Sestante Conservative Fund

Monthly Investment Report as at 31 December 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.[1]

Distribution Frequency

Quarterly

Minimum Investment

$20,000

Fund Size

$3.1m

Exit Price

$1.0226

Number of Holdings

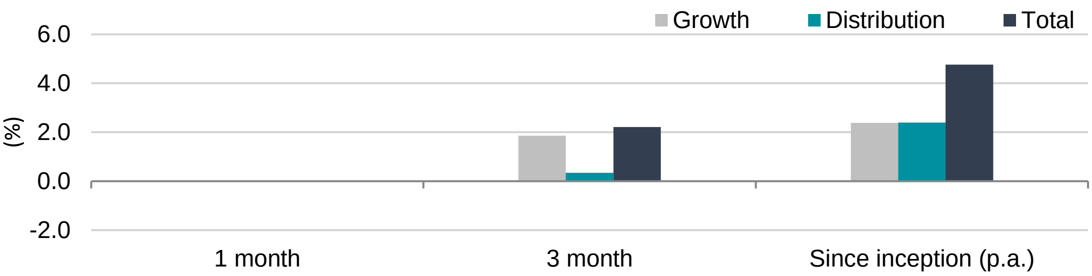
22

Market Review

December was another positive month for equity markets. The S&P 500 TR was up 1.11% in US dollar (‘USD’) terms (-2.11% in Australian dollar (‘AUD’) terms), closing on a strong note and a record calendar year in which, for the first time ever, it ended every single month with a gain.

The S&P/ASX 300 TR rallied 1.86% while the MSCI AC World Daily TR added another 1.61% in USD terms, yet fell -1.62% in AUD terms. Resources, energy and small caps boosted their gains for the fourth quarter to the mid-teens, continuing to drive the domestic stock market higher. Conversely, financials, industrials and utilities underperformed the index. In the international space, emerging markets were the best performers and the only region to post a positive return in both US and Australia dollar terms. Europe outperformed US and Japan due to the greater resilience of its currency however, it closed down in AUD terms. The Australian dollar abruptly reversed its 4 months decline against the US dollar in the middle of December, and moved up to $0.78 from a low of $0.75 in a matter of three weeks (up 3.29% for the month). The strength of the local currency was largely driven by the rise of domestic interest rates, particularly at the front part of the curve, with the 2, 5 and 10 years up 23, 21 and 13 basis points respectively, to 1.97%, 2.29% and 2.63%. The spread between the Australian 10 years and the US 10 years widened to 22 basis points, resulting in negative with Australian fixed income negative -0.52% and Global fixed income (hedged back to AUD), positive 0.24%. Real assets infrastructure was harshly impacted by the rate movement while property managed to limit its losses. The two were down -3.87% and -1.69% respectively, with the latter reducing its relative annual underperformance against the former by another 2%, after the 1% already recovered in November. Finally, alternatives were up 0.73%, propelled higher by equity-related strategies such as long/short equities and event driven. Global macro posted modest gains, while distressed debt closed down for the second month in a row.

Performance



	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	-0.03	0.00	**-0.03**	**0.33**	**-0.36**
3 months	1.87	0.35	**2.21**	**1.01**	**1.20**
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.)	2.38	2.39	**4.77**	**2.75**	**2.02**

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.

Contact Details

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Performance Review

In December, the Sestante Conservative Fund (the 'Fund') returned -0.03% (net), underperforming the benchmark's return of 0.33% by 0.36%.

In December, four asset classes out of the eight the Fund invests in were positive, with Australian equities and alternatives topping the list. The Fund's overweight in the former (4.75%) helped the performance of the fund. Other positive contributions came from an underweight position in Australian fixed income (-3.70%) and in real assets (-2%) and the Fund's overweight in cash (+5.29%). Conversely, an overweight position in international equities (2.78%) and the Fund's underweight position in global fixed income (-7.11%) detracted from performance. Growth assets outperformed defensive assets for the fifth consecutive month. All in all, the tactical asset allocation outperformed the strategic asset allocation as active tilts across and within asset classes added value.

