and renewed concern over virus spikes in the US and Europe sparked fear of further lockdowns, particularly as colder weather hits the Northern hemisphere. Virus surges in France, Spain, the UK and the Netherlands suggested a return to normalcy was further off than expected.

In the US, the death of Supreme Court Justice Ruth Bader Ginsburg and nomination of Amy Coney Barrett proved that divisiveness in the political process would continue through the November elections with little prospects for consensus, even over further critical fiscal stimulus.

Outlook & Portfolio Strategy

We remain concerned over further market turmoil and political divisiveness and will maintain conservative risk exposures. Penalty rates for holding cash have become too painful and we have invested our excess cash into short-term commercial paper with attractive yields. While these securities will not benefit from price increases as a result of further market rallies, portfolio yield remains attractive and the portfolio will remain protected against further market volatility. We will maintain high credit default protection and hold interest-rate duration in the 1.6 to 2.0 year range. We also remain concerned that a longer than anticipated lockdown could stress corporate solvencies even further. We will await further information before materially increasing risk positions.

Whilst we remain biased for lower short-term rates, they have already been priced in and we have little conviction in overall direction of interest rates or equities from where we stand today. While market talk of negative US rates is premature, 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.

Bond market liquidity continues to improve. We remain 100% investment grade, biased toward shorter dated (<5yr) 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 (~20%) 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 remain protecting the portfolio from a further sell-off in risk assets and corporate bond spreads.

A final note on underlying fund sell spreads

Sell spreads were reduced from 0.15% to 0.12%, reflecting lower transaction costs in fixed income securities. This spread exists 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 ensure only withdrawing unitholders meet the currently elevated transaction costs of a withdrawal. Markets remain volatile and liquidity conditions change on a daily basis. While we all look forward to an eventual return to some normalcy, the sell spread currently remains in place as necessary protection for unitholders from the adverse environment we all face 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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