

Kames Absolute Return Bond Fund

August 2017 review

KAMES
CAPITAL

For professional investors only

04 September 2017



Stephen Snowden
Co-manager of the
Kames Absolute Return
Bond Fund

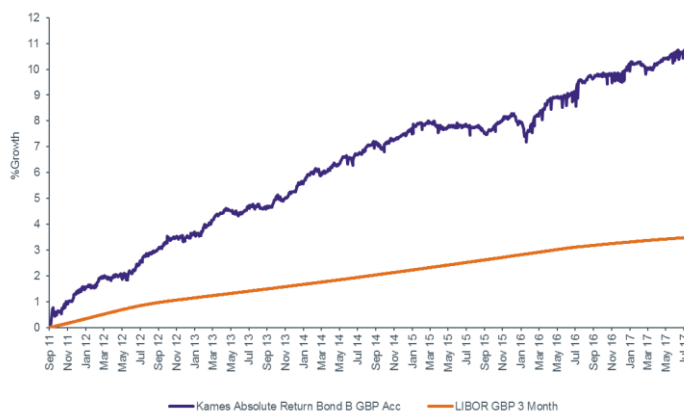


Colin Finlayson
Co-manager of the
Kames Absolute Return
Bond Fund



Nick Chatters
Support Manager of the
Kames Absolute Return
Bond Fund

The Kames Absolute Return Bond Fund returned -0.03% in August compared the benchmark return of 0.02% for 3m GBP LIBOR. The year-to-date return is now 0.82% compared to 0.21% for the benchmark.



Total since launch

Fund total return	10.72%
Benchmark total return	3.50%
Difference	7.22%
Best month	0.60%
Worst month	-0.31%
Up months	50
Down months	21
Maximum drawdown (daily)	-1.00
Volatility	0.69
Sharpe ratio	1.69

*Source: Lipper as at 31 August 2017, net and noon prices. NAV to NAV total return with income reinvested. Local currency B (Acc) GBP class. Launch 30 September 2011. Since launch return is based on Cumulative Noon Lipper data. Benchmark is at close. Risk Statistics based on net annualised monthly returns. Maximum Drawdown has been calculated as the largest peak-to-trough cumulative fall based on daily returns. Volatility is defined as the standard deviation of monthly returns.

August proved to be a typical summer month with regards to both market activity and news flow. There is a sense that investors are opting to wait for the outcome of key upcoming events before deploying more risk. The result was that volatility was low across most areas of the market with yields and spreads also generally lower over the period. Driven in part by geopolitical risks emanating from North Korea and further disappointing inflation data in the US, yields across core government bond markets fell and expectations of further monetary tightening were reduced. This move was highly correlated across our core markets of the US, Germany and UK, with 10-year yields in each falling either 18 or 19bps. This lack of dispersion across markets highlights the challenge faced when looking for cross-market rates opportunities. Thankfully, there are a number of potential catalysts for a spike in volatility in the coming weeks with the next ECB meeting leading the way followed by the expected announcement of a reduction in the Fed's balance sheet later in the month. Of these, the ECB meeting is the greater source of uncertainty – Mario Draghi may be forced yet again to walk a tightrope between acknowledging better economic data but without creating a 'tantrum'. With the recent strength of the euro he may have found his 'get out of jail' card that allows him to retain a dovish bias while tapering – something he is more than capable of doing. With expectations for the meeting already being pared back and yields accordingly lower, the market feels finely poised as we enter the new month.

Credit

The Credit module had a mixed month. The contribution from our variety of pair trades was broadly flat – this, in part, was driven by the limited degree of volatility mentioned above. Within this, our long risk Lafarge versus short risk Heidelberg position added value, as did a new pair trade added mid-month – long risk Centrica versus short risk Energias de Portugal (EDP). Over the past year, EDP bonds had performed very strongly relative to its peers with the spread differential against Centrica reaching a tight level. With the potential for ECB tapering in the months ahead and our view on the relative fundamentals, we felt the move had gone too far with Centrica likely to outperform going forward. The position moved in our favour but we took the opportunity to switch the EDP position into EDF as the technical backdrop for our short risk position in EDP's CDS contract had become less certain. Over the month these positions added a modest amount of value.

We also added a long risk Glencore versus short risk Anglo American. This is a pairing we have played a number of times in the past and the recent material outperformance of Anglo presented the opportunity to open it again. The attraction of this trade is that both companies are commodity-related and as such it removes this as an influence. Instead we can focus on the relative credit quality of the companies and at current valuations, Glencore is preferred over Anglo.

