Sestante Growth Fund

Monthly Investment Report as at 30 September 2017

Asset Class

Diversified

Investment Objective

To provide an investment return of CPI +3.0% p.a. over rolling 7 year periods after fees and costs and before taxes

APIR Code

PAT3644AU

ARSN

615 785 870

Fund Inception Date

28 February 2017

Benchmark

CPI +3.0%

Buy/Sell Spread

+0.15%/-0.15%

Management Costs

0.99% p.a.[1]

Distribution Frequency

Quarterly

Minimum Investment

$20,000

Fund Size

$3.0m

Exit Price

$1.0192

Number of Underlying Investments

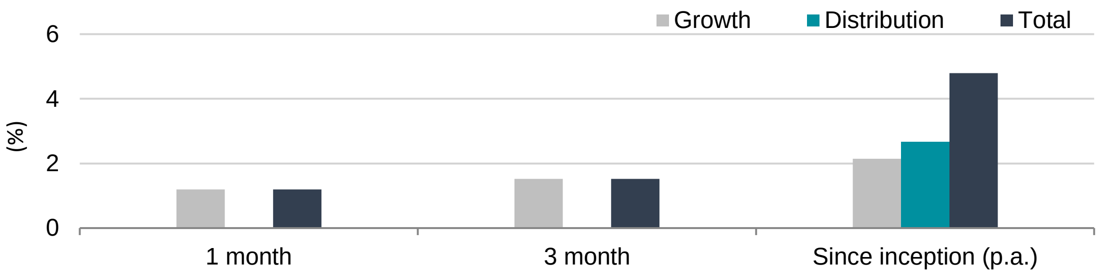
20

Market Review

The S&P/500 broke out decisively in the last week of September, reaching the 2,500 level mid-month and moved above it following the release by the Trump Administration of its much anticipated blueprint for tax reform on September 27th. Developed markets rallied strongly, with Europe the best performing region, while emerging markets paused. The MSCI AC World TR was up 1.93% in US dollar ('USD') terms and up 3.06% in Australian dollar ('AUD') terms, as the AUD was down 1.10% in comparison to the USD. The USD responded positively to the prospects of higher economic growth and the repatriation of USD kept offshore by Corporate America. The rally was broad-based, with the Dollar Index (DXY) rebounding in September from its lowest level since January 2015. Interest rates in the US reversed the downward trajectory initiated in early July and jumped higher. The 2, 5 and 10 year rates were up 16 basis points, 23 basis points and 22 basis points respectively as the tax cuts are expected to increase the issuance of government bonds. As a consequence, global fixed income (hedged back to AUD) was down 0.43%. In Australia, interest rates were higher as well, owing to solid economic growth.

In September, business conditions reached a near decade high, causing a modest sell-off (-0.31%) in domestic fixed income. Commodities were mixed with oil sharply higher, rising 9.40% and closing the month comfortably above the 50 level, while iron ore was down a whopping 21.37%. The latter was a drag on the performance of the S&P/ASX 300 TR (+0.04%), as resources closed in the negative, together with utilities and telecommunications. Financials were strong on the back of expectations for better banks' earnings, outperforming the general index alongside energy, healthcare and small companies. Real assets were down in USD terms given their "long duration" characteristics. The softening of the AUD boosted their returns however only property managed to close in the positive in AUD terms. Among alternatives (+0.65%), long/short equity and short volatility were the best performing strategies, while commodity trading advisor and macro strategies posted losses for the month.

Performance



	Growth Return (net) (%)	Income Return (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	1.19	0.00	1.19	0.32	0.87
3 months	1.52	0.00	1.52	0.96	0.56
1 Year	N/a	N/a	N/a	N/a	N/a
3 Years (p.a.)	N/a	N/a	N/a	N/a	N/a
Since inception[2] (p.a.)	2.14	2.66	4.80	2.62	2.18

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] For a full breakdown of management costs, refer to the PDS dated 30 September 2017.

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

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Performance Review

In September, the Sestante Growth Fund (the 'Fund') returned 1.19% (net), outperforming the benchmark return of 0.32% by 0.87%.

