Sestante Conservative Fund

Monthly Investment Report as at 31 January 2018

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

$3.0m

Exit Price

$1.0163

Number of Holdings

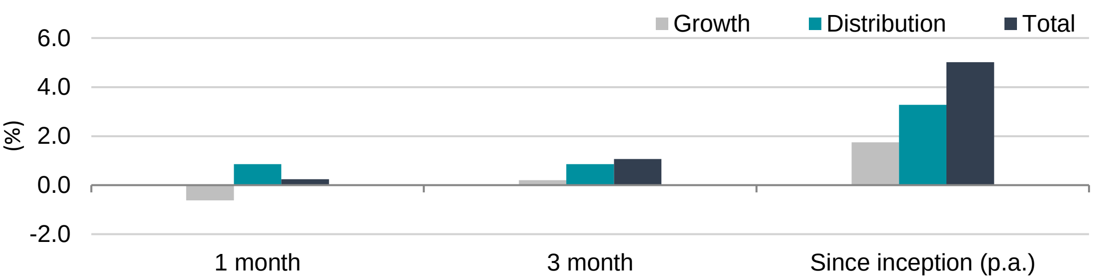
22

Market Review

This year started with a bang as stock markets around the world extended their relentless rally with fresh records. US equities were highlighted once again as the first year of the Trump presidency ended with the Dow Jones industrial up 31%, the index's best performance in an inaugural year since Franklin Roosevelt. With only a few trading sessions left, both the Dow Jones Industrial and the S&P/500 were off to their best start of the year since 1987. They then topped out on the 26th of January and started a precipitous decline, closing up more than 5% (in US dollar 'USD' terms) nonetheless. The strength of the US market was partly counterbalanced by the weakness of the US currency, which got absolutely trashed during the month against all majors, including the Australian dollar ('AUD'). The Australian dollar appreciated 3.08% against the US dollar, closing above the $0.80 level on a monthly basis for the first time since December 2014, while it was slightly weaker against European and emerging currencies.

All in all, the MSCI AC World Daily TR was up (5.64% in USD terms) and 2.46% (in AUD terms). Conversely, the S&P/ASX 300 TR (-0.39%) did not participate in the rally as it was held down by the negative performance of financials and industrials, with banks, REITs and utilities particularly weak. Mid and small caps closed in the negative too, while health care was the best performing sector on the back of selected stock specific news while resources continued to re-rate. Global fixed income (hedged back to AUD) was down 0.69% as interest rates were sharply higher, with the back end joining the ongoing sell off in the front end. Australian fixed income (-0.27%) recorded its second consecutive monthly loss as the 2, 5 and 10 years moved 6 basis points, 12 basis points and 18 basis points higher at 2.03%, 2.41% and 2.81%, respectively. Infrastructure and property (-2.32% and -3.42% in AUD terms) were both down, with their loss compounded by the negative FX impact. Finally, alternatives were up 2.26%, as trend following and equity-related strategies capitalized on the stock market strength, while short volatility hedge funds posted steep losses as the VIX index moved higher in the last week of January.

Performance



	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	-0.62	0.85	**0.24**	**0.33**	**-0.09**
3 months	0.20	0.85	**1.06**	**1.01**	**0.05**
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.)	1.75	3.27	**5.02**	**3.09**	**1.93**

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.

[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 January, the Sestante Conservative Fund (the 'Fund') returned 0.24% (net), underperforming the benchmark's return of 0.33% by 0.09%.

During the month, only three asset classes out of the eight the Fund invests in were positive, with international equities and alternatives topping the list. The Fund's overweight in the former (+3.05%) helped the performance of the Fund. Cash was the only other asset class to close positive. Other positive contributions came from underweight positions in fixed income (-8.77%) and real assets (-2.10%). Conversely, the Fund's overweight position in Australian equities (+9.14%) detracted from performance. The Fund's overweight in growth assets (+10.06%) was a positive contributor in January. Growth assets outperformed defensive assets for the sixth consecutive month as returns for fixed income (negative) and equities (positive) diverged. In general, the tactical asset allocation outperformed the strategic asset allocation as active tilts across and within asset classes added value.

