



# Sestante Conservative Fund

## Monthly Investment Report as at 31 August 2017

### Asset Class

Diversified

### Investment Objective

To provide an investment return of CPI +1.5% p.a. over rolling 3 year periods after fees and costs and before taxes

### APIR Code

PAT5920AU

### ARSN

615 786 395

### Fund Inception Date

28 February 2017

### Benchmark

CPI +1.5%

### Buy/Sell Spread

+/-0.10%

### Management Costs

0.64% p.a.<sup>1</sup>

### Distribution Frequency

Quarterly

### Minimum Investment

\$20,000

### Fund Size

\$3.0m

### Exit Price

\$0.9999

### Number of Holdings

21

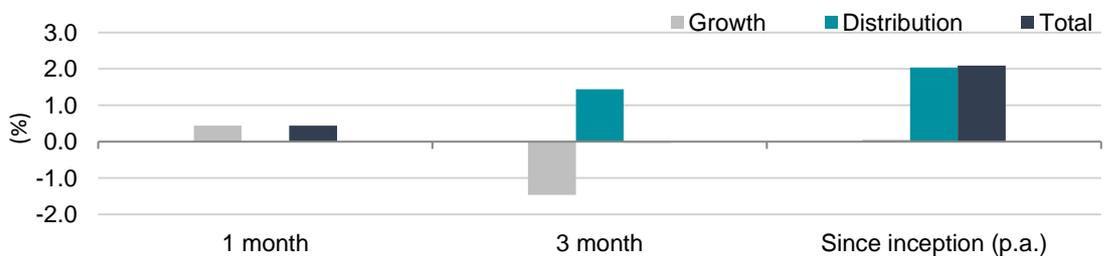
### Market Review

The S&P/500 fell close to 3% top-to-bottom between the 8<sup>th</sup> of August and the 21<sup>st</sup> of August. That setback prompted renowned investor Ray Dalio, founder of Bridgewater Associates, the largest hedge fund in the world, to warn that risks are rising and that financial assets could underperform in the coming quarters. He joined the ranks of the so called "Billionaire Bears", that is, a small and select group of some of the most vocal (and wealthy) portfolio managers in the world calling a market top. And sure enough, during the last week of the month the S&P/500 did recover all the losses accrued to that point, ending the month in positive territory (0.05% in US dollar 'USD' terms, 0.71% in Australian dollar 'AUD' terms). The stock markets of Europe and Japan were more attuned to the dire predictions in nominal terms, however managed to generate a positive return in AUD owing to the strength of their currencies, and were up 0.72% and 0.61% respectively.

Emerging markets were the stars once again, adding a solid 2.23% in USD terms and a 2.91% in AUD terms. All in all, the MSCI AC World TR was up 0.38% in USD terms and 1.05% in AUD terms, outperforming the S&P/ASX 300 TR (0.75%) and staying ahead of the latter since the beginning of the year (4.71% versus 3.85%). The performance of the domestic market benefitted from the strong, positive returns generated by resources, energy, industrials and consumer staples, while banks, utilities and telecommunications were notable laggards. The top 20 index closed in the red, while mid cap and small companies outperformed the general index, the latter ones quite strongly. Infrastructure (up 1.69%) was the best performing asset class for the second consecutive month, widening to more than 10% its lead over property (up 0.26%) since the beginning of 2017.

Interest rates were higher in Australia, especially at the front part of the curve (2 and 5 year), while they moved aggressively lower in the rest of the world. The trend globally was the same, that is, yield curves flattened everywhere. Although in Australia shorter maturities were rising more than longer ones, while in the rest of the world longer maturities were falling more than shorter ones. Basically, the market is now pricing a sudden deceleration of the US economy and a steady Australian economy, a complete reversal of the situation observed in the first quarter of 2017. Another turnaround was evident in alternatives (up 0.34%), which lagged behind other growth asset classes however saw commodity trading advisor funds topping the rankings for the first time in 2017.

### Performance



	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	0.44	0.00	0.44	0.20	0.24
3 months	-1.46	1.44	-0.02	0.66	-0.68
1 year	n/a	n/a	n/a	n/a	n/a
3 years (pa)	n/a	n/a	n/a	n/a	n/a
Since inception <sup>2</sup> (p.a.)	0.06	2.04	2.09	1.53	0.56

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 ICR as at 11 January 2017. Refer to PDS and website for a full breakdown of management costs.

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

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### Performance Review

In August, the Sestante Conservative Fund (the 'Fund') Returned 0.44% (net), outperforming the benchmark return of 0.20% (net) by 0.24%.

