Sestante Global Macro Fund

Monthly Investment Report as at 31 December 2017

Asset Class

Alternatives

Investment Objective

To outperform the RBA Cash Rate +2% p.a. before fees with volatility of less than 4% and low correlation to traditional financial markets over rolling 1 year periods.

APIR Code

PAT5878AU

ARSN

619 981 752

Fund Inception Date

6 September 2017

Benchmark

Unaware

Buy/Sell Spread

Nil

Management Costs

1.89% p.a.[1]

Distribution Frequency

Annually

Minimum Investment

$20,000

Fund Size

$2.1m

Exit Price

$1.0134

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 Review

The Sestante Global Macro Fund (the 'Fund') returned 0.14% (net) for the month.

December was very quiet in terms of activity. The Fund has increased its gross position via options and volatility and kept total risk exposure unchanged. As volatility in the global equity market was quite low versus the usual year end, the investment manager has decided to increase the Fund's gross exposure through options. The Fund closed the call options on the S&P 500 and increased call options on the German Dax and Eurostoxx index. The Fund has also bought VIX Futures (on the S&P) for January and February expiration. The Fund's risk exposure stays around 27%. The investment manager has increased the position on a basket of stocks related to alternative currencies (exposure via companies related to exchanges, payments, etc.). The Fund has kept its emerging market currencies exposure versus the US dollar especially focusing on Colombian peso ('COP'), India rupee ('IDR'), Australia dollar, Philippine pesos, and Malaysian ringgit versus the US dollar. The Fund is starting to take a position on long emerging market currencies (COP, IDR and Brazilian real 'BRL' vs the Euro. The investment manager is quite positive on risk for 2018 and will take any sell off as an opportunity to increase the overall risk on the fund.

Performance

	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)
1 month	0.14	0.00	0.14
3 months	1.06	0.00	1.06
1 year	n/a	n/a	n/a
3 years (p.a.)	n/a	n/a	n/a
Since inception[2] (p.a.)	1.34	0.00	1.34

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] Estimated management cost as at 30 June 2017. Refer to PDS for full breakdown of management costs.
A Performance Fee of 10% may be payable. Refer to PDS for further details.

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

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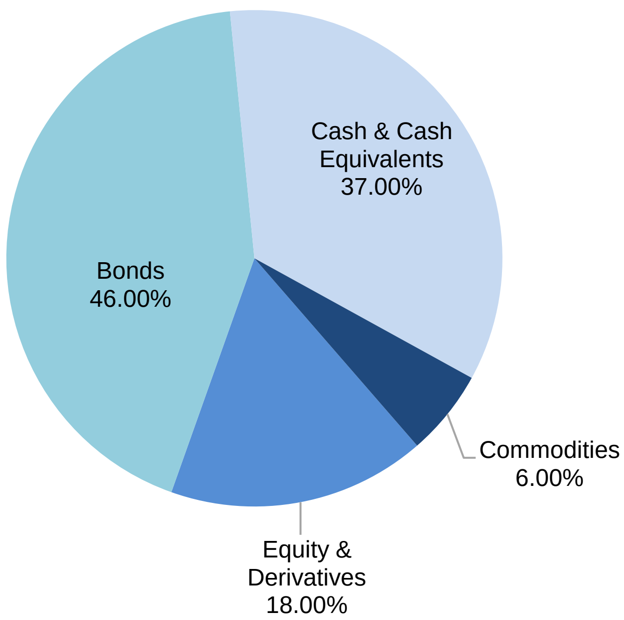
Outlook

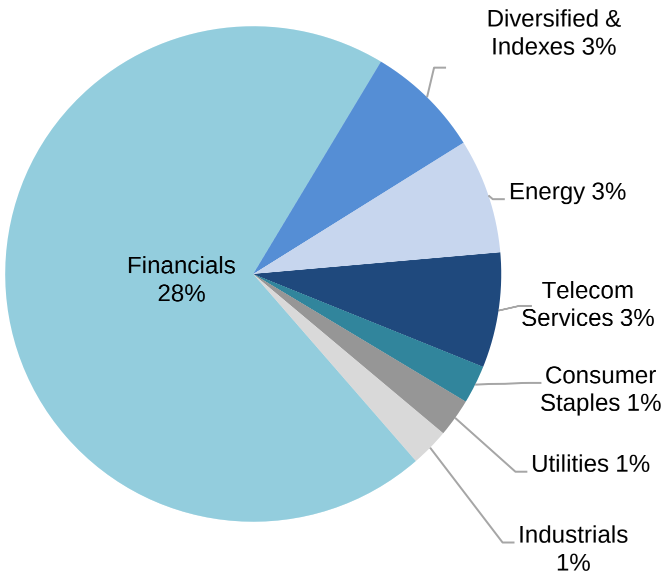
In the final quarter of 2017 credit markets have started to exhibit some cracks, in particular in their riskiest segments such as high yield and distressed debt. Using the US market as a reference, spreads have considerably tightened over the course of year, while the interest rate curve has flattened. The net result for corporates has been an easing of financial conditions despite the three rate hikes administered by the Federal Reserve ('FED') 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 appears perfectly logical for investors to take some profits off the table at this point in the cycle. 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 the stage where a reduction of exposure in the most illiquid and low quality names has been reached. The investment manager does not expect any potential fixed income jitter to adversely affect equities, if anything, we think 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 Fund is positive on the currency in 2018 and on the market in 2019 and for the latter, positive on the market in 2018 and on the currency in 2019. The investment manager suspects that 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, it looks to us that the FED 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, but in the end the balance between market and currency returns may not be as favorable as it was in 2017.

Underlying Fund Portfolio Summary

Asset Exposure



Bond Exposure- Sector Allocation



Important Information

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