



KLS Arete Macro Fund



Objective

The KLS Arete Macro Fund is an actively managed Global Macro Strategy with strong focus on China and Developed Markets. The strategy aims to deliver competitive risk-adjusted returns while maintaining low correlation with all major asset classes. The investment process is centred around a top down macro-analytical framework to incorporate the rapidly changing economic conditions around the world, especially within China. The Fund is managed by Will Li, CIO and Arete Founder, supported by the Arete Investment team. Investments are across multiple asset classes and in liquid instruments only. The Fund is actively managed and is not managed in reference to a benchmark. This is a disciplined process and replicable strategy with a strong focus on managing risk through different market environments.

Commentary

April Review:

In our February newsletter, we introduced the concept of a "structural soft-landing" for the Chinese economy. A "structural soft-landing" envisions a scenario where the deleveraging of the property sector unfolds gradually and is meticulously managed, thereby averting a widespread economic downturn. Central to our hypothesis is the idea that China can recalibrate its economy by diminishing its macro dependence on the property sector, while simultaneously sustaining robust economic growth. Should China successfully navigate this transformation, we anticipate significant potential for a multiples re-rating of Chinese assets, which were at historically low levels at that time.

To capitalize on this outlook, we shifted our portfolios from a defensive posture to a long bias in Chinese assets starting in February. Our adjustments included three key changes: First, we closed our short positions in sectors that had been underperforming but started to show signs of stabilization, such as consumer discretionary sectors including Macau gaming, Chinese white liquor, and Chinese / EU autos. Second, we increased our long positions in select Hong Kong/China equity indices, with a heavier focus on the financial and internet sectors, which we believed would benefit from the bottoming out of earnings revisions. Third, we structured derivatives products that are designed to profit from both a P/E re-rating of equity and a reduction in the cross-asset correlation between equity and FX. These products were structured to provide a convex return profile at considerably discounted premiums.

Over the past month, the "structural soft-landing" narrative has gained broader acceptance in the markets, bolstered by several positive developments: (1) China's 1Q GDP growth surpassed expectations, and strong PMI data in April suggests this positive trend could continue into the second quarter; (2) Corporate earnings have shown signs of stabilization, with MSCI China constituents reporting YoY profit growth of 11% for FY23 and 10% for Q4 '23; (3) Sell-side analysts are increasingly revising their views, upgrading their outlook on key sectors such as property and internet, citing fundamental improvements. Given the backdrop of cheap valuation and historically low market positioning, even modest improvements in fundamentals have the potential to trigger significant market rallies, as evidenced by recent price actions in April.

Consequently, April has proven to be a fruitful month for our investments, as the majority of the positions we established in anticipation of the "structural soft-landing" scenario have yielded profits. The top PnL contributors include (1) long futures positions across major HK/China equity indices, (2) structured products that express a constructive view on equity, contingent on FX stability, and (3) short US duration through UST futures. The few detractors include our short positions in Chinese property developers, which have largely been covered due to improving fundamentals, and long positions in US equities.

Fund Details

Launch Date:	5 th July 2018	
Fund Size:	\$541m	
Ocean Arete AUM:	\$802m	
Fund Structure:	UCITS	
Domicile:	Ireland	
Min Investment:	Class SI: \$50,000,000 Class I: \$1,000,000 Class R: \$10,000	
Currencies:	USD (base); GBP, CHF, EUR, JPY, SEK, (all hedged)	
Management Fee:	Class SI: 1.05% Class I: 1.25% Class R: 1.75%	
Pricing:	Daily	
Liquidity:	Daily	
Performance Fee:	All share classes: 20% with a high watermark	
Manager:	Waystone Management Company (IE) Limited	
Investment Manager:	Kepler Partners LLP	
Sub Inv. Manager:	Ocean Arete Limited	
Portfolio Manager:	Will Li	
Inv. Universe:	Global	
UK Reporting Status:	Yes	
Country Registrations:	Ireland UK Austria Belgium Denmark Finland France Germany	Italy Luxembourg Norway Spain Sweden Switzerland Singapore (QI)

Commentary continued overleaf



Commentary Continued

Current Outlook

We are gratified by the profits generated from our macro views. More importantly, April has reinforced two of our key strategic convictions about China.

Firstly, we believe that China will continue to serve as a vital asset market, offering exceptional diversification opportunities. It remains a fertile ground for returns that are largely uncorrelated with global markets. As evidenced in April, the substantial valuation discounts of Chinese equities relative to their global peers have begun to reflect in their recent resilience and outperformance. This development is particularly noteworthy as global markets struggle with challenges such as higher inflation, increased yield pressures, and a more hawkish Federal Reserve, which have led to the unwinding of popular positions. With the improving performance of Chinese assets, investors are re-evaluating their underweight stance on Chinese equities, potentially setting the stage for a FOMO scenario if this positive momentum continues.

