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Kames Absolute
Return Bond
Constrained Fund



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The Kames Absolute Return Bond Constrained Fund returned 0.04% in April, compared to -0.03% the 1-month Euribor return.*

During April, politics was once again to the fore in financial markets. In the US President Trump failed to repeal and replace the Affordable Care Act, which showed how difficult Washington politics will be for Trump. Expectations on any tax reform measure being passed this year subsequently fell significantly. This was positive news for bond markets and negative for inflation markets. Ten-year Treasury yields decreased from 2.40% to 2.15%. Over in Europe we have the French presidential election influencing market sentiment. Although opinion polls were consistent ahead of the vote that Macron would lead after the first round and face Le Pen in the second round, the resurgence in Melenchon made the last week before the first round vote a bit more interesting. Once the first-round result was known, 10-year bunds sold-off 15bps while French government bonds rallied 12bps. While this part of the European political story is coming to an end, the announcement of a snap General Election in the UK will ensure that political risk remains a key driver of bond markets in the months ahead.

Rates

The Rates module had a positive month in April. The Fund benefited, in particular, from new positions that were added over the period. Early in the month we opened a long position in ultra-long-dated UK index linked bonds versus 10-year UK bond futures. The long end of the linker market had been weak, leaving it looking cheap compared to medium-dated assets – this prompted us to open the trade. In the days that followed the 2068 maturity bonds that we held rallied sharply, outperforming 10-year gilt futures, aided by strong demand for long-dated sterling assets. This move allowed us to close the trade profitably.

We also added a long 10-year US Treasury versus short 10-year Australia position. The Australian bond market had been trading very strongly on a relative basis, supported by more mixed domestic data and a central bank that was increasingly looking towards macro prudential tools rather than interest rates to cool its housing market. This move caused rate hike expectations to dissipate and the 10-year bond yield spread to compress to only 18bps versus US Treasuries. This allowed us to open a position to oppose that move with the increase in the yield spread that followed generating alpha for the Fund.

On the negative side, we closed out our long 15-year Spain versus short 10-year Italy position at a loss. As we approached the French election we became nervous that a Macron victory could be more supportive for Italian than Spanish bonds, particularly as positioning in Italian government bonds is generally short. With this in mind we closed the position to protect against further losses. We did come back to Spanish bonds again at the end of the month when we added exposure to 10-year Spanish inflation linked bonds against 10-year French government bonds. We see scope for inflation in Europe to surprise to the upside and the issue in a new Spanish linker offered an attractive entry point. Selling French futures on the other side allowed us to sell assets that look to be fully valued ahead of the second round of the French election.

Credit

Light trading occurred in the credit module in April as we kept our strategy in credit broadly unchanged. This represents high conviction individual stock ideas with the ability to hedge out underlying interest rate risk using government futures.

Carry

The Carry module is a diversified range of investment grade assets with less than two years to maturity, which we expect to hold to maturity. We currently have close to 70 holdings in the Carry module; the majority are in US and UK markets and have an average maturity of close to 12 months.

James Lynch

*Source: Lipper as at 30 April 2017, noon prices, NAV to NAV returns; local currency B (Acc) EUR share class. Index based on closing prices.

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

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