Sestante Diversified Fund

Monthly Investment Report as at 31 March 2017

Asset Class

Diversified

Investment Objective

To provide an investment return of CPI +2.5% p.a. over rolling 5 year periods after fees and costs and before taxes

APIR Code

PAT0006AU

ARSN

613 157 387

Fund Inception Date

27 September 2016

Benchmark

CPI +2.5%

Buy/Sell Spread

+0.20%/-0.20%

Management Cost

0.7271% p.a.[1]

Distribution Frequency

Quarterly

Minimum Investment

$20,000

Fund Size

$5.5m

Exit Price

$1.0092

Number of Underlying Investments

22

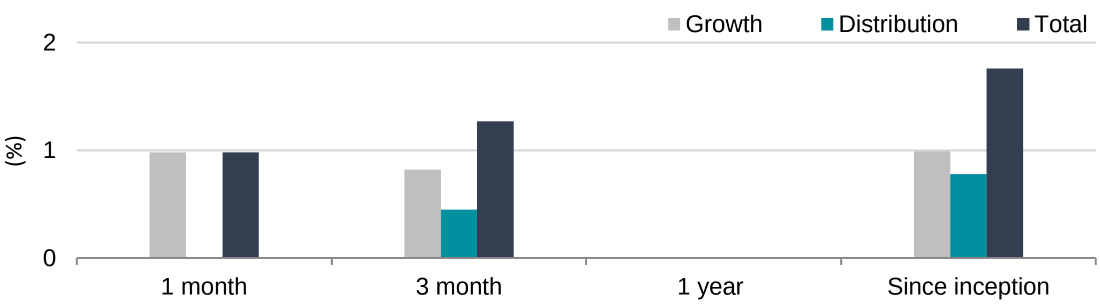
Market Review

In March, the Federal Reserve ('Fed') raised its short term Fed Funds rates for the third consecutive time in 15 months. The market was assigning an almost 100% probability to the decision hence it did not come as a surprise. Following this news, US long term government bonds began to rally from their lowest level since 2014, while equities resumed their uptrend. These movements essentially erased the small losses that both asset classes had accrued for the month. As a consequence, the US equity market (up 0.53%) and the US 10 year interest rate (unchanged) paused in March.

The US Dollar, as represented by the Dollar Index ('DXY'), was down 0.76% at 100.35. Europe (up 4.46%) was the best performing equity market in March, propelled higher by the double-digit return of Euro banks. Emerging markets (up 2.97%) outperformed global equity markets (up 1.66%) for the third month in a row. The S&P/ASX 300 achieved a similar feat rallying 3.28%. The relative strength of the Australian equity market was even more remarkable given the fact that the Australian dollar slightly softened (-0.42%) in March. In short, Australian equities beat global equities unhedged and hedged for the first time in 2017.

The domestic market is currently sustained by the strong growth in the earnings per share exhibited by the resources sector, mining in particular. Although in the real economy the investment cycle is maturing and in the finance economy it is only gradually filtering into the bottom line of the companies as earnings upgrades have further to run. Banks and the construction sector were also strong performers due to the contribution from infrastructure (up 4.15%), which was able to "decouple" from property (-0.77%) and the "yield trade" for the first time in 5 months. The good momentum in Australian assets was evident in Australia fixed income (up 0.44%), while global fixed income (up 0.03%) hedged back to the Australian dollar was flat. Finally, alternatives (0.10%) had a challenging month, as performance was dragged down by commodity trading advisors ('CTA'), macro and long volatility strategies, the only positive contribution was from, once again, long/short equities.

Performance



	Fund Growth Return (net) (%)	Fund Income Return (%)	Fund Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	0.98	0.00	**0.98**	**0.41**	**0.57**
3 months	0.82	0.45	**1.27**	**1.17**	**0.10**
1 year	n/a	n/a	**n/a**	**n/a**	**n/a**
Since inception[2]	0.99	0.78	**1.76**	**2.70**	**-0.94**

[1] As at 3 August 2016. Refer to PDS and website for a full breakdown of management costs.
[2] This figure represents the annualised performance of the Fund since inception.
Past performance is not an indication of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distribution. Retail investors should refer to net returns. If investing through an IDPS Provider, the total after fees performance return of your investment in the Fund may be different from the information in this report.

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Performance Review

In March the Fund returned 0.98%, outperforming the benchmark return of 0.41% by 0.57%.

