



Kapstream Absolute Return Income Fund

February 2020

Performance	Month (%)	3 Months (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Since Inception ¹ (%) p.a.
Fund Return (Gross of fees)	0.50	1.29	4.53	3.80	3.63	5.33
Fund Return (Net of fees)	0.47	1.18	4.06	3.36	3.20	4.99
RBA Cash Rate	0.06	0.19	1.05	1.35	1.55	3.17
Active return (Gross of fees)¹	0.45	1.11	3.48	2.45	2.08	2.16
Bloomberg AusBond Banks Bill Index	0.50	1.29	4.53	3.80	3.63	5.33

Past performance is no guarantee of future results. Net of fee returns inclusive of 0.41% annualised total expenses for class I units. Fund inception date 31 May 2007. No allowance is made for tax. Numbers may not add due to rounding.

¹ Active return of the Fund compared to Benchmark (RBA Cash Rate).

Portfolio Commentary

The Fund returned 0.47% in February and 1.10% year-to-date (after I class unit fees). Interest-rate duration of 1.25 years was the largest contributor to returns as global rates fell to record lows in response to deepening concern over the spread of the coronavirus. Whilst our conservative corporate exposures, focused on short-dated, less volatile investment-grade Australia issuers have so far weathered the market storm, we remain concerned of further market turmoil and have acted to reduce risk exposures, protecting portfolio year-to-date returns.

Portfolio Strategy

There is little point to macro assessments of global growth, inflation and portfolio positioning in the near-term. Coronavirus concerns will dominate markets as contagion risks spread globally. We are not virus experts and have little conviction in our ability to second-guess market movements amidst this uncertainty and have thus moved to protect the portfolio against wild swings, particularly in credit markets. We have sold liquid corporate positions, bought credit default protection, and maintained interest rate duration toward the higher end of our typical range at ~1.5 years. For the coming month our main goal will remain protecting the portfolio from a further sell-off in risk assets and a widening of corporate bond spreads.

Outlook

We expect US policymakers to continue a message of virus containment, regardless of data, leading to further market uncertainty and turmoil. Pressure on the US Federal Reserve will build, and they will likely cut rates by up to 1.0% over 2020 with other global central banks following suit throughout the year. We expect further negative news on the virus spread, however this is already priced into bond markets. 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. Whilst talk of fiscal stimulus will increase, the US election cycle and lack of agreement amongst policymakers will limit reality. Tax moratoriums will take center stage in the debate, although we remain skeptical that further corporate tax breaks are a credible solution.

Contact Details

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