The collection of short-dated bonds we hold against a credit and duration hedge provided a modest headwind to performance. Stock selection on the whole was positive across a number of holdings but

our exposure to Provident Financial offset gains elsewhere. This position was sized appropriately for its risk and as such did not unduly impact the module or the Fund.

Rates

Like its Credit cousin, the Rates module was also relatively flat over the period. We took profits on our Australian 3-year versus 10-year curve steepening position in the early part of the month as the sell-off in late July saw 10-year assets underperform those further down the curve.

The Australian market proved to be more volatile than most over the month with a marked move wider in its bond yields versus other core markets. On the last day of the month we positioned for a reversal of this move, adding a long position in 10-year Australian bond futures versus short 10-year US bond futures. The market is pricing in a similar degree of rate hikes in each market – we expect the Fed to tighten by more than the Reserve Bank of Australia, allowing the Australian market to outperform.

We also opened a US 5-year versus 30-year curve steepening position. In our view, an expected reduction in the size of the US Federal Reserve's balance sheet will be more negative for long-dated bonds. Moreover, while US CPI continues to disappoint, the underlying growth of the economy is robust. Taken together these points have the potential to support shorter-dated assets relative to longer-dated bonds. As of month-end the curve was broadly unchanged compared to our entry point.

Carry

The Carry module had a good month. Both short-dated yields and spreads edged lower over the month as the re-pricing lower of rate expectations supported our holdings. This allowed the module and the Fund as a whole to accrue the benefits of this move.

Colin Finlayson

*Source: Lipper as at 31 August 2017, noon prices, NAV to NAV returns, income reinvested, net of ongoing charges, excluding entry or exit charges; local currency B (Acc) GBP share class. Index based on closing prices.

For Professional Clients only and not to be distributed to or relied upon by retail clients.

Past performance is not a guide to future performance. Outcomes, including the payment of income, are not guaranteed.

Opinions expressed represent our understanding of the current and historical positions of the market and are not an investment recommendation or advice. Any securities and related trading strategies referenced may or may not be held/used in any strategy/portfolio. Any Opinions and/or example trades/securities are only present for the purposes of promoting Kames Capital's investment management capabilities. Sources, both internal and external, used are deemed reliable by Kames Capital at the time of writing.

Fund Charges are taken from income but will be taken from capital where income is insufficient to cover charges.

All data is sourced to Kames Capital unless otherwise stated. The document is accurate at the time of writing but is subject to change without notice. Data attributed to a third party ("3rd Party Data") is proprietary to that third party and/or other suppliers (the "Data Owner") and is used by Kames Capital under licence. 3rd Party Data: (i) may not be copied or distributed; and (ii) is not warranted to be accurate, complete or timely. None of the Data Owner, Kames Capital or any other person connected to, or from whom Kames Capital sources, 3rd Party Data is liable for any losses or liabilities arising from use of 3rd Party Data.

This document does not constitute an offer or solicitation to buy any funds mentioned, and no promotion or offer is intended in jurisdictions other than those where the fund(s) is/are authorised for distribution.

Kames Capital Investment Company (Ireland) plc (KCICI plc) is an umbrella type open-ended investment company with variable capital, registered in the Republic of Ireland (Company No. 442106) at 25-28 North Wall Quay, International Financial Services Centre, Dublin 1. Board of Directors: M Kirby and B Wright (both Ireland), A Bell (UK). KCICI plc is regulated by the Central Bank of Ireland.

Kames Capital Investment Company (Ireland) Plc operates two different methods of hedging share classes. Full details of these can be found in the prospectus.

The Kames Absolute Return Bond Fund is currently authorised for distribution in UK, Channel Islands, Ireland, Luxembourg, Switzerland, Malta, Germany, Austria, the Netherlands, Spain, Belgium, Sweden and Italy. Not all available share classes are registered in every country. Refer to the full prospectus for details.

For investors in Austria, Germany, Luxembourg, Malta, the Netherlands, Spain, Sweden and Professional/Qualified investors in Italy and Belgium – Kames Capital investment Company (Ireland) plc (the "Company") is a UCITS collective investment scheme registered with the relevant regulator in each jurisdiction. The Prospectus, Supplement, Key Investor Information (KIID) and reports for the Company together with relevant information and details of paying and information agents, as required by local regulators, are available free of charge and links to them may be found at www.kamescapital.com

For investors in Switzerland - the Company is authorised by FINMA as a Foreign Collective Investment Scheme. The articles, Prospectus, Key Investor Information and reports are available from www.kamescapital.com or from the Representative and Paying Agent in Switzerland, CACEIS (SA) Switzerland, Chemin de Precossy 7-9, CH-1260 Nyon / VD, Suisse, Phone: +41 22 360 94 00, Fax: +41 22 360 94 60