

Kingswood Defensive Alpha Absolute Return UCITS Fund

October 2020

Performance Returns

The Kingswood Defensive Alpha Absolute Return UCITS Fund returned -1.94% for the month of October (GBP Institutional Class).

Investment Objective & Strategy

Kingswood Defensive Alpha ("KDA") is a UCITS fund of funds, investing in liquid alternative UCITS funds with the goal of providing access to best of breed hedge fund UCITS managers and a return stream that is defensive and uncorrelated to equity and fixed income positions for investors.

The fund's objective is to produce an absolute return target of cash +4-5% after fees with a minimisation of capital drawdown.

Volatility of the fund is expected to be approximately 4-5% providing daily liquidity with 1 days' notice. We believe that there is significantly increased demand for portfolio diversification in the post-Coronavirus world and hedge funds are often bought to fulfil this role in a portfolio. However, as a collective, hedge funds have delivered correlated returns and investors are receiving a high level of market beta in their return and comparatively low levels of alpha.

Only low correlated, alpha generative hedge funds can provide diversification to a portfolio. These represent a small proportion of the hedge fund market, as the majority are directional and bear the underlying risks of their asset class.

KDA is constructed to produce high alpha (for return), low correlation (for diversification) and generate a defensive bias (for asset allocation benefits). This is achieved through targeted strategies only. KDA provides a one-stop shop for uncorrelated hedge fund exposure in investor portfolios.

Monthly Commentary

October proved a difficult month for Kingswood Defensive Alpha ("KDA") with the fund falling -1.94%, albeit less than the drop in global equities which were down -3.06% (as measured by the MSCI World Index in USD). The key question that needs to be answered is did this occur because of, or despite of the markets?

Given the correlation of KDA during the month was -0.27 to global equities (meaning on a daily basis KDA is expected to move slightly in the opposite direction to equities) and the fund averaged marginally positive returns in the down equity days, while averaging a small loss in the up-equity days, the fund did display the type of performance metrics we would expect and that the losses were not caused by the equity market losing money. Rather we saw difficulties in our tail risk strategy, where a high starting level of the VIX made option buying expensive and difficult, exacerbated by the lack of protective behaviour in traditional safe havens such as gold and interest rates. This accounted for around 60% of the loss on the month, though did start to make some of these losses back in the last week when there was a sharp risk off event – characterised by market participants reducing risk prior to the US election - which is when it is designed to work best. The rest of the portfolio behaved in the uncorrelated manner we would expect, though with alpha generally difficult and on the negative side. This was also observable across the market in other potential manager investments and not exclusive to KDA's underlying managers.

While a very frustrating month, the under the bonnet analysis of the way the portfolio behaved this month (and over the year as a whole), leaves us confident the portfolio is constructed correctly and will deliver the returns it is designed for over the long run.

Kingswood Defensive Alpha Absolute Return UCITS Fund Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	YTD
2020	0.72%	2.50%	4.13%	0.80%	1.66%	0.71%	0.89%	0.00%	-0.08%	-1.94%				9.61%

The performance figures quoted above represent the performance of the Kingswood Defensive Alpha Absolute Return UCITS Fund, GBP Inst. Class since launch on 27 August 2020. These performance figures refer to the past and past performance is not a reliable guide to future performance. Performance from January 2020 to July 2020 represents the theoretical performance of the model portfolio run prior the launch of the UCITS fund, with a 0.50% management fee and 0.65% TER applied to the performance.

The Manager



Richard Klein

Kingswood Group

Richard has a 35-year career in investment banking, fintech and hedge funds. He spent almost all of his near-30-year investment banking career at Merrill Lynch in a number of leading capital markets roles before moving to two successive senior hedge fund positions. He graduated from Oxford University with a MA (Hons) in Philosophy, Politics & Economics.

Kevin Ewer

MontLake

Kevin is Head of Research at MontLake and has nearly 20 years' experience covering portfolio construction, manager selection and asset allocation in analysing and investing in hedge funds and traditional portfolios. He was lead portfolio manager to a variety of portfolios for the Sanlam group (2010 to 2015) including a range of risk targeted multi-asset funds, a global fund of hedge funds and an Alternative UCITS fund of funds. Prior to Sanlam he ran a range of risk-targeted fund of hedge fund portfolio for Blue Ink, a specialist fund of hedge fund provider. He was also portfolio manager for Skybound's multi-asset portfolio, before joining MontLake in 2017.

