

The fixed income alternative

Kapstream Absolute Return Income Fund

Managed by Kapstream Capital, the global fixed income specialist for sophisticated investors, the Kapstream Absolute Return Income Fund is an alternative approach to fixed income. With its dynamic core overlaid with relative value strategies, the Fund makes fixed income allocation a source of meaningful returns, not just a defensive anchor.

Kapstream's goal is to create innovative solutions for client needs. Through active diversification across sectors and geographies, Kapstream aims to consistently deliver capital protection and a reliable income stream.

Their flagship fund, the Kapstream Absolute Return Income Fund, is designed to provide a steady income stream with capital stability across economic cycles. The Fund aims to outperform both cash and bond markets.

The Kapstream Absolute Return Income Fund

Rather than tracking a benchmark, the Kapstream Absolute Return Income Fund is designed to provide absolute returns, without constraints.

The Fund combines an actively managed core portfolio, diversified across sectors and geographies, with high conviction tactical trades.

The minimum suggested investment timeframe is three years.

The Fund may invest in, but is not limited to:

- government and non-government bonds
- notes
- corporate securities
- mortgage-backed and asset-backed securities
- emerging market debt
- convertible securities
- derivatives, including swaps, foreign exchange contracts
- options and enhanced cash instruments.

The benefits of the Fund

The Kapstream Absolute Return Income Fund offers diversification benefits to an investor's fixed income allocation.

While the Fund is not managed to a particular benchmark, the goal is to generate a positive return in all economic environments. Instead of taking the risk/return characteristics of a benchmark, Kapstream actively allocates across sectors within the global fixed income asset class based on the risk/return characteristics over the short to medium term.

Rather than suffering through the ups and downs of the market, adopting a dynamic allocation process that changes in response to market conditions has the potential for superior risk-adjusted results and better capital protection over business cycles.

How Kapstream invests

As a specialist fixed income manager, Kapstream is lean, nimble and responsive. Kapstream is run by portfolio managers for portfolio managers – but that isn't all that makes them stand out from the crowd.

Kapstream's real point of difference is their investment style. They seek out value across sectors and geographies, identifying strategies priced for the best return potential in the current market environment. That means they can take advantage of unique opportunities within countries and sectors that are often overlooked or under-represented in market indices.

Kapstream uses a wide range of instruments to capitalise on opportunities within the marketplace, including bonds, notes, mortgages, corporate debt, emerging market debt, convertible securities, derivatives, foreign exchange contracts, enhanced cash instruments and more.

As a result, Kapstream can generate positive returns in both rising and falling markets. They manage total portfolio risk, rather than the index risk, so their funds can generate a positive return even when indices are falling.

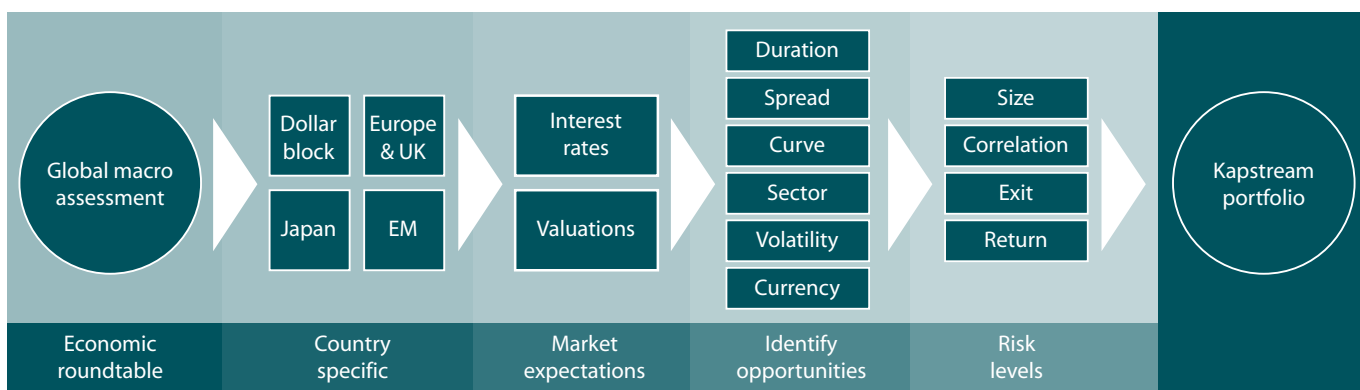
The result is superior return potential, with less risk.

The Kapstream approach

Dynamic beta, portable alpha	<p>Kapstream divides each portfolio into beta and alpha components then uses innovative strategies to actively manage both.</p> <p>Kapstream dynamically allocates the beta component across global fixed interest markets, constantly evaluating and adjusting the allocation in response to the changing environment.</p> <p>Then they overlay alpha strategies to enhance returns, often using futures, options, swaps and credit default swaps.</p>
Research and analysis	<p>Kapstream's allocation begins with an analysis of key global economic trends. They develop their view during quarterly economic roundtable sessions with leading members of the fixed income community.</p> <p>Next, Kapstream considers country specific factors and market expectations, before moving on to identify specific opportunities.</p>
Innovative strategies	<p>Kapstream seeks out and takes advantage of structural inefficiencies in the market, including mispricings and spreads between countries and sectors, then exploits them using a wide range of innovative strategies.</p>

The process

The objective of Kapstream's process is to construct a dynamic portfolio with numerous uncorrelated positions across all specialty areas for the purpose of achieving consistent returns. To achieve that objective, Kapstream follows a rigorous process for every trade they place, combining top-down research and analysis with bottom-up trade selection:



The outcome is a dynamic portfolio with numerous positions across all specialty areas, resulting in the potential for consistent positive returns.

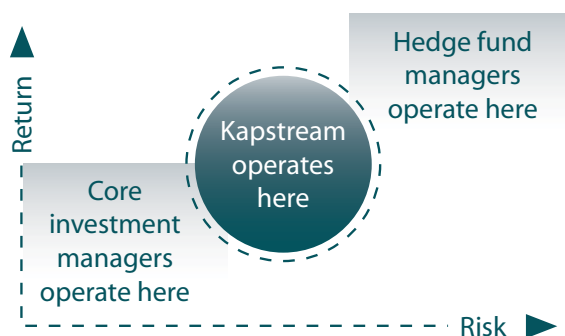
About Kapstream

Kapstream Capital was founded in 2006 by Kumar Palghat and Nick Maroutsos, both seasoned fixed income managers.

Kumar and Nick started with a simple insight. They had repeatedly seen core managers build portfolios around a benchmark, avoiding large positions to prevent tracking error and often underperforming market potential.

They concluded that they could consistently achieve superior results by stepping beyond the traditional core manager approach. They decided to target an absolute return, using a wide range of instruments, including derivatives, to exploit market inefficiencies across the full spectrum of fixed income investments.

As a result, Kapstream is uniquely positioned in the space between core investment managers and higher risk hedge funds.



For more information

If you are an institutional client looking for more information on Kapstream, call Nick Maroutsos on 02 9994 7368 or visit www.kapstream.com

For all other clients, visit the Challenger website www.challenger.com.au or call the Challenger Investor Services team on 13 35 66.

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