



# Sestante Australian Small Companies Fund

Monthly Investment Report as at 31 May 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.<sup>1</sup>

## Distribution Frequency

Semi-Annually

## Minimum Investment

\$20,000

## Fund Size

\$0.1m

## Exit Price

\$0.9013

## Number of Holdings

51

## Market Review

The vast majority of global equity markets posted gains during the month. The S&P/500 (up 1.4%) and the FTSE/100 (up 4.9%) climbed to new records highs. However, the Australian equity market underperformed its global peers (S&P/ASX300 -2.8%), weighed down by a big sell-off in domestic bank stocks which fell 9.8% over the month, as a lacklustre reporting season combined with the Federal Government's bank levy weighed. Small Caps outperformed large caps during the month (S&P/ASX Small Ords -2.1%). Positively, the NAB Survey of Business Conditions for April rose to the highest level since January 2008, and Employment for April also rose more than expected with the unemployment rate falling to 5.7%.

## Performance Review

The Fund outperformed a falling small cap market in May, posting a positive return. Performance was characterised by stock selection, with a number of companies providing trading updates. Fund performance was impacted positively by Regional Airline, Alliance Aviation Services (up 32%) post announcing that the ACCC had cleared the joint operation with Virgin Airlines in servicing the remote areas fly-in fly out market. Contractor, RCR Tomlinson (up 21%) rallied after announcing further contract wins in the solar space, while electronics provider, Codan (up 10%) upgraded its guidance on the back of continued strength in its metal detection business. Waste management company, Tox Free Solutions (up 7%) was stronger after an investor site tour showcasing its Worth and Daniels acquisitions which was well received by the market and Pacific Energy (up 7%) also rallied post a contract win for 11MW of new power generation. Not holding Sigma Pharmaceuticals (-38%), Mayne Pharmaceuticals (-19%) and Quintis (-75%) contributed to performance in a relative sense.

Fund performance was negatively impacted by Kitchen Appliances and Consumer Products company, Shriro Holdings (-18%), on the back of weak sentiment towards consumer discretionary. Media company, HT&E (-6%) was weaker after highlighting a slow start to radio earnings at the AGM. Osprey (-20%), RXP Services (-9%) and Infigen (-8%) were all lower on little or no news. Not holding Worley Parson (up 9%) and Fisher and Paykel Healthcare (up 10%) impacted performance in a relative sense.

## Performance

	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	0.29	0.00	0.29	-2.05	2.34
3 months	1.16	0.00	1.16	0.31	0.85
1 year	15.26	4.29	19.55	3.55	16.00
3 years (pa)	-5.25	11.09	5.84	6.04	-0.20
Since inception <sup>2</sup> (pa)	-1.58	7.05	5.47	3.70	1.77

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.

<sup>1</sup> 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.

<sup>2</sup> This figure represents the annualised performance of the Fund since inception.

## Contact Details

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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.

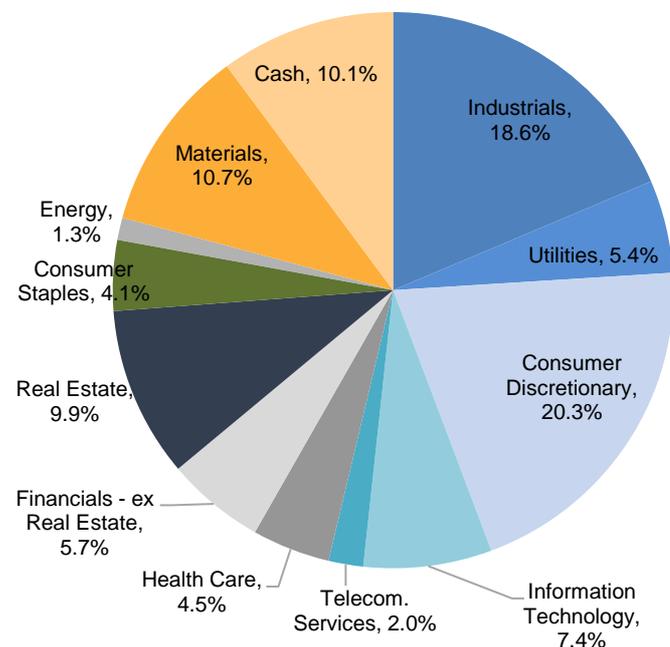
Finally, the investment manager expects bond yields to continue to rise over the medium term as global growth improves and as they see a normalisation of the ultra low interest rate policies being pursued by central banks. The Fund is positioned for the cyclical re-rating and away from lower return defensives.

## Key Contributors & Detractors over the month

Top 5 Contributors	Active Position	Top 5 Detractors	Active Position
RCR Tomlinson	Overweight	Shiro Holdings	Overweight
Sigma Healthcare	Not Held	Infigen	Overweight
Alliance Aviation Services	Overweight	RXP Services	Overweight
Tox Free Solutions	Overweight	HT&E Limited	Overweight
Mayne Pharma Group	Not Held	Osprey Medical	Overweight

## Portfolio Summary

### Sector Allocation



### Top 5 Holdings

Security Name	Sector	%
IMF Bentham	Financials	4.4
Tox Free Solutions	Industrials	3.8
Ingenia Communities Group	Property	3.7
McMillan Shakespeare	Industrials	3.6
HT&E	Consumer Discretionary	3.3

## Important Information

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