Over the month, seven asset classes out of the eight invested in were positive, with growth assets all positive and only Australian fixed income marginally down within defensive assets. As a result, the Fund's overweight position in growth assets contributed positively as risk assets were well supported in August. Positive contributions came from an overweight position in international and Australian equities (up 4.75% and 2.78% respectively) and an underweight position in Australian fixed income (-3.70%). The Fund's underweight position in real assets (-2.00%) and global fixed income (-7.11%) and an overweight position in cash (up 5.29%) detracted from performance. All in all, active tilts added value as the tactical asset allocation outperformed the strategic asset allocation. That outcome was reinforced by solid manager selection in growth assets, primarily in equities and alternatives.

The Fund's line-up of managers in the domestic stock market exhibited strong returns owing to an overweight position in mid-caps and resources. The Fund's international equity portfolio was driven higher by emerging markets, whose returns were three times those of developed countries. The investment manager maintains an allocation to the region which is almost double that of the reference index. The Fund's overweight position in Japan and Europe did not help as they marginally underperformed the US. In alternatives, the Fund's exposure to discretionary macro generated robust returns from three out of the four asset classes in which the strategy is active. Positive contributions came from being long US biotech and US listed private equity managers (equity), emerging market currencies against the US Dollar (FX) and US long term Treasury bonds. The Fund's selection in global fixed income could not keep pace with the index as, unlike the short term trading position in alternatives, the investment manager maintains a structural underweight stance to duration there. The same strategy is employed in Australian fixed income and proved beneficial in August, as the Fund's line-up of managers closed the month positive while the reference index was slightly negative.

### Manager Allocation (%)

<b>Australian Fixed Interest</b>	<b>22.01</b>	<b>Australian Equities</b>	<b>10.47</b>
CFS Australian Bond Fund	5.33	Bennelong Ex-20 Australian Equities Fund	3.23
Henderson Tactical Income Trust	11.05	BT Wholesale Core Australian Share Fund	1.84
Omega Core Australian Bond Fund	5.63	Fidelity Australian Equities Fund	3.21
<b>Global Fixed Interest</b>	<b>11.11</b>	Ironbark Karara Australian Share Fund	2.19
Macquarie Income Opportunities Fund	3.51	<b>Global Equities</b>	<b>11.14</b>
Omega Global Corporate Bond Fund	3.17	Capital Group New Perspective Fund	1.21
Pimco Diversified Fixed Income Fund	4.42	Ironbark Royal London Concentrated Glb Share Fund	1.50
<b>Property</b>	<b>1.38</b>	Vanguard Emerging Markets Shares Index Fund	2.14
Vanguard International Property Securities Index	1.38	Vanguard FTSE All-World ex-US ETF	3.32
<b>Alternatives</b>	<b>7.53</b>	Vanguard International Shares Index Fund	2.97
AZ Multi Asset Institutional Macro Dynamic Trading	7.53	<b>Cash</b>	<b>34.69</b>
<b>Infrastructure</b>	<b>1.67</b>	BetaShares Australian High Interest Cash ETF	20.51
MBA Global Listed Infrastructure Fund	1.67	CFS Wholesale Cash Fund	11.80
		Cash	2.38

### Market Outlook

As mentioned above, the "Billionaire Bears" certainly have a point. The current economic and market cycle is 8 years old (the second longest in history), yet interest rates have only modestly risen and still remain at rock-bottom lows. Equity markets do not appear to be particularly cheap, especially in the US, which has been the focal point for investors since the Global Financial Crisis and where valuations are objectively stretched in certain sectors. Market volatility has essentially disappeared around the world as income-starved investors sell it for a yield and switch aggressively their portfolio allocations from active to passive in order to reduce costs.

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## Market Outlook (cont'd)

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All of this is happening at a time when the central banks have signalled or have started the process of withdrawing stimulus from the system, increasingly alarming government bond markets. The US yield curve in particular has flattened for the most part of 2017 and it is flashing recessionary signals. The message is that the tightening administered by the Federal Reserve since December 2015 has already been enough to pull the US economy into recession in 2018 and that a strong sell-off in risk assets is coming soon as market movements always anticipate the real economy. In addition, the most challenging period of the year is on the horizon, in terms of stock market seasonality as September and October have historically been associated with weak average returns. The investment manager's view is unchanged, the world economy has entered the "late cycle" stage of a globally synchronised expansion in which robust gross domestic product growth and labour tightness lead to higher inflation as interest rates move higher, not lower. There may be bumps in the road, however risk assets will remain well supported until the next recession hits in the US, an event that the investment manager does not foresee happening in the next 12 months. That may actually need to wait until 2020 if the 1990-2000 cycle, the longest ever, is of any guidance. In that context, the USD will continue to weaken, increasing the purchasing power of emerging market consumers, supporting global demand and adding to inflationary pressures. Convergence between the rest of the world and the US has further to go. Emerging markets, Europe, commodities and financials will continue to surprise on the upside.

## Important Information

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