Secondly, we maintain that investable opportunities exist at all stages of the economic cycles. Despite China's structural slowdown, economic cycles persist, and cyclically driven trading opportunities continue to emerge—as currently observed. We believe that we have reached a critical juncture where markets have formed a strong

bearish consensus on Chinese assets, marked by decade-low positioning, despite the increasing likelihood of China achieving a "structural soft-landing." This juxtaposition highlights the potential for further gains in the region.

These beliefs have served as the cornerstone of our 12-year track record. Our strategy is rooted in understanding the world, and to achieve that, we need to understand China – one of the most pivotal, yet often misunderstood, markets in the world. Central to our approach is the ability to leverage our insights into China and translate them into tradable global expressions, resulting in returns that are uncorrelated with typical asset movements and other macro strategies. Having successfully implemented this strategy for over a decade, we look forward to continuing our efforts in the years to come.

In the shorter term, we believe the "structural soft-landing" narrative will gain further credibility as more evidence of macro stabilization emerges and markets continue to climb a wall of worries. Given the still-low positioning and discounted valuations, this could potentially set the stage for a further rally across Chinese assets. As always, we aim to capitalize on our directional views while remaining flexible and disciplined in managing volatility.

Performance*

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD (%)
2024	2.2	0.0	1.5	1.7									5.5
2023	2.5	-0.8	-1.8	-1.7	6.0	0.0	-1.7	4.3	1.6	1.4	-0.0	1.7	11.5
2022	-4.8	-1.6	1.6	-2.8	-0.0	-0.1	1.3	1.4	-1.0	2.9	-5.7	0.5	-8.5
2021	1.4	1.8	1.2	0.4	-0.8	0.4	2.3	1.8	-1.2	0.8	-0.2	0.2	8.2
2020	-4.6	2.7	2.2	3.3	1.9	2.1	0.2	-0.1	-3.2	0.6	4.1	1.9	11.3
2019	1.7	0.1	0.9	2.1	0.0	1.5	-1.0	0.0	1.4	0.6	1.3	0.9	9.8
2018							0.5	0.9	-0.3	0.1	0.4	-2.4	-0.8

*Class F USD Net Total Return. Performance period is since inception 5th July 2018. Past performance is not a reliable indicator of future results. The value of investments and the income from them may fall as well as rise and you may not get back the amount of your original investment. The return of your investment may increase or decrease as a result of currency fluctuations if your investment is made in a currency other than that used in the past performance calculation.



Gross Returns Since Inception*

	2018	2019	2020	2021	2022	2023	2024**
Equity Indices	-2.6%	18.2%	11.1%	13.9%	-6.8%	8.6%	3.1%
Equity Sectors	1.8%	-4.6%	1.9%	-3.6%	-5.6%	-5.8%	0.1%
Commodities	-	0.3%	1.0%	-0.2%	-0.1%	0.2%	0.0%
FX	-0.0%	-0.4%	-0.7%	-0.3%	2.2%	4.7%	-0.3%
Fixed Income	0.1%	1.0%	1.2%	1.3%	3.1%	5.6%	2.1%
Multi Asset	-	-	-	-	-	-	1.3%
Total	-0.7%	14.6%	15.0%	11.1%	-7.2%	13.3%	6.5%

*This table reports gross profit and loss, by calendar year and before expenses and fees have been included. Returns are summarised to provide an illustration of where the profit and loss is being generated. Returns are since inception of the KLS Arete Macro Fund on 5th July 2018. Past performance is not a reliable indicator of future results.

**YTD as at 30th April 2024.

Source: Ocean Arete Limited.

Share Classes

	NAV PER SHARE	ISIN	INCEPTION DATE
SI GBP	131.13	IE00BFZ11J82	05/07/2018
SI USD	135.01	IE00BFZ11G51	05/07/2018
SI EUR	125.44	IE00BFZ11H68	21/09/2018
SI CHF	116.19	IE00BFZ11K97	14/05/2020
SI SEK	1,142.65	IE00BFZ11L05	15/07/2020
I GBP	128.66	IE00BFZ11654	10/05/2019
I GBP Distributing	126.38	IE00BKKFT631	17/02/2020
I USD	133.84	IE00BFZ11431	04/10/2018
I EUR	122.47	IE00BFZ11548	18/10/2018
I EUR Distributing	103.14	IE00BKKFT524	30/09/2021
I CHF	101.36	IE00BFZ11761	12/04/2021
F GBP	135.27	IE00BDRV1X68	05/07/2018
F USD	141.22	IE00BDRV1V45	05/07/2018
R USD	121.59	IE00BFZ11985	31/03/2020
R EUR	103.97	IE00BFZ11B07	09/03/2021
SI EUR Distributing	111.35	IE000IM5NMO2	14/11/2022
SI GBP Distributing	112.95	IE000TMH67A9	14/11/2022
SI USD Distributing	113.78	IE0001H8RIR5	14/11/2022

All data as at 30th April 2024 unless otherwise stated.

Source: Kepler Partners LLP unless otherwise stated.



Disclaimer

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