Sestante Conservative Fund

Monthly Investment Report as at 28 February 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

$3.1m

Exit Price

$1.0180

Number of Holdings

22

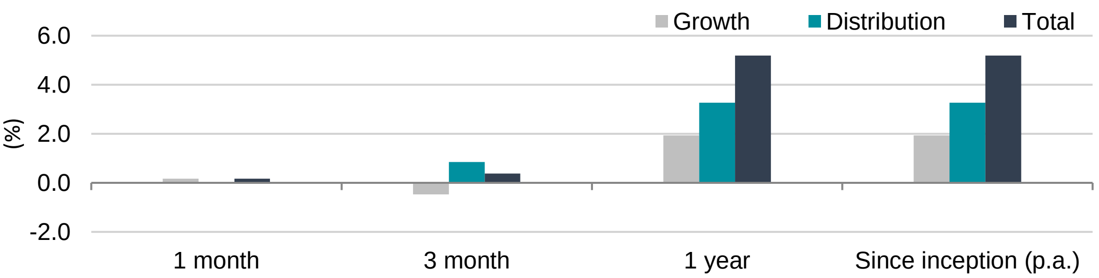
Market Review

US interest rates continued their sharp move higher in February, with both the front end and the back end selling off, as US wages accelerated at their fastest pace in 9 years. As a result, global fixed income (hedged back to the Australian dollar ('AUD')) (-0.23%) was down for the second month in a row, extending its decline since the beginning of the year to -0.91%. Conversely, Australian fixed income (up 0.29%) closed positive, fully recovering the ground lost in January, as the 2, 5 and 10 years bonds moved 3 basis points, 4 basis points and 1 basis point lower at 2.00%, 2.37% and 2.81%, respectively.

The US dollar ('USD') finally caught a bid after touching its lowest level since December 2014 and was up versus all major developed currencies. Conversely, the Australian dollar was weaker across the board, down 3.25% against the US dollar, 1.63% against the Euro and 5.58% against the Japanese yen, however it was up against Emerging Market foreign exchanges. The softening of the domestic currency greatly reduced the losses generated by international equities, as the MSCI AC World Daily TR was down 4.20% (in USD terms) and 0.98% (in AUD terms). Not surprisingly, US outperformed Europe and emerging markets, as it mostly does during "risk-off" periods of time. Japan was the best performing market as investors sold the Australian dollar and bought back the yen to close their carry trades. The domestic equity market outperformed its global peers, as the S&P/ASX 300 TR (up 0.34%) bucked the trend, led higher by the top 20.

Financials (in particular banks), industrials, consumer staples and health care were the key performing sectors. Materials closed positive while resources were down, together with energy, consumer discretionary, telecommunication services and utilities. Smaller companies were flat. The AREITs came under severe pressure, as real assets around the world tumbled. Property and infrastructure were down 6.26% and 5.32%. At the end of February, performance for the former was negative on a 12 months horizon, while the latter had almost given back all the returns accumulated in the same period of time. Finally, alternatives were down 2.54% as managed futures strategies posted their worst monthly return on record and short volatility strategies were crushed by a 120% surge in the VIX index.

Performance



	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	0.17	0.00	**0.17**	**0.33**	**-0.16**
3 months	-0.48	0.85	**0.38**	**0.99**	**-0.61**
1 Year	1.93	3.27	**5.19**	**3.43**	**1.76**
3 Years (p.a.)	N/a	N/a	**N/a**	**N/a**	**N/a**
Since inception[2] (p.a.)	1.93	3.27	**5.19**	**3.43**	**1.76**

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.

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Performance Review

In February, the Sestante Conservative Fund (the 'Fund') returned 0.17% (net), underperforming the benchmark's return of 0.33% by 0.16%.

Over the month, domestic asset classes generated a positive return, that is, Australian fixed income and Australian equities. The Fund's overweight in the latter (9.04%) helped the performance of the Fund, while the underweight position in the former (3.70%) was a detractor. Cash was the only other asset class to close positive, which modestly added to the Fund's relative return given its 1.12% overweight position. All asset classes investing abroad, whether hedged or unhedged, closed the month negative. The Fund's underweight in real assets (-2.14%) was a positive contributor, while an overweight position in international equities (2.90%) was a detractor. Alternatives and global fixed income (-7.11%) did not have a significant impact in relative terms, as the Fund's exposure to the former was neutral, while returns for the latter were in line with the weighted average performance generated by the strategic asset allocation. The Fund's overweight in growth assets (9.79%) was a detractor in February for the first time in 7 months, as returns for defensive assets (positive) and growth assets (negative) diverged.

