



Sestante Australian Small Companies Fund

Monthly Investment Report as at 30 April 2017

Asset Class

Australian Equities

Investment Objective

To outperform the benchmark after fees and before taxes, over rolling 5 year periods

APIR Code

PAT1078AU

ARSN

617 754 980

Fund Inception Date

10 October 2012

Benchmark

S&P/ASX Small Ords Accumulation Index

Buy/Sell Spread

+0.25%/-0.25%

Management Costs

1.2872% p.a.¹

Distribution Frequency

Semi-annually

Minimum Investment

\$20,000

Fund Size

\$0.1m

Exit Price

\$0.8987

Number of Holdings

51

Market Review

The Australian equity market posted gains in April, as measured by the S&P/ASX 200 (up 1.0%), while small caps were slightly down 0.2% for the month. The Australian dollar fell against most major currencies to end down 2% to USD 74.8 cents, weighed down by the falling iron ore price (down 17%). Employment for March jumped a stronger than expected (sixty-one thousand new positions), however the unemployment rate was unchanged at 5.9%. The NAB Survey of Business Conditions for March rebounded sharply to a booming level of +14.2 (previous: +9.3), the highest level since the global financial crisis (GFC). However, retail sales for February were worse than expected, down 0.1% month on month.

Performance Review

The Fund underperformed a falling small cap market in April. While some portfolio mean reversion impacted, two stock specific issues dominated the underperformance. Fund performance was impacted positively by litigator, IMF Bentham (up 6%) which continued to grind higher as it announced further newly funded legal matters. Retailer, Shaver Shop (up 25%) rallied after upgrading guidance due to stronger than expected sales during March and April (after downgrading in December). Electronics provider, Codan (up 9%) recovered some of the lost ground from the previous month. Communications provider, Speedcast International (up 10%) rallied following an investor briefing that was well received by the market, while property developer, Peet (up 5%) drifted higher on no real news. Not holding OZ Minerals (down 10%) and Metcash (down 13%) contributed to performance in a relative sense.

Fund performance was negatively impacted by Automotive Solutions Group (down 64%) and Range International (down 45%). Both gave disappointing trading updates that were unexpected given previous communications to the market. Neither position was retained at month end given issues with management credibility. APN News and Media (down 10%) was weaker on little news, Alacer Gold (down 18%) was lower as the potential negative impact from changes to the composition of the VanEck Junior Gold Miners ETF were factored in by the market. RCR Tomlinson (down 10%) and Tox Free Solutions (down 5%) both gave up previous gains from the month before. Not holding BT Investment Management (up 19%) and A2 Milk (up 13%) impacted performance in a relative sense.

Performance

	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	-1.81	0.00	-1.81	-0.25	-1.56
3 months	1.84	0.00	1.84	3.75	-1.91
1 year	18.55	4.29	22.84	10.04	12.80
3 years (pa)	-5.38	11.09	5.71	6.80	-1.09
Since inception ² (pa)	-1.68	7.19	5.51	4.24	1.27

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.

¹ Estimated management cost as at 20 March 2017. Refer to PDS for full breakdown of management costs.

A Performance Fee of 20% may be payable. Refer to PDS for further details.

² This figure represents the annualised performance of the Fund since inception.

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Outlook

Looking forward, the investment manager has highlighted three key points. Firstly, small cap “value opportunities” are clearly evident as traditional metrics remain compelling. The Fund's portfolio is trading at a significant discount to the market from a valuation perspective. The investment manager sees around 30% upside, which they believe will close as the market becomes less pessimistic about the earnings prospects of the companies held in the portfolio. Secondly, cyclical sectors are expected to benefit as earnings bottom and risk appetite increases.

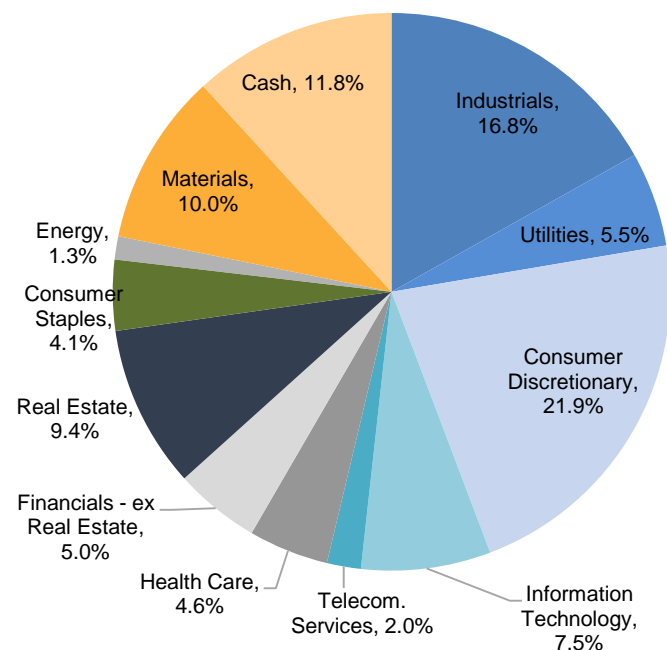
Finally, the investment manager expects bond yields to continue to rise over the medium term as global growth improves and as we see a normalisation of the ultra low interest rate policies being pursued by central banks. The Fund is positioned for the cyclical re-rating and away from lower return defensives.

Key Contributors & Detractors over the month

Top 5 Contributors	Active Position	Top 5 Detractors	Active Position
IMF Bentham	Overweight	Automotive Solutions Group	Overweight
Shaver Shop Group	Overweight	HT&E (formerly APN News & Media)	Overweight
Metcash	Not Held	Alacer Gold	Overweight
Codan	Overweight	BT Investment Management	Not Held
Oz Minerals	Not Held	RCR Tomlinson	Overweight

Portfolio Summary

Sector Allocation



Top 5 Holdings

Security Name	Sector	%
IMF Bentham	Financials	4.3
Tox Free Solutions	Industrials	3.6
McMillan Shakespeare	Industrials	3.6
HT&E (formerly APN)	Consumer Discretionary	3.5
Ingenia Communities Group	Property	3.2

Important Information

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