



KLS Ionic Relative Value Arbitrage Fund

IONIC^{Capital}
Management® LLC

Objective

The KLS Ionic Relative Value Arbitrage Fund seeks to identify and exploit arbitrage opportunities across multiple asset classes, where a relative pricing or implied volatility discount exists. The Fund focuses on four core arbitrage strategies including Convertible Arbitrage, Equity Arbitrage, Volatility Arbitrage, and Credit Arbitrage. The combination of these contributes to the Fund having a non-correlated return profile relative to traditional asset classes. The flexible mandate and investment process enables the Fund to take advantage of the best opportunities, as well as market dislocations to generate additional alpha. The arbitrage strategies often benefit from increased volatility, while the Fund's long volatility exposure is designed to provide some downside protection during significant market selloffs. The Fund is actively managed and not managed by reference to a benchmark.

Commentary

In February markets were dominated by optimism around a soft-landing narrative amidst strong corporate earnings. During the month, the S&P 500 rose +5.3% and corporate credit spreads reached a post-covid low, despite a hotter than expected U.S. CPI print that pushed 10-year Treasury yields from 3.90% to 4.25% and the number of predicted interest rate cuts for the year down from the seven forecasted in January to four in total. Gains in the equity markets continued to be dominated by large-cap tech that drove breadth and skew in the S&P 500 to the lowest levels in decades. Not surprisingly, this high level of dispersion and complacency in the equity markets also kept index volatility (and cross asset volatilities more generally) near record lows. The KLS Ionic Relative Value Arbitrage Fund declined -1.33% in February as gains in the Convertible Arbitrage and Interest Rates strategies were more than offset by losses in the Volatility Arbitrage and Equity Arbitrage strategies.

The Convertible Arbitrage strategy gained 30bps during the month driven by newly added crypto sector exposure where volatility exploded amidst a 70% YTD rally in bitcoin. A position in the tech sector detracted from performance after reporting weaker than expected Q1 earnings, but we remain confident in the position's fundamentals and increased exposure. Ten new issue convertibles priced in February for a total of \$8 billion, taking YTD issuance to \$10.1 billion. We expect issuance levels to stay elevated as companies look to refinance existing debt. We continue to hold short-dated convertible positions that will benefit from this refinancing activity and added three new issues during the month.

The Credit / Rates Relative Value strategy was flat in February as gains from interest rate trading and floating-rate closed-end fund exposure were offset by losses from CDS credit hedges. We took advantage of the month's move in interest rates to cover our rate hedges. We modestly increased our credit hedges in conjunction with the convertible exposure we added during the month, as investment grade spreads are now the tightest they have been in four years while spreads on single B credits are the tightest they have been since 2006. Our credit relative value theme, implemented via short-dated high-quality bonds paired with CDS hedges, remains the Fund's largest exposure by market value. This exposure has generated positive carry in the current environment and will benefit materially in a hard landing scenario where interest rates fall and credit spreads widen.

The Equity Arbitrage strategy declined -55bps during the month with losses primarily attributable to two mean-reverting equity pair positions where spreads widened. As factors like momentum continue to drive underlying equity index gains (the BofAML Momentum Factor Index is +28% YTD), the historical relationships for many of the holding company discounts we monitor have widened significantly. We have modestly increased exposure to both equity pair positions. We also increased event-driven exposure to two large-cap positions, utilizing options to mitigate downside risk.

The Opportunity strategy lost -6bps in February as the NAV discount in the Pershing Square closed-end fund widened incrementally. We reduced exposure to below 5% of fund market value given strong overall gains YTD.

Commentary continued overleaf

Fund Details

Launch Date:	16 th July 2020
Fund Size:	\$38m
Ionic AUM	\$3.5bn
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 (all hedged)
Management Fee:	Class SI: 0.75% Class I: 0.95% Class R: 1.50% Class SIF: 1.50%* *no performance fee
Pricing:	Daily
Liquidity:	Daily
Performance Fee:	15% above one month SOFR hurdle and high water mark
Manager:	Waystone Management Company (IE) Limited
Investment Manager:	Kepler Partners LLP
Sub Inv. Manager:	Ionic Capital Management LLC
Portfolio Managers:	Bart Baum Dan Stone Doug Fincher
Inv. Universe:	Global
UK Reporting Status:	Yes
Country Registrations:	Ireland UK France Germany Spain Switzerland Singapore (QI)



Commentary Continued

The Volatility Arbitrage strategy declined -102bps during the month, primarily attributable to FX volatility exposure. Volatility across most asset classes has fallen sharply YTD. We have maintained our FX volatility exposure given low absolute levels and significant declines. FX volatility is in the low single-digits across developed markets and has fallen sharply (implied volatility on the British pound is down -37% from year-end 2022). We established S&P 500 and Russell 2000 volatility positions during the month given that skew and implied correlation

have decreased significantly. The S&P 500 1-month and 3-month skew are now the lowest they have been in at least a decade and correlation in the S&P is now near 20% (relative to an average of 40%). Correlation has the potential to reach 75% or higher during market crisis periods (according to Macro Risk Advisors) and cause a material increase in volatility. However, given how low volatility is currently, price moves in these indices, in either direction, should be accretive.

