Sestante Conservative Fund

Monthly Investment Report as at 30 April 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

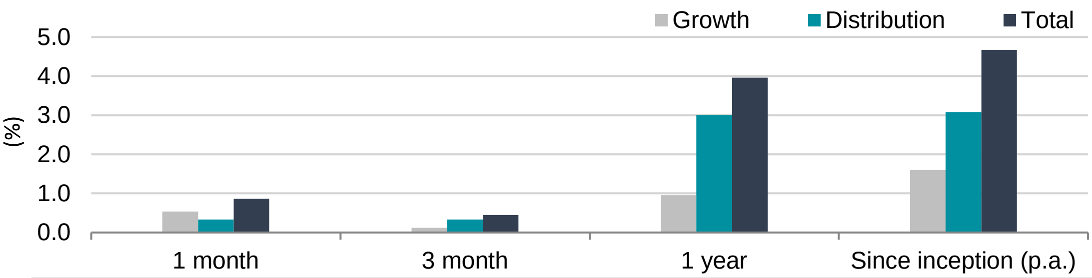
Exit Price
$1.0175

Number of Holdings
21

Market Review

In April, the S&P/ASX 300 TR (up 3.78%) recovered almost all of the losses since the beginning of the year on the back of the strong returns generated by the energy and materials sectors, which saw continuing earnings upgrades. Health care and consumer staples were the other notable performers, whilst financials remained flat despite the positive showing of the AREITs as the Royal Commission continued its inquiry into banking. All sectors managed to close in the positive, with the top 20 outperforming mid and small caps. Commodities were up 2.42% (in US dollar 'USD' terms), led higher by oil (up 5.59%) and aluminium (up 13.7%). However, that did not translate, as it normally does, in a lower value for the US dollar. To the contrary, the US dollar actually appreciated against all major developed and emerging currencies, including the Australian dollar ('AUD') (-1.81%). The softening of the domestic currency boosted the returns for the MSCI AC World Daily TR (up 0.95% in USD terms and up 2.83% in AUD terms). Europe topped the list as its equity market benefitted from a weaker Euro. Conversely, Emerging Markets paused as investors reflected on the potentially negative consequences for the region of the US 10-year bond yield breaching 3% for the first time in 4 years. Interest rates were generally higher around the world, bringing about losses for both Australian fixed income (-0.35%) and global fixed income hedged back to AUD (-0.38%). However Australian fixed income managed to remain in positive territory since the beginning of the year, up 0.52%, whilst the Global fixed income slipped deeper into negative territory, down -0.47% over the same time frame. Real assets continued their synchronised recovery from the lows of February, unfazed by the changes in the bond market direction. Both property and infrastructure exhibited solid returns for the month, which were amplified by the currency effect, resulting in 3.61% and 4.08% returns (in AUD terms), respectively. Finally, alternatives (up 0.08%) were a mixed bag. Long/Short equities rebounded while commodity trading advisor and macro strategies, trend following in particular, remained subdued. Short volatility strategies came back from their first quarter near-death experience as volatility levels declined during the month.

Performance



	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	0.53	0.33	**0.86**	**0.47**	**0.39**
3 months	0.12	0.33	**0.45**	**1.14**	**-0.69**
1 Year	0.96	3.00	**3.96**	**3.67**	**0.29**
3 Years (p.a.)	N/a	N/a	**N/a**	**N/a**	**N/a**
Since inception[2] (p.a.)	1.60	3.07	**4.67**	**3.64**	**1.03**

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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Sestante Conservative Fund

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Performance Review

In April, the Sestante Conservative Fund (the 'Fund') returned 0.86% (net), outperforming the benchmark's return of 0.47% by 0.39%.

For April, six asset classes out of the eight the Fund invests in were positive, with all growth assets generating returns in excess of 2.50%, with the only exception being alternatives. However, the latter managed to close slightly up, outperforming defensive assets, whose weighted average performance was negative for the month. The Fund's overweight in growth assets (+9.60%) proved decisive as returns for defensive assets (negative) and growth assets (positive) diverged.

