



# Sestante Conservative Fund

Monthly Investment Report as at 31 October 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

0.76% p.a.<sup>1</sup>

## Distribution Frequency

Quarterly

## Minimum Investment

\$20,000

## Fund Size

\$3.0m

## Exit Price

\$1.0143

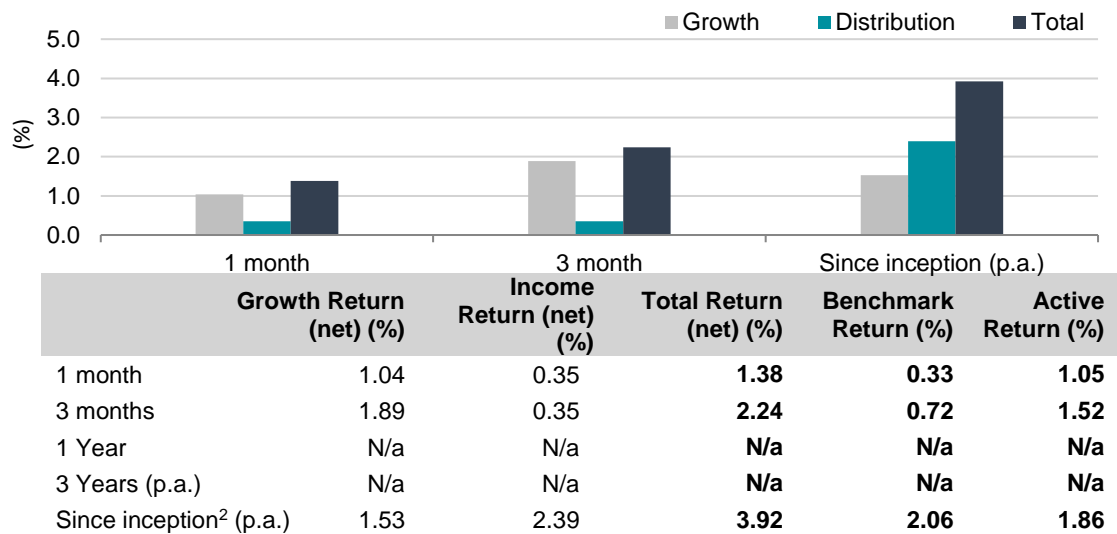
## Number of Holdings

21

## Market Review

The S&P/ASX 300 TR was up 4.02% in October, generating in the span of a month a return equal to that of the previous nine months combined. All major sectors closed in positive territory, with energy the best performing sector on the back of the strength in oil prices (up 5.24%). Other outperformers included the mid and small cap segment, consumer staples, health care and utilities. Mining stocks managed to equal the index return despite a -5.69% drop in the price of iron ore. The performance of the Australian market was remarkable given its lack of exposure to technology, which led international equities higher in October. The two regions with the highest exposure to technology, the US and Asia Pacific, led the MSCI AC World TR rally. Within Asia Pacific, Japan was the best performing market on the back of the success of the snap election called by the Prime Minister Abe, whose ruling coalition won a two-thirds 'super-majority'. At the same time, Asia ex-Japan fuelled the returns of emerging markets, which resumed their outperformance trend over developed markets after the September pause. All in all, international equities were up 2.08% in US dollar ('USD') terms and 4.46% in Australian dollar ('AUD') terms as the AUD softened -2.28% against the USD. On the one hand, the Dollar Index ('DXY') continued its broad based rebound, up 1.59% for the month. On the other hand, the AUD was particularly weak owing to poor consumer spending data and a lower inflation reading. The sluggish economic backdrop boosted domestic fixed income (up 1.09%), with the 2, 5 and 10 year rates down 13 basis points, 18 basis points and 17 basis points respectively. Global fixed income (hedged back to AUD) was up 0.47% as Eurozone yields fell after the European Central Bank announced that they would extend its asset purchase program until at least September 2018, although at a reduced pace, and postponed its first rate increase well into 2019. Real assets had a mixed reaction to lower yields, with property (up 1.84% in AUD terms) only modestly up when stripping out the currency effect, while returns for infrastructure (up 3.28%) were more robust. Returns for alternatives (up 0.75%) were positive across the board, with trend following strategies and commodity trading advisor fund/ macro the best performing strategies, followed by long/short equity.

## Performance



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

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

## Contact Details

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## Performance Review

In October, the Sestante Conservative Fund (the 'Fund') Returned 1.38% (net), outperforming the benchmark return of 0.33% by 1.05%.

