Sestante Global Macro Fund

Monthly Investment Report as at 30 April 2018

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
$4.2m

Exit Price
$1.0172

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 Review

The Sestante Global Macro Fund (the 'Fund') returned 0.24% (net) for the month.

Volatility is back and the strength of the US dollar was the most notable development during the month, this was mostly due to over extended US dollar shorts especially versus Euro and Emerging Market currencies. The Fund has benefitted from this trend due to a long position in USD versus Euro, less so in the Fund's long Emerging Markets versus Euro. However, the Fund has lost in a long Emerging Markets currencies versus USD (Indian Rupee, Colombian Peso, and Argentine Peso) position. The investment manager has re-positioned some of the Fund's equity trades mostly on long European equity versus US equity as they expect the Euro's weakness will be a tailwind for the European market while the US dollar strength will be a headwind for US equities over the next few months. As some of the long Emerging Market trades are winding down, the Fund has experienced some widening of the Emerging Market corporate bond spreads which have generated some negative performance in this part of the Fund. The investment manager expects a more significant correction in in the second quarter and will use any sell-offs as an opportunity to increase the Fund's exposure via call options on the global equities indices. The investment manager still believes equity markets will recover in the second half of the year and the Fund could benefit from higher volatility going forward. The investment manager is focusing the Fund's investments in the commodities and FX space as they find more opportunities. The investment manager will invest in asymmetric trades (de-correlated from risk on/off market) to create more alpha trades strategies.

Performance

	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)
1 month	0.24	0.00	0.24
3 months	-0.52	0.00	-0.52
1 year	N/a	N/a	N/a
3 years (p.a.)	N/a	N/a	N/a
Since inception[2] (p.a.)	1.72	0.00	1.72

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] 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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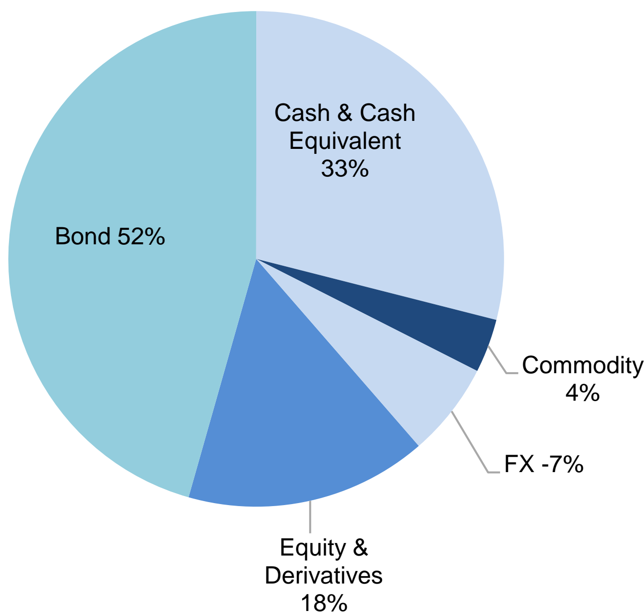
Outlook

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.

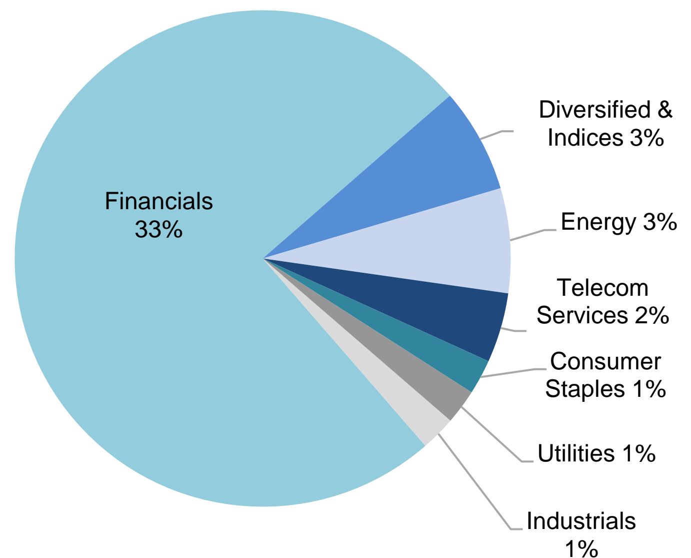
Losses were partially limited by the simultaneous depreciation of the Australian dollar against the US dollar, a normal occurrence during periods of heightened risk aversion. To this day, the investment manager has maintained a sizeable exposure to Emerging Market equities but a negligible, if not nil, 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.

Underlying Fund Portfolio Summary

Asset Exposure



Bond Exposure- Sector Allocation



Important Information

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