The Fund's overweight position in growth assets was a positive contributor in December and, in line with the investment manager's constructive view on risk assets, the overweight was almost doubled from 5.53% to 9.60% (up 4.07%) going into the third week of the month. The allocation in Australian equities was increased from 10.55% to 14.62% (up 4.07%) with the introduction of the iShares Australian Equity Index Fund, a passive fund tracking the performance of the S&P/ASX 300 TR. That purchase brought the Fund's overweight in the domestic market to 8.82% and it was financed by drawing down the overweight in cash from 5.29% to 1.22%.

Manager selection generated a positive contribution and it was particularly strong in Australian and international equities, where the Fund's line-ups generated 40 and 55 basis points of outperformance against their respective benchmarks.

In Australian equities, returns for the Fund's active managers were boosted by idiosyncratic positions, a general overweight in cyclicals and mid and small companies, and a general underweight in interest rates sensitive sectors. In international equities, active managers had a challenging month, primarily due to the weak returns generated by the health care sector. However, the negative contribution coming from the active portfolio was more than compensated for by the positive contribution coming from the Fund's passive positions in emerging markets and All-World ex-US.

The Fund enters 2018 with a 34.71% exposure to growth assets, of which 26.78% is in equities split between the international market (10.16%) and the domestic market (14.62%).

Manager Allocation (%)

Australian Fixed Interest	**21.08**
CFS Australian Bond Fund	4.97
Henderson Tactical Income Trust	10.16
Omega Core Australian Bond Fund	5.95
Global Fixed Interest	**10.90**
Macquarie Income Opportunities Fund	3.47
Omega Global Corporate Bond Fund	3.09
Pimco Diversified Fixed Income Fund	4.34
Property	**0.98**
Vanguard International Property Securities Index	0.98
Alternatives	**7.97**
Sestante Global Macro Fund	7.97
Infrastructure	**0.98**
MBA Global Listed Infrastructure Fund	0.98

Australian Equities	**14.83**
Bennelong Ex-20 Australian Equities Fund	3.09
BT Wholesale Core Australian Share Fund	2.23
Fidelity Australian Equities Fund	2.89
Ironbark Karara Australian Share Fund	2.53
iShares Australian Equity Index Fund	4.09
Global Equities	**11.98**
Capital Group New Perspective Fund	1.29
Ironbark Royal London Concentrated Glb Share Fund	1.66
Vanguard Emerging Markets Shares Index Fund	2.27
Vanguard International Shares Index Fund	1.99
Vanguard FTSE All-World ex-US ETF	4.77
Cash	**31.28**
BetaShares Australian High Interest Cash ETF	17.27
CFS Wholesale Cash Fund	12.01
Cash	2.00

Market Outlook

In the final quarter of 2017, credit markets have started to exhibit some cracks. In particular, in their riskiest segments such as high yield and distressed debt. Using the US market as a reference, the investment manager observed that spreads have considerably tightened over the course of year, while the interest rate curve has flattened. The net result for corporates has been an easing of financial conditions despite the three rate hikes administered by the Federal Reserve in 2017. That trend may well change in 2018 as central banks around the world continue to slowly drain liquidity, the long part of the curve may sell off, steepening the curve. It then looks perfectly logical for investors to take some profits off the table at this point in the cycle.

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Market Outlook (cont'd)

That said, default rates remain historically low and there is no reason to suggest that they will move significantly higher from here with the global economy firing on all cylinders. In short, an overweight in credit continues to appear justified, with the caveat that a stage has been reached where a reduction of exposure in the most illiquid and low quality names is advisable. The investment manager does not expect any potential fixed income jitter to adversely affect equities, if anything, they believe that it may reinforce the rotation from defensive assets to growth assets, already underway. In the investment manager's opinion, equities is still the most attractive asset class in terms of risk/reward. The investment manager favours emerging markets, where they believe that positive returns from both the markets and the currencies are achievable in 2018, followed by Europe and Japan. For the former, the investment manager is positive on the currency in 2018 and on the market in 2019 and for the latter they are positive on the market in 2018 and on the currency in 2019. The investment manager suspects that the US may underperform the rest of the world as the Dollar Index ('DXY') continues to soften. In fact, as foreign participation in US assets is at an all-time high. The investment manager believes it appears the Federal Reserve will continue to hike rates to manage a downward trend in the US dollar rather than to attract capital. US equity markets will continue to be supported, however in the end the balance between market and currency returns may not be as favourable as it was in 2017.

Important Information

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