All asset classes the Fund invested in were positive, with equities particularly strong as they contributed nearly 70% of the final performance with an allocation of 22.66%. That helped the performance of the overall Fund, which maintains a significant overweight position in equities (7.47%), split between the international market (2.43%) and the domestic market (5.05%). International markets was the best performing asset class for the month, while the latter was a close second. Fund returns were boosted by an overweight position in growth assets, whose weighted average performance was five times that of defensive assets. Other positive contributions came from our underweight in Australian and global fixed income. Conversely, our overweight in cash and underweight in infrastructure 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 best performing asset classes, compounding the strong gains registered in equities. In addition, alpha was generated in global fixed income and alternatives. In domestic fixed income, the investment manager was able to participate in part of the bond market's rally as a result of active duration management. The exposure to interest rate risk was reduced towards the end of the month.

The Fund's line-up of managers in Australian equities produced nearly 100 basis points of extra return over the index. These gains were primarily driven by an overweight position in the energy sector and by positive stock selection in consumer staples, consumer discretionary, health care and materials. All managers outperformed the S&P/ASX 300 TR. In international equities, alpha generation came from the Fund's allocation to growth and emerging markets. The Fund's active funds managed to perform in line with the index, while overweights in Europe (negative) and in Japan (positive) cancelled each other out.

Finally, in alternatives the Fund's discretionary macro manager increased exposure to equities via an upside option strategy on US equities and a basket of Chinese stocks related to Electric Vehicles (EV) technology.

## Manager Allocation (%)

|  |              |   |              |
|--|--------------|---|--------------|
| <b>Australian Fixed Interest</b>                 | <b>21.72</b> | <b>Australian Equities</b>                        | <b>10.84</b> |
| CFS Australian Bond Fund                         | 5.25         | Bennelong Ex-20 Australian Equities Fund          | 3.40         |
| Henderson Tactical Income Trust                  | 10.92        | BT Wholesale Core Australian Share Fund           | 1.89         |
| Omega Core Australian Bond Fund                  | 5.55         | Fidelity Australian Equities Fund                 | 3.29         |
| <b>Global Fixed Interest</b>                     | <b>10.94</b> | Ironbark Karara Australian Share Fund             | 2.26         |
| Macquarie Income Opportunities Fund              | 3.48         | <b>Global Equities</b>                            | <b>11.82</b> |
| Omega Global Corporate Bond Fund                 | 3.10         | Capital Group New Perspective Fund                | 1.29         |
| Pimco Diversified Fixed Income Fund              | 4.36         | Ironbark Royal London Concentrated Glb Share Fund | 1.64         |
| <b>Property</b>                                  | <b>1.40</b>  | Vanguard Emerging Markets Shares Index Fund       | 2.24         |
| Vanguard International Property Securities Index | 1.40         | Vanguard International Shares Index Fund          | 3.16         |
| <b>Alternatives</b>                              | <b>7.52</b>  | Vanguard FTSE All-World ex-US ETF                 | 3.49         |
| Sestante Global Macro Fund                       | 7.52         | <b>Cash</b>                                       | <b>34.12</b> |
| <b>Infrastructure</b>                            | <b>1.64</b>  | BetaShares Australian High Interest Cash ETF      | 20.23        |
| MBA Global Listed Infrastructure Fund            | 1.64         | CFS Wholesale Cash Fund                           | 11.65        |
|  |              | Cash  | 2.24         |

## Market Outlook

Amazon, the American e-commerce giant, reported its third quarter results on 27 October. Numbers far exceeded estimates, sending the stock 13.22% higher for the day. It was a remarkable achievement for a mega-cap that is capitalised at 500 Billion USD, regularly trades at a triple-digit price-earnings ratio, and that before the announcement was already up 30% since the beginning of the year. It may be read as a sign of incipient euphoria, as the technology sector in the US has accounted for nearly half of the S&P/500 returns in the first 10 months of the year. Its weight in the index has increased to 24%, the highest for any sector dating back to 1989, if the 34% that technology reached in March 2000 at the peak of the TMT bubble is excluded.

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## Market Outlook (cont'd)

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The situation in emerging markets is similar. A narrow number of Chinese internet names, iPhone suppliers and semiconductor producers are driving the rally of the Asia ex Japan region, which accounts for 60% of the index. The Fund has been underweight to the US and overweight to the emerging markets for the past 12 months, increasing the relative positioning in February and July. That has proved beneficial for the Fund, since the latter has outperformed the former. In hindsight, the investment manager may say that they have been underweight in US technology and overweight in Asian technology all along given the extent of the sector's outperformance. It is something the investment manager did not anticipate, though part of the investment manager's investment thesis in the emerging market was the catch-up of Asian internet names with their US peers. Which brings us back to today. Market complacency is evident and certain valuation metrics are entering bubble territory but the investment manager suspects that the bull market is nowhere near its end. Simply put, the investment manager does not see anything major getting in its way for the next 6-12 months, hence the investment manager expects it is going to boom. In the investment manager's opinion, this time next year one may look back to today as the point at which central banks really let the genie out of the bottle. The Fund remain overweight equities.

## Important Information

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