



Sestante Australian Small Companies Fund

Monthly Investment Report as at 30 June 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

\$0.8475

Number of Holdings

53

Market Review

Global equity markets initially rose during the month, with the Dow (up 1.6%), S&P/500 (up 0.5%) and NASDAQ (up 0.9%) all hitting new record highs. However, equities suffered a 'hiccup' at the end of the month in response to a bond market 'mini sell-off' which was in turn triggered by several central banks indicating the possibility of less stimulus measures. Australian equities were little changed during the month (S&P/ASX 200 -0.1%), performing approximately in line with global counterparts. Small Caps outperformed the broader market (S&P/ASX Small Ords up 2.0%). Domestic economic data was generally stronger than expected, with May employment rising by 42 thousand month-on-month and the unemployment rate falling to a lower than expected 5.5%, the lowest level since February 2013. The Australian dollar rose against most major currencies (up 3%) on rising commodity prices (Iron Ore up 14% and Coal up 10%).

Performance Review

The Fund underperformed a rising small cap market in June, posting a flat return. The month was characterised by stock selection with a number of companies continuing to provide trading updates, as was the case in May. Fund performance was impacted positively by retailer, Adairs (up 37%) after the company reaffirmed financial year 2017 guidance. Contractor, Seymour White (up 20%) rallied after agreeing to takeover terms with French company, Vinci. The deal was sweetened with the payout of excess franking credits. Media company, HT&E (up 13%) bounced back in June, after a weaker performance in May, after highlighting a slow start to radio earnings at the annual general meeting (AGM). NZ Media company, NZME (up 17%) was also stronger following a positive update at its AGM, while metal recycler, Sims Metal Management (up 14%) rallied strongly post an investor site tour of its North American operations and stronger results from North American competitors. Not holding Galaxy Resources (-27%) and WorleyParsons (-9%) contributed to performance in a relative sense.

Fund performance was negatively impacted by renewable energy generator, Infigen Energy (-17%) following an earnings downgrade due to poor wind conditions in the final quarter which impacted power generation. This is viewed as a one-off event and believe the company will be the beneficiary of elevated power prices as well as having upside from the development portfolio to which to which no value is ascribed. Salmon producer, Tassal Group (-15%) was weaker following a commercial dispute with major competitor Huon Aquaculture over farming practices in Macquarie Harbour. To date the Tasmanian EPA has approved Tassal's practices. Retirement village operator, Aveo Group (-12%) was weaker following a media report questioning its contracts as being oppressive towards its residents. In isolation, the company addressed every issue raised in the report, which gave us comfort that these were isolated events. However, post the announced investigation by the ACCC, as well as the Federal government, it was decided to exit the position post month end due to increasing risk around the business model as well as the potential to cap future returns in the industry. Litigation funder, IMF Bentham (-4%) was also weaker on little news, and BPS Technology (-12%) provided a market update that was slightly below guidance due to timing issues. Not holding Metcash (up 17%) and A2 Milk (up 18%) impacted performance in a relative sense.

Performance

	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	-5.97	5.92	-0.05	1.99	-2.04
3 months	-7.50	5.92	-1.58	-0.35	-1.23
1 year	10.04	10.47	20.51	7.01	13.50
3 years (pa)	-7.61	13.24	5.63	7.13	-1.50
Since inception ² (pa)	-2.87	8.24	5.37	4.07	1.30

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.

Contact Details

T: 1800 034 402 | E: client.services@ironbarkam.com | W: www.ironbarkam.com



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Sestante Australian Small Companies Fund

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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 is trading at a significant discount to the market from a valuation perspective. The investment manager sees around 30% upside, and they believe it 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.

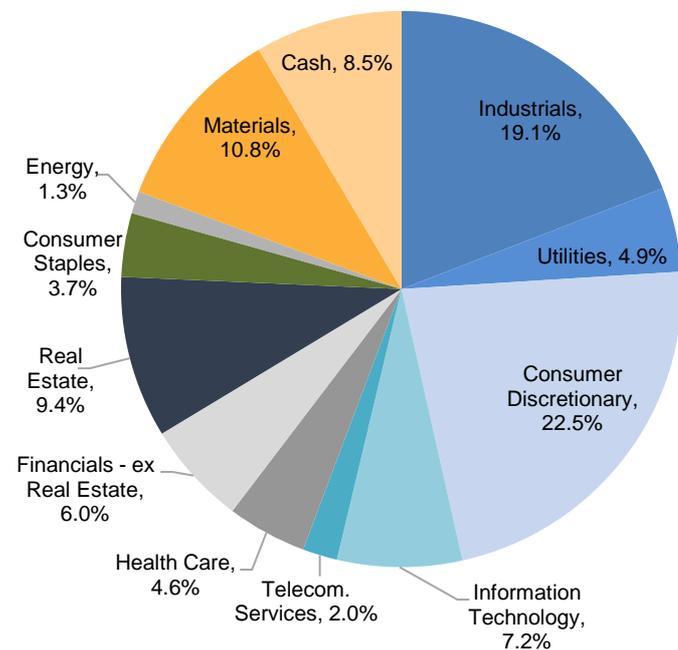
Finally, the investment manager expects bond yields to continue to rise over the medium term as global growth improves and as a normalisation of the ultra low interest rate policies being pursued by central banks is seen. The Fund is positioned for the cyclical re-rating and away from lower return defensives.

Key Contributors & Detractors over the month

Top 5 Contributors	Active Position	Top 5 Detractors	Active Position
Adairs	Overweight	Infigen Energy	Overweight
HT&E	Overweight	Tassal Group	Overweight
Seymour Whyte	Overweight	Aveo Group	Overweight
Sims Metal Management	Overweight	IMF Bentham	Overweight
Galaxy Resources	Not Held	The A2 Milk Company	Not Held

Portfolio Summary

Sector Allocation



Top 5 Holdings

Security Name	Sector	%
IMF Bentham	Financials	4.2
Tox Free Solutions	Industrials	3.9
HT&E	Consumer Discretionary	3.7
Ingenia Communities Group	Property	3.6
McMillan Shakespeare	Industrials	3.5

Important Information

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