Sestante Conservative Fund

Monthly Investment Report as at 31 May 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

$1.0225

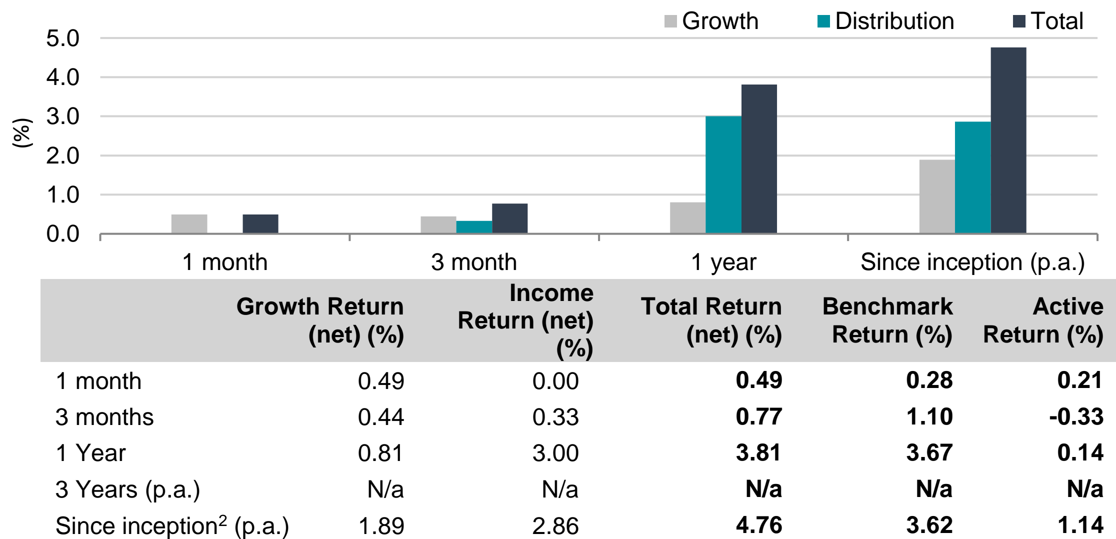
Number of Holdings

21

Market Review

In May the S&P/ASX 300 TR (up 1.19%) continued its recovery, closing above its end of 2017 level for the first time in 2018. Returns were primarily driven by resources, real estate and the sector heavyweights within the health care sector. Consumer discretionary was another winner, while financials and telecommunication services underperformed, respectively, for the third and the fourth month in a row. The top 20 outperformed the little changed mid-caps, however it was eclipsed by the S&P/ASX Small Ordinaries Accumulation Index (up 3.70%). The domestic equity market outperformed the MSCI AC World Daily TR (-0.12%) for the second consecutive month, although the latter remained well ahead of the former since the beginning of the year (up 3.38% versus 1.05%). International markets were rocked by the US 10 year bond yields spiking to a 7 year high and by the late month political upheaval in Italy, which caused a strong sell-off in emerging markets and in Europe. As a result, capital flowed from those areas into the relative tranquility of the US market, pushing its technology heavy indices higher, in particular the NASDAQ, and strengthening the greenback. Global fixed income hedged back to Australian dollars ('AUD') (up 0.37%) managed to close positive as yields moved lower during the second half of May. Italian government bonds posted steep losses for the month across the curve, however they had a limited impact on the broad index owing to their 6% weight, moreover, they started to stabilise going into June. Australian fixed income fared better, up 0.69%, leaving behind its international equivalent since the beginning of the year (1.21% versus -0.10%), the exact reverse of what was observed in equities. Real assets were a mixed bag as property and infrastructure were the best and the worst performing asset classes for the month, up 1.39% and down 2.22% (in AUD terms) respectively. Finally, alternatives (up 0.26%) continued to struggle to recover the losses suffered in February and March, in particular the commodity trading advisor and managed futures strategies. In May, event driven and arbitrage managers ranked first as they benefitted from a surge in merger & acquisition activities, while fixed income managers were hit by the whipsaw pattern of rates.

Performance



	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	0.49	0.00	**0.49**	**0.28**	**0.21**
3 months	0.44	0.33	**0.77**	**1.10**	**-0.33**
1 Year	0.81	3.00	**3.81**	**3.67**	**0.14**
3 Years (p.a.)	N/a	N/a	**N/a**	**N/a**	**N/a**
Since inception[2] (p.a.)	1.89	2.86	**4.76**	**3.62**	**1.14**

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

T: 1800 034 402 | **E:** client.services@ironbarkam.com | **W:** www.azsestante.com

AZ SESTANTE
AZIMUT GROUP

Sestante Conservative Fund

Monthly Investment Report as at 31 May 2018

Performance Review

In May, the Sestante Conservative Fund (the 'Fund') returned 0.49% (net), outperforming the benchmark's return of 0.28% by 0.21%.