Over the month, five asset classes out of the eight the Fund invests in were positive, with cash and Australian equities modestly so. International equities was the main contributor to the positive return, where the Fund maintains an overweight position (+3.30%), together with the 9.57% overweight position in growth assets, which were comfortably positive. The performance for defensive assets was however slightly negative. Other positive contributions came from the Fund's overweight position in alternatives (+14.26%) and from the underweight position in Australian fixed income (-3.71%), cash (-4.99%), and Australian equities (-1.45%). Conversely, the Fund's overweight position in Infrastructure (+4.46%) detracted from performance. All in all, active tilts added value as the tactical asset allocation outperformed the strategic asset allocation.

Manager selection was particularly solid in the worst performing asset classes, halving losses in fixed income and adding 20 basis points of alpha in Australian equities. In fixed income the Fund continues to maintain an overweight exposure to credit and a short duration bias. In addition, the investment manager continues to favour the domestic market to source interest rate risk. As rates rose in the second half of September, the active managers added duration to the Fund, mostly by increasing the exposure to short and mid curve maturities, which appear to be broadly fair value after having reached the higher end of ranges that have prevailed over the past 12 months. The Fund's line-up of managers in international equities performed in line with the index, as emerging markets underperformed developed markets for the first time in 2017, lowering the Fund's final return. Stock picking funds investing outside of the indices' big names and momentum stocks had a strong month, potentially signalling the early stages of an "active versus passive" regime change. Finally, in alternatives, the Fund continued to profit from the exposure to discretionary macro, which posted gains for the ninth consecutive month.

Manager Allocation (%)

Australian Fixed Interest	**4.85**
CFS Australian Bond Fund	1.23
Henderson Tactical Income Trust	2.75
Omega Core Australian Bond Fund	0.87
Global Fixed Interest	**4.95**
Macquarie Income Opportunities Fund	1.08
Omega Global Corporate Bond Fund	0.84
Pimco Diversified Fixed Income Fund	3.03
Property	**2.51**
Vanguard International Property Securities Index	2.51
Alternatives	**12.32**
Sestante Global Macro Fund	12.32
Infrastructure	**10.01**
MBA Global Listed Infrastructure Fund	10.01

Australian Equities	**29.59**
Bennelong Ex-20 Australian Equities Fund	8.64
BT Wholesale Core Australian Share Fund	6.78
Fidelity Australian Equities Fund	7.94
Ironbark Karara Australian Share Fund	6.23
Global Equities	**33.27**
Capital Group New Perspective Fund	5.05
Ironbark Royal London Concentrated Glbl Share Fund	6.76
Vanguard Emerging Markets Shares Index Fund	6.48
Vanguard FTSE All-World ex-US ETF	12.16
Vanguard International Shares Index Fund	2.82
Cash	**2.50**
BetaShares Australian High Interest Cash ETF	0.10
Cash	2.40

Market Outlook

In September, the Australian equity market underperformed its international peers. This underperformance was compounded by the weakening of the AUD. As a consequence, the return of the MSCI AC World TR in AUD is now double that of the S&P/ASX 300 TR since the beginning of the year, at 7.88% versus 3.89% respectively. The bulk of that 4% differential was added in the last month. Interestingly enough, returns at the end of September were almost identical to those at the end of May. Equity markets have not moved in AUD terms since then, however with an important caveat, the S&P/ASX 300 TR has been flat, while international equities have moved higher in USD terms. Although the USD has weakened in comparison to the AUD, lowering the final return for Australian unhedged investors. In other words, the Australian equity market has been sluggish, however this has not been the case for international stock markets as they have continued to rip higher. A possible explanation for that tendency is to be found in the foreign exchange markets.

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Market Outlook (cont'd)

International investors were very bullish on the USD at the beginning of the year however are now sitting on nearly double digit losses that they cannot possibly recoup in the US bond market. Hence, it is conceivable that a rotation into US equity has been underway for some time, pushing international equities higher. If that is the case, renewed expectations of a higher USD could now put a lid on the future appreciation of the S&P/500. Alternatively, the USD should soon resume its downward trend supporting further gains for the index. One thing is clear at this stage, international equities, whether hedged or unhedged, have been in breakout mode for the past quarter, while Australian equities have remained range bound. The investment manager expects that trend to persist going forward, at least with regard to the S&P/ASX 300 TR. With that in mind, "Value" opportunities exist outside of the general index, particularly in the small cap segment, where valuations remain supportive, particularly in the cyclical sectors. The investment manager will look to add to the Fund's exposure in that segment of the market in the fourth quarter of 2017.

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