Fund Facts

Structure	UCITS Fund
Domicile	Ireland
Valuation	Daily
Liquidity	Daily
Fund AUM	\$8.9m
Inception	August 2020
Share Class	Institutional Class
Currency	EUR/USD/CHF/GBP
Mgt. Fee	0.50%
Perf. Fee	0.00%
Min Init. Sub.	100,000

ISIN Codes	EUR: IE00BLB7Q425
	USD: IE00BLB7Q755
	CHF: IE00BLB7Q649
	GBP: IE00BLB7Q532

Share Class	Retail Class
Currency	EUR/USD/CHF/GBP
Mgt. Fee	0.75%
Perf. Fee	0.00%
Min Init. Sub.	1,000

ISIN Codes	EUR: IE00BLB7Q862
	USD: IE00BLB7Q002
	CHF: IE00BLB7QB94
	GBP: IE00BLB7Q979

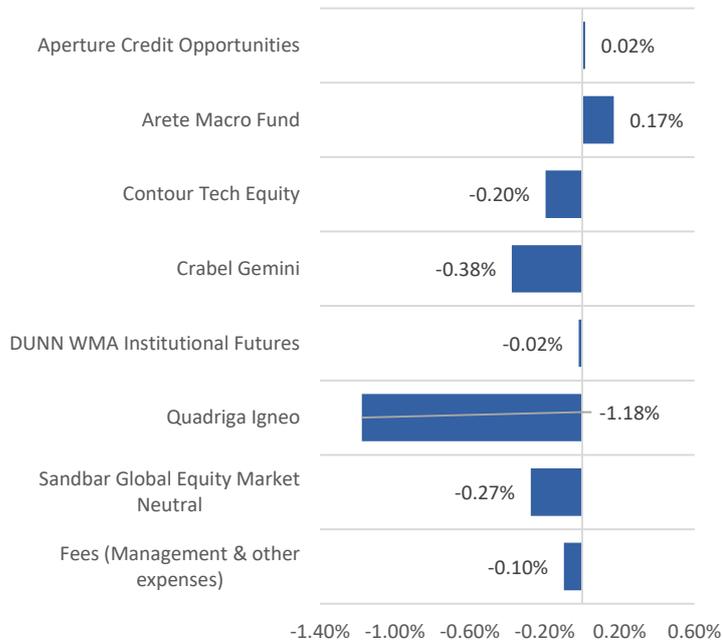
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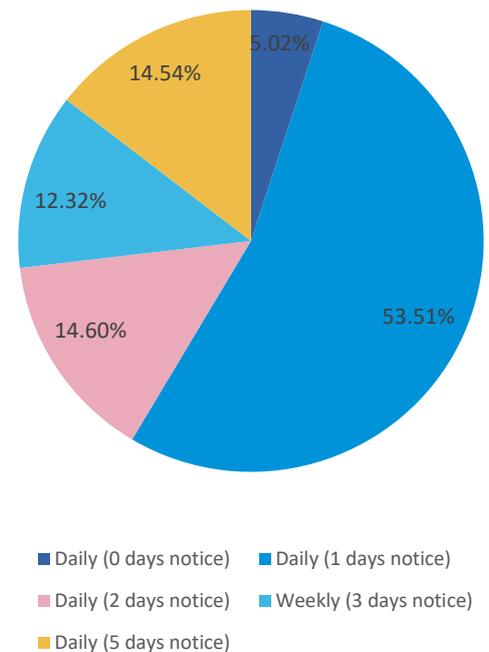
TOP 10 HOLDINGS	
Fund	Weight
1 Aperture Credit Opportunities	14.60%
2 Sandbar Global Equity Market Neutral	14.60%
3 Arete Macro Fund	14.54%
4 Quadriga Igneo	13.41%
5 DUNN WMA Institutional Futures	12.79%
6 Crabel Gemini	12.72%
7 Contour Tech Equity	12.32%
8 CASH	5.02%
9	
10	

STRATEGY WEIGHTS	
Strategy	Weight
Equity Market Neutral	26.92%
Credit Long Short	14.60%
Discretionary Global Macro	14.54%
Tail Risk	13.41%
Trend Following	12.79%
Short Term Quantitative Futures	12.72%
Cash	5.02%

Monthly Contribution to Return



Liquidity Profile



The fees contribution represents the management fees and expenses directly attributable to the Kingswood Defensive Alpha UCITS Fund. The invested funds' contribution represents their contribution net of all their underlying fees.

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