During May, six asset classes out of the eight the Fund invests in were positive, with property and Australian equities topping the list, while infrastructure and international equities closed down. Both growth and defensive assets posted gains, however, weighted average returns for the former, in which we maintained a significant overweight (+15.49), were double those of the latter, helping the Fund. Positive contributions came from the Fund's overweight in Australian equities (+6.38%) and in property (+0.90%) and underweight in infrastructure (-0.72%), while the main detractors were the Fund's overweight in International equities (+8.93%) and underweight in Australian fixed income (-6.29%). All in all, the tactical asset allocation slightly underperformed the strategic asset allocation but that was more than compensated by the manager selection which generated the entirety of the total return for the month.

The Fund's line-up of managers in Australian equities continued to deliver outstanding performances, increasing its excess return above the S&P/ASX 300 TR to more than 250 basis points for the first five months of the year. Stock picking in cyclical sectors, primarily energy and materials and the exposure to high growth names was the largest driver of performance in May. The overweight in the ex-20 part of the index has been particularly beneficial in the past 12 months, however the investment manager is cognisant of the fact that those stocks have reached multiples above their historic level. That trend has been certainly driven by a prolonged period of subdued domestic interest rates, a condition that it is likely to persist going forward. However, the investment manager suspects that part of the explanation lies also in the relative unattractiveness of the largest index constituents, such as banks. Revenue headwinds and threats to the business have driven the stock prices of those names lower, and as a result valuation metrics have improved. If that trend continues the Fund may reach over-reaction territory which may provide an opportunity for active investors.

Manager Allocation (%)

Australian Fixed Interest	**21.13**
CFS Australian Bond Fund	5.02
Henderson Tactical Income Trust	10.28
Omega Core Australian Bond Fund	5.83
Global Fixed Interest	**10.74**
Macquarie Income Opportunities Fund	3.53
Omega Global Corporate Bond Fund	2.98
Pimco Diversified Fixed Income Fund	4.23
Property	**1.57**
Vanguard International Property Securities Index	1.57
Alternatives	**8.08**
Sestante Global Macro Fund	8.08
Infrastructure	**0.93**
MBA Global Listed Infrastructure Fund	0.93

Australian Equities	**12.36**
Bennelong Ex-20 Australian Equities Fund	3.28
BT Wholesale Core Australian Share Fund	2.22
Fidelity Australian Equities Fund	2.86
iShares Australian Equity Index Fund	4.00
Global Equities	**13.92**
Capital Group New Perspective Fund	1.95
Ironbark Royal London Concentrated Glb Share Fund	2.28
Vanguard Emerging Markets Shares Index Fund	2.25
Vanguard International Shares Index Fund	1.99
Vanguard FTSE All-World ex-US ETF	5.45
Cash	**31.27**
BetaShares Australian High Interest Cash ETF	17.24
CFS Wholesale Cash Fund	12.05
Cash	1.98

Market Outlook

Between the end of May and the beginning of June, Italy saw first the collapse and then the inauguration of a coalition government between the two major anti-system parties, the left-wing "Five Star" and the right-wing "League". Markets panicked, with the spread between the interest rates paid by the third largest economy in the Eurozone and those of Germany jumping to its highest level since 2012 amid renewed fears of a euro break-up. In the investment manager's opinion, such concerns are grossly overstated. There simply is no "Italexit" or "Quitaly" on the horizon as Italians do not want to abandon the single currency nor did the newly elected government campaign on this issue. The reality is that the vote was a proxy for the immigration issue, and the evidence is that after the first attempt to form the government failed, disrupting markets, approvals for the Five Star decreased while those for the League increased. The former is advocating a loosening of the fiscal policy, while the latter is focused on border controls.

Contact Details
T: 1800 034 402 | **E:** client.services@ironbarkam.com | **W:** www.azsestante.com

AZ SESTANTE
AZIMUT GROUP

Sestante Conservative Fund

Monthly Investment Report as at 31 May 2018

Market Outlook (cont'd)

Another interesting observation is that the balance of power between the European Union and Italy, unlike in 2011, today appears to be more tilted towards the latter. In fact, Italy does not want to leave the euro but at the same time the European Union does not want Italy to unilaterally leave it. The investment manager speculates that the same was not true when the Greeks voted to reject the bailout terms imposed by the Troika in July 2015. In the end, they had to back off because Greece had more interest in remaining than the EU in wanting Greece to remain. Actually, it may be argued that a euro without Greece, a weak economy, would have