Over the month, seven asset classes out of the eight the Fund invests in were positive, with the only exception being property, where the Fund maintains a slight underweight. That tilt and the slight overweight in international equities provided a small but positive contribution to the Fund's performance in a month that eventually became challenging for the investment manager's tactical asset allocation.

Growth assets greatly outperformed defensive assets, although the Fund's marginal overweight (1.32%) to defensives, detracted from performance. Within growth assets, the Fund's underweight to Australian equities and infrastructure (which was the best performing asset class for the month), and the overweight to alternatives were major detractors over the month. Within defensive assets, the investment manager's preference for global fixed income over Australia fixed income also detracted from performance.

Conversely, manager selection worked particularly well across the board in March. Results were particularly strong in global fixed income, international equities and infrastructure, additionally good fund selection was evident in Australian fixed income and alternatives. International equities were driven higher by a good mix of country and sector selection.

Regionally, emerging markets constituted roughly 25% of the Fund's allocation. US technology was also well represented in March as the Nasdaq Index (up 1.99%) soared to a new all-time high while the overall US market paused. The performance of the Australian equities allocation was also strong. Quality growth stocks reversed their recent trend of underperformance as investors reassessed the prospects for a significant pickup in domestic economic growth. The current labour market, income and consumption conditions do not appear to be particularly supportive of an acceleration, hence the Australian economic cycle could prove to be smoother than that of the rest of the world. In that context, in the investment manager's opinion, an allocation to growth and small companies is warranted as the latter continued to underperform in March. However that trend may reverse soon as, anecdotally, the investment manager is seeing institutional investors reallocating to the asset class.

Manager Allocation (%)

Australian Fixed Interest	**15.42**
CFS Australian Bond Fund	3.61
Henderson Tactical Income Trust	4.90
Omega Core Australian Bond Fund	3.83
Perpetual Credit Income Fund	3.08
Global Fixed Interest	**18.89**
Macquarie Income Opportunities Fund	7.00
Omega Global Corporate Bond Fund	4.17
Pimco Diversified Fixed Income Fund	7.72
Property	**2.65**
Vanguard International Property Securities Index	2.65
Alternatives	**16.63**
Henderson Absolute Return Australian Equity Fund	4.89
Ironbark LHP Global Long/Short Fund	4.31
AZ Multi Asset Institutional Macro Dynamic Trading	7.43

Australian Equities	**13.96**
Bennelong Ex-20 Australian Equities Fund	3.64
BT Wholesale Core Australian Share Fund	3.55
Fidelity Australian Equities Fund	3.27
Ironbark Karara Australian Share Fund	3.50
Global Equities	**17.47**
Capital Group New Perspective Fund	2.86
Ironbark Royal London Concentrated Glbl Share Fund	2.81
Vanguard Emerging Markets Shares Index Fund	3.79
Vanguard International Shares Index Fund	8.01
Infrastructure	**1.81**
MBA Global Listed Infrastructure Fund	1.81
Cash	**13.17**
BetaShares Australian High Interest Cash	10.48
Cash	2.69

Market Outlook

The investment manager expects US long term interest rates will be higher at the end of 2017, compared to where they trade today. However, in the next 1-3 months, the prospects of global fixed income generating positive returns are quite high. In terms of market positioning, people are buying exposure to short-term bonds and to neutral or outright short duration strategies. Investors are currently willing to leave carry on the table or suffer a negative carry in order to be unaffected by an anticipated adjustment of global government curves upward. The investment manager believes that their thesis will prove correct in the end, however that many "weak" hands will be shaken along the path before reaching the goal. Interest rates in fact have essentially traded sideways after the shock-move of November 2016. In that context, a zero or negative carry positioning has been painful and the investment manager believes it could soon reach the point of proving unbearable, provoking an untimely flight to duration.

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Market Outlook (cont'd)

Investors buying back their long government bond exposure could make yields fall and global fixed income outperform again. In that context, the investment manager would be more than happy to reduce the exposure to that asset class in favour of growth assets, particularly if equity markets experienced a correction at the same time. In fact, the investment manager believes that any rally in US long duration bonds will ultimately prove temporary, and that the primary trend for that asset class is down. One important fact which the market is overlooking is that the bull market in US equities has produced record tax revenues for the government, helping curb its financing need. If US equities were to stall or, worse, to fall from their current point, that will immediately translate in less tax revenues and more issuance of government bonds, pushing yields higher again. In short, global fixed income could sing its swansong in the next few months and should that happen, the investment manager will be ready to take advantage of it and move away from defensive assets.

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