In terms of asset allocation, there were no detractors in April as all of the Fund's tilts were neutral or added value. The largest contributions to performance came from the Fund's overweight positions in equities, both in the Australian (+5.59%) and in the international (+3.56%) markets, and an underweight in cash (-8.78%). All in all, the tactical asset allocation strongly outperformed the strategic asset allocation, with manager selection providing additional extra-return. The latter was responsible for almost 20% of the alpha generated for the month by the Fund. Manager selection was particularly strong in domestic assets, as fixed income managers drastically limited losses on the back of a lower sensitivity to interest rate risk while equity managers came back strongly from a negative first quarter. Expanding on the latter, it is important to point out that at the end of March the Fund's selection was already 100 basis points ahead of the benchmark, that is, it had outperformed on the way down. This gap increased by an additional 25 basis points in April, that is, the Fund's line-up of managers was capable of outperforming on the way up as well. The end result is that returns for the Fund's allocation to the domestic equity market has been comfortably positive in the first four months of 2018, while the S&P/ASX 300 TR (-0.14%) has been going nowhere over the same period of time.

Manager Allocation (%)

Australian Fixed Interest	**21.12**
CFS Australian Bond Fund	4.95
Henderson Tactical Income Trust	10.22
Omega Core Australian Bond Fund	5.95
Global Fixed Interest	**10.83**
Macquarie Income Opportunities Fund	3.47
Omega Global Corporate Bond Fund	3.03
Pimco Diversified Fixed Income Fund	4.33
Property	**1.56**
Vanguard International Property Securities Index	1.56
Alternatives	**7.99**
Sestante Global Macro Fund	7.99
Infrastructure	**0.96**
MBA Global Listed Infrastructure Fund	0.96

Australian Equities	**12.30**
Bennelong Ex-20 Australian Equities Fund	3.17
BT Wholesale Core Australian Share Fund	2.26
Fidelity Australian Equities Fund	2.84
iShares Australian Equity Index Fund	4.03
Global Equities	**14.27**
Capital Group New Perspective Fund	1.95
Ironbark Royal London Concentrated Glb Share Fund	2.26
Vanguard Emerging Markets Shares Index Fund	2.34
Vanguard International Shares Index Fund	2.02
Vanguard FTSE All-World ex-US ETF	5.70
Cash	**30.97**
BetaShares Australian High Interest Cash ETF	17.23
CFS Wholesale Cash Fund	12.05
Cash	1.69

Market Outlook

A rising oil price combined with a strengthening US dollar and higher US rates is bad news for the Emerging Markets, in particular for those countries running a current account deficit, that is, whose imports exceed exports. Their energy bill has in fact hiked massively, as their currencies not only buy less US dollars on the FX Markets but they also need more US dollars to acquire the commodity that sustains their economic growth. To top it all, the cost of servicing their external debt, that is, the US dollars they borrow from international lenders, is going up as well, putting further pressure on their already weakening currencies. Not surprisingly, the asset class in the Emerging Markets space that suffered the most in April was local currency debt, which closed the month negative after a harsh two-week sell-off.

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Market Outlook (cont'd)

Losses were partially limited by the simultaneous depreciation of the Australian dollar against the US dollar, a normal occurrence during periods of heightened risk aversion. To this day, the investment manager has maintained a sizeable exposure to Emerging Market equities but a negligible, if not nil, one to Emerging Market bonds. Hence, the investment manager is watching the current decline with interest, waiting for an opportunity to take a position. However, at the moment the investment manager believes that the best course of action is to remain on the sidelines. Emerging Market bonds may in fact be just the first, and weakest link to break in the credit space. With the US 10-year bond at 3%, is near rate at which the American government is able to suck in savings from all over the world to fund itself. With a budget deficit expected to reach $1 trillion USD in 2018 and the Federal Reserve liquidating more than $200 billion USD in Treasuries on top of it, the financing need is going to be enormous. With the US dollar having finally found its feet, at least for now, investors may be tempted to swap their riskier credit exposure with the safety, and the yield, provided by the bonds of the global reserve currency issuer.

Important Information

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