All in all, the tactical asset allocation outperformed the strategic asset allocation as active tilts across and within asset classes added value. Manager selection made a significant difference overall, and it was particularly strong in international equities and alternatives. In international equities, the Fund's active managers bucked the trend, posting gains for the month. Favourable sector tilts drove the outperformance, more than compensating for the suboptimal country allocation. On one hand, consumer discretionary and technology were areas of strength in absolute return terms, together with materials. On the other hand, the low exposure to interest rate sensitive sectors such as utilities proved beneficial in relative terms. In alternatives, the Fund's discretionary macro manager was unaffected by the global sell-off, closing the month almost unchanged (-0.11%). At the end of February the Fund's allocation to the space was up 0.91% since the beginning of the year, in line with the internal benchmark (Bloomberg AusBond Bank Bill up 4%) and comfortably above the HFRX Global Hedge Fund Index AUD (-0.25%).

Manager Allocation (%)

Australian Fixed Interest	**21.10**
CFS Australian Bond Fund	4.97
Henderson Tactical Income Trust	10.19
Omega Core Australian Bond Fund	5.94
Global Fixed Interest	**10.84**
Macquarie Income Opportunities Fund	3.47
Omega Global Corporate Bond Fund	3.05
Pimco Diversified Fixed Income Fund	4.32
Property	**0.91**
Vanguard International Property Securities Index	0.91
Alternatives	**7.97**
Sestante Global Macro Fund	7.97
Infrastructure	**0.94**
MBA Global Listed Infrastructure Fund	0.94

Australian Equities	**14.84**
Bennelong Ex-20 Australian Equities Fund	3.13
BT Wholesale Core Australian Share Fund	2.25
Fidelity Australian Equities Fund	2.86
Ironbark Karara Australian Share Fund	2.51
iShares Australian Equity Index Fund	4.09
Global Equities	**12.28**
Capital Group New Perspective Fund	1.34
Ironbark Royal London Concentrated Glb Share Fund	1.70
Vanguard Emerging Markets Shares Index Fund	2.39
Vanguard International Shares Index Fund	2.01
Vanguard FTSE All-World ex-US ETF	4.84
Cash	**31.12**
BetaShares Australian High Interest Cash ETF	17.28
CFS Wholesale Cash Fund	12.02
Cash	1.82

Market Outlook

The low recorded by the S&P 500 on the 8th of February has held so far. Divergences abound as the subsequent recovery has been uneven. US and Big Tech, the leadership of the previous rally, have rebounded sharply, while the rest of the market much less so. Interest rate sensitive sectors in particular have continued to move steadily lower, accumulating in the space of 6 months a record underperformance only seen at the height of the dot-com bubble. Conversely, emerging markets and global financials have maintained their good momentum through and after the correction.

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Market Outlook (cont'd)

While the market continues to adjust to the new reality of higher rates, US dollar and US duration have emerged as the clear losers. Not surprisingly, if we consider that the US is at the epicenter of the current inflation scare. Both assets are oversold and they may rebound, as is often the case when the consensus is universally bearish on a specific asset class. Nonetheless, from a strategic point of view, their role in a diversified portfolio will come increasingly under scrutiny and their allocation may be diminished in the long term. Simply put, up until today these two asset classes have been largely considered a "hedge" in times of volatility, however as the latest correction has demonstrated, they may have ceased to perform that function. US rates were in fact higher as the market was lower, while the US dollar was unable to stage a significant rally. If that was not enough, in February the entire US interest rate curve up to 10 years traded at higher yields than its Australian counterpart, a condition which has no precedent in the last 30 years. In the investment managers it is not an anomaly, however the natural outcome of divergent economic performance and monetary policy between the two countries. Hence, for the Fund's fixed income investments the investment manager will continue to source the duration risk primarily on the domestic market. Furthermore, as the gradual increase in US rates leads to sporadic explosions of volatility, the Fund will continue to steer clear of managed futures funds in alternatives. These strategies typically hedge their equity exposure with US fixed income, a dangerous combination in the current and foreseeable market environment.

Important Information

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