Performance

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2024	-1.67%	-1.33%											-2.98%
2023	0.76%	0.07%	0.15%	-0.66%	0.43%	0.76%	0.61%	-0.44%	0.35%	-1.79%	-0.66%	2.14%	1.68%
2022	-1.79%	0.81%	0.13%	-1.58%	-2.54%	-1.79%	0.92%	1.48%	-1.53%	-1.01%	-0.93%	-0.03%	-7.66%
2021	5.93%	5.77%	-2.80%	-0.32%	-0.73%	1.97%	-3.35%	-1.95%	1.03%	1.76%	-0.12%	-2.61%	4.13%
2020							0.14%	0.54%	0.20%	-0.23%	2.59%	5.65%	9.08%

As at 29th February 2024.

Fund performance is net return of USD F Class. Return figures are since inception on 16th July 2020. Past performance is not necessarily a guide to future performance. 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.

Net Strategy Attribution¹

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
Convertibles	-0.45%	0.30%											-0.07%
Credit	0.34%	0.00%											0.31%
Equities	-0.88%	-0.55%											-1.39%
Opportunities	0.08%	-0.06%											0.02%
Volatility Arbitrage	-0.76%	-1.02%											-1.85%
Total	-1.67%	-1.33%											-2.98%

Net attribution data as at 29th February 2024. Past performance is not necessarily a guide to future performance. 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.

Monthly Strategy Exposures²

	LONG	SHORT	NET	GROSS
Convertibles	36.4%	-7.4%	29.0%	43.9%
Credit	46.7%	-0.1%	46.7%	46.8%
Equities	47.4%	-12.3%	35.1%	59.7%
Interest Rates	0.0%	-9.8%	-9.8%	9.8%
Opportunities	5.2%	-2.6%	2.6%	7.7%
Volatility Arbitrage	161.1%	-160.5%	0.6%	321.6%
Total	296.8%	-192.7%	104.1%	489.5%



Geography Exposure²

	WEIGHT
North America	80.9%
Rest of the World	23.3%
Total	104.1%

Top 5 Positions (Long)

	WEIGHT
S&P 500 Index	10.9%
A SPAC II Acquisition Corp	7.5%
Metal Sky Star Acquisition Corp	4.9%
Marathon Digital Holdings	4.8%
Square Inc	4.6%
Total	32.7%

Top 5 Positions (Short)

	WEIGHT
Medium Duration US Treasury Futures	-9.8%
Microsoft	-2.6%
JPY Currency	-2.3%
EUR Currency	-2.2%
AUD Currency	-2.1%
Total	-18.9%

Share Classes

	NAV PER SHARE	ISIN	INCEPTION DATE
Class F USD	103.47	IE00BLR66984	16/07/2020
Class F GBP	101.80	IE00BLR66C10	16/07/2020
Class F EUR	97.66	IE00BLR66B03	16/07/2020
Class SIF USD	101.97	IE00BLR66T86	16/07/2020
Class I EUR	95.06	IE00BLR66G57	28/09/2020
Class SI GBP	99.64	IE00BLR66R62	30/10/2020
Class I USD	100.93	IE00BLR66F41	02/11/2020
Class I GBP	90.74	IE00BLR66J88	07/01/2021
Class I CHF	80.00	IE00BLR66H64	05/05/2021
Class SI USD	85.61	IE00BLR66P49	07/07/2021

As at 29th February 2024.

Notes:

1. The performance shown are net returns taking into account the reinvestment of all dividends, trading expenses, and operating expenses such as administrative, custodial, professional expenses, management fees and distribution fees or charges. Such performance information was calculated based solely on unaudited valuations determined in accordance with Fund's valuation methodology. Actual audited returns of the Fund may differ, and may differ materially, from the results presented herein. Additional information about the Fund contained in the offering materials or other similar documentation relating to the Fund.
2. Delta-adjusted net exposure of each sub-strategy of the Fund as a percentage of the Fund's net assets. Such exposures do not include any expenses or fees, including, but not limited to, any management fees or distribution fees or charges. Such exposure information was calculated at the portfolio-level based solely on estimated and unaudited valuations determined in accordance with Ionic Capital Management LLC's internal valuation methodology. For Index Swaps, we are reporting the exposure figures in term of their sensitivities (CS01 for CDS Indices and Inflation DV01 for Inflation Swaps) while using the duration and delta-adjusted notional for other asset types. All data contained herein is from sources believed to be reliable, but none of the Fund, Ionic Capital Management LLC nor their respective affiliates assume any responsibility for, or make any representation or warranty, express or implied, as to the adequacy, accuracy or completeness of any information contained herein or for the omission of any information relating thereto. This information does not constitute an offer to sell or a solicitation of any offer to buy or sell any securities. Additional information about the Fund including, but not limited to, the actual historical performance.
3. Long and short exposures are delta-adjusted for positions with optionality and are netted before aggregation. Money Market Instruments and Cash Balances are excluded.

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