

Monday, October 4, 2021

Further to our recent conversations we have performed an analysis of the effect where the existing allocation to the Kapstream Absolute Return Income Fund (KAR) is augmented by an allocation to the FHIM Trade Logistics Strategy (FHIM) from October 2017 to the end of September 2021.

Comparison

We have examined the overall portfolio performance, pre and post the inclusion of FHIM. We are using the daily NAVs as our base valuation data. For KAR, we are not including Fees or spreads and have assumed that all distributions are retained (not re-invested). For FHIM, this strategy is net of fees and there is nil spread in the Fund.

Historical correlation of FHIM to KAR is **-0.073 (7.3%)** R-Squared: **0.0053 (0.53%)**

On a hypothetical allocation of 50% (KAR) and 50% (FHIM) there is an improvement to the risk adjusted returns. Sharpe and Sortino improves by 411% and 491% respectively. The max draw down improves by 1.42% (an improvement of 58%). This can be explained by the FHIM strategy where investments are made into income streams that are uncorrelated to equity or credit markets. Additionally, these investments are Investment Grade where FHIM is senior secured.

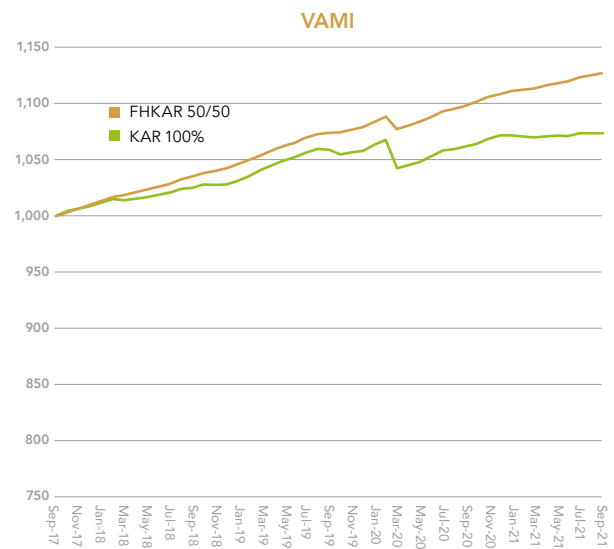
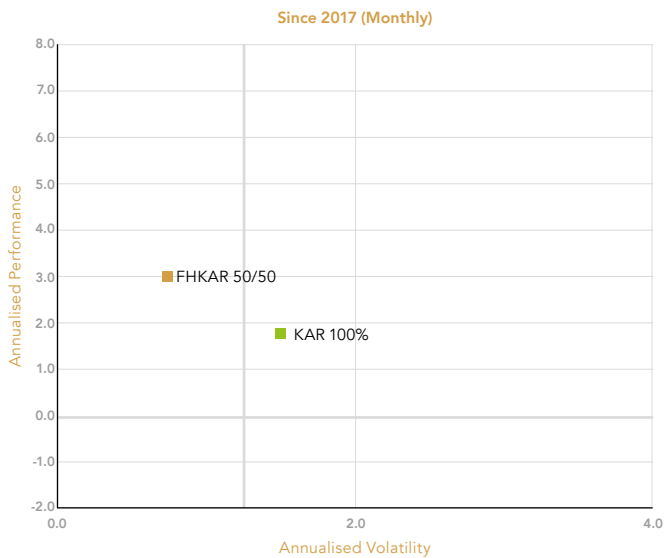
The returns are asset backed and fixed at 4.5% which supports a defensive approach to managing a basket of Fixed Income holdings.

The improved risk adjusted returns are reflected in the smoothing of the overall returns (refer Table of results)

	KAR 100% allocation	KAR with 50% FHIM allocation	Change
CAGR	1.80%	3.03%	+1.23%
Sharpe Ratio	0.53	2.72	+2.19
Sortino Ratio	5.79	21.26	+15.47
Max Drawdown (EOM)	-2.44%	-1.02%	+1.42%
2017 (from October)	0.87%	0.98%	+0.11%
2018	1.98%	3.23%	+1.25%
2019	2.82%	3.55%	+0.73%
2020	1.28%	2.71%	+1.43%
2021 (end of September)	0.24%	1.63%	+1.39%

The noticeable examples of FHIM’s positive impact with an allocation of 50% BHY and 50% FHIM is:

- | | |
|--|------------------|
| 1. 1.23% increase in CAGR | 68% improvement |
| 2. 1.42% reduction in Max Drawdown | 58% improvement |
| 3. 2.19 increase in the Sharpe Ratio | 411% improvement |
| 4. 15.47 increase in the Sortino Ratio | 491% improvement |



The analysis supports the conclusion that volatility is reduced whilst maintaining consistent fixed income revenue. This is achieved without impacting the principal investment. On this basis we would suggest that there would be merit in having an exposure to the FHIM Fund if an investor was holding the KAR fund.

Regards



Luke Ferguson
CEO – Ferguson Hyams Investment Management Pty Ltd