Manager selection generated a positive contribution in both the equity and the fixed income space. In international equities, the Fund's overweight position in emerging markets proved decisive in a month in which Europe and Japan lagged the US. In global fixed income, the Fund's lower sensitivity to interest rate risk and preference for the Australian yield curve allowed for a reduction in losses to only a quarter of that suffered by the index. Finally, the Fund's line-up of managers bucked the trend in Australian equities and Australian fixed income as both domestic assets closed down. Following the strong start to the year for growth assets and the sell-off in defensive assets, the investment manager has observed that the Fund's fixed income managers have become more comfortable with government bond valuations and are in favour of tactically adding duration, especially so if the movement extends a bit further. Conversely, the Fund's alternative manager has started to increase the portfolio's hedges with the addition of an outright long position in volatility, while maintaining a constructive positioning on risk assets, in particular emerging currencies and commodities.

Manager Allocation (%)

Australian Fixed Interest	**21.11**
CFS Australian Bond Fund	4.97
Henderson Tactical Income Trust	10.20
Omega Core Australian Bond Fund	5.94
Global Fixed Interest	**10.92**
Macquarie Income Opportunities Fund	3.49
Omega Global Corporate Bond Fund	3.09
Pimco Diversified Fixed Income Fund	4.34
Property	**0.94**
Vanguard International Property Securities Index	0.94
Alternatives	**8.07**
Sestante Global Macro Fund	8.07
Infrastructure	**0.96**
MBA Global Listed Infrastructure Fund	0.96

Australian Equities	**14.94**
Bennelong Ex-20 Australian Equities Fund	3.16
BT Wholesale Core Australian Share Fund	2.25
Fidelity Australian Equities Fund	2.91
Ironbark Karara Australian Share Fund	2.53
iShares Australian Equity Index Fund	4.09
Global Equities	**12.43**
Capital Group New Perspective Fund	1.35
Ironbark Royal London Concentrated Glb Share Fund	1.70
Vanguard Emerging Markets Shares Index Fund	2.41
Vanguard International Shares Index Fund	2.03
Vanguard FTSE All-World ex-US ETF	4.94
Cash	**30.63**
BetaShares Australian High Interest Cash ETF	12.05
CFS Wholesale Cash Fund	17.32
Cash	1.26

Market Outlook

During February the S&P 500 dropped a record 10.2% in the space of just 9 days. So far, the bottom recorded on the 8th of February has held. If confirmed as the low, that would make this correction the fastest peak-to-trough movement in the history of the US stock market. Not even the crash of the 1987 come close as the market started its decline in August of that year, that is, a full two months ahead of the infamous Black Monday. The investment manager will see how things play out from here, but in any case, it is clear that the current environment is extraordinary, both on the way up and on the way down.

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Market Outlook (cont'd)

In the investment manager's opinion the volatility in global equities will not have a material impact on global growth/companies' earnings, as both remain strong. That said, the investment manager does not anticipate a V-shape recovery either, as in technical terms, the damage inflicted on the market is significant and it will take weeks, if not months, to repair. Big Tech, the leadership of the previous rally, has not materially broken down, while cyclicals has not yet taken charge. The investment manager expects the latter to do it eventually as the new reality of progressively higher rates/inflation sets-in, however it is probably a story for the second part of 2018. In the meantime, the investment manager believes that the repricing in risk assets forced by the rising borrowing costs for companies and investors may already have run its course in equities, the most liquid asset class. The investment manager believes that the present correction will prove to be transitory, hence the Fund remains constructive on growth assets. Conversely, defensive assets, credit in particular, may suffer a slow-motion adjustment as fixed income portfolios are reevaluated. The investment manager expects spreads to widen,, as on the demand side, investors demand a higher compensation for holding this paper, while on the offer side, companies rush to increase issuance in order to lock-in current rates. The investment manager anticipates minimal changes to the Fund's positioning as current tilts are already reflective of this new reality.

Important Information

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