Sestante Diversified Fund

Monthly Investment Report as at 31 May 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

$5.8m

Exit Price

$1.0245

Number of Underlying Investments

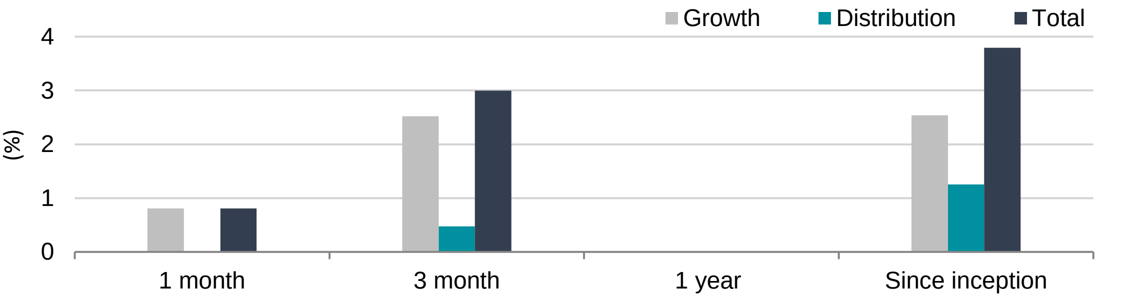
22

Market Review

Global equity markets as measured by the MSCI AC World TR rallied for the seventh consecutive month in May, up 2.81%. At the same time the VIX Index, a gauge of the market's expectations of future volatility for the S&P/500 index, dropped below 10 for the first time in more than 10 years. The last time that happened was in December 2006, one month later global equity markets closed in down for the seventh month in a row, a record which likewise had to wait until 2017 to be equaled. In short, the amount of "fear" in the market is at a low as prices continue to advance to a new all times high. The weakness of financials, banks in particular, was not enough to deter the positive performances of US, Europe and Japan. However, it weighed heavily on the S&P/ASX 300 TR, which was down 2.74%.

Australian banks moved lower in sync with global banks, but their underperformance was magnified by domestic factors such as macro prudential policies designed to constrain their lending activity. This had investors concerned about the earnings outlook for the sector. The Australian dollar was modestly down against the US dollar, unable to capitalise of the broad weakness of the US dollar against both developed and emerging currencies during the month. The Dollar Index ('DXY') softened another -2.15% in May and it is now trading below the level from which it started the year. However, on the same time horizon, the Australian dollar remains comfortably positive, that is, stronger than the US dollar. Interest rates moved lower across all maturities in Australia, while in Europe they were unchanged and in the US the curve flattened as only long duration bonds rallied. Domestic fixed income (up 1.17%) had a strong month generating almost double the return of global fixed income (up 0.64%). In that context, property (up 1.32%) moved higher almost reflexively, while on the other hand infrastructure (up4.55%) took off as it benefited from the outperformance of defensive sectors, utilities in particular. Finally, alternatives (up 0.30%) lagged as Commodity Trading Advisors (CTA) and managed futures strategies were dragged down by commodities.

Performance



	Growth Return (net) (%)	Income Return (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	0.81	0.00	**0.81**	**0.38**	**0.43**
3 months	2.52	0.48	**3.00**	**1.12**	**1.88**
1 year	n/a	n/a	**n/a**	**n/a**	**n/a**
Since inception[2]	2.54	1.26	**3.79**	**3.43**	**0.36**

[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 May, the Fund returned 0.81%, outperforming the benchmark return of 0.38% by 0.43%.

Australian equity was the only asset class out of the 8 invested in to end the month in negative territory. The Fund had an underweight position of (-3.93%), which proved to be the largest positive contributor for the month. Growth assets outperformed defensives in spite of the setback of the domestic equity market. This had a slightly negative impact as the Fund's overall positioning was overweight the latter (1.32%). Our underweight position in cash (-0.99%) and overweight position in international equities (1.01%) added to the performance while the largest detractors were our underweight position in infrastructure (-5.62%) and an overweight position in alternatives (7.63%). Overall, the tactical asset allocation underperformed the strategic asset allocation, hence the aggregate result of the active tilts was slightly negative. That outcome was more than compensated by the Fund's strong manager selection, particularly in growth assets, which led the Fund to outperform its benchmark.

In international equities good returns came from all active positions, regardless of their growth or value bias, due to an overweight position in Europe and in emerging markets. Interestingly enough, it was the third month in a row where the Fund's selection outperformed the main index in a strong, rising market environment. Investors continued to pour money into stocks but the rest of the world captured a larger share of flows than that of the US.

In Australian equities both the selection and the allocation effects were positive, with 3 managers out of 4 outperforming the index and one manager delivering a positive return in absolute terms. Regarding the look-through total portfolio, positive contributions came from the underweight position in the largest capitalisation segment of the index (ASX 20) and from good sector allocation, as materials and consumer discretionary were favoured by managers. Stock picking was paramount as the concentration on single, specific holdings drove our manager's line-up to a weighted average performance almost 100 bps above that of the index.

In Alternatives, robust alpha generation came from Australian Equity Market Neutral and Discretionary Macro, the Fund's least correlated positions. Successful pair trades in the diversified financial and metals and mining sectors drove the performance of the former, the latter capitalised on the intra-month volatility that affected foreign exchange markets to reduce its gold exposure and to establish long positions in selected South East Asian and Central European currencies in regard to a short of the US dollar and to invest in US duration.

Manager Allocation (%)

Australian Fixed Interest	**15.73**
Henderson Tactical Income Trust	5.07
CFS Australian Bond Fund	3.84
Omega Core Australian Bond Fund	3.80
Perpetual Credit Income Fund	3.02
Global Fixed Interest	**18.91**
Pimco Diversified Fixed Income Fund	7.90
Macquarie Income Opportunities Fund	6.89
Omega Global Corporate Bond Fund	4.12
Property	**2.72**
Vanguard International Property Securities Index	2.72
Alternatives	**16.86**
AZ Multi Asset Institutional Macro Dynamic Trading	7.75
Henderson Absolute Return Australian Equity Fund	4.88
Ironbark LHP Global Long/Short Fund	4.23

Australian Equities	**14.09**
Bennelong Ex-20 Australian Equities Fund	3.90
Fidelity Australian Equities Fund	3.44
BT Wholesale Core Australian Share Fund	3.42
Ironbark Karara Australian Share Fund	3.33
Global Equities	**18.29**
Vanguard International Shares Index Fund	8.32
Vanguard Emerging Markets Shares Index Fund	3.99
Capital Group New Perspective Fund	3.05
Ironbark Royal London Concentrated Glbl Share Fund	2.93
Infrastructure	**1.91**
MBA Global Listed Infrastructure Fund	1.91
Cash	**11.49**
BetaShares Australian High Interest Cash	10.25
Cash	1.24

Market Outlook

Since the beginning of the year the value of the US Dollar on foreign exchange markets has dropped by just over 5%. The currency rose sharply after Trump's election victory on expectations of higher economic growth and tighter monetary policy. Then the new president took office and in the first 100 days after the inauguration his policies ran into a stalemate. The market perception changed and that, coupled with a cooling of the US gross domestic product ('GDP') growth in the first quarter of 2017, caused the US yield curve to flatten and the US Dollar to fall to its pre-election levels. In essence, the market is anticipating a binary outcome, a rising US Dollar if Trump delivers on the economy, or a falling one if he does not.

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Market Outlook (cont'd)

The investment manager expects the market to start to discount the first scenario once again in the following months as US data recovers and Trump pursues his tax reform efforts with renewed vigour in anticipation of the 2018 midterm election. However, here is the dilemma for investors. The president wants to deliver on the economy although at the same time he wants (and needs, it could be argued) the US Dollar to be lower, and not higher. He made that clear in April, when he expressed concerns about the value of the greenback "getting too strong" and hurting US ability to compete internationally "at a time when other countries are devaluing their currency". In addition, a top priority for his administration is the rebalancing of "unfair" trade relationships that are harming growth in the US, which suggests that the days when Chinese goods could flood the US market without corresponding purchases of American goods by China may be numbered. Finally, US exports of oil to the rest of the world are surging steadily, stealing OPEC market share. All of these points require a lower US Dollar, and that is what the investment manager suspects will occur in the long term. However t not before the greenback makes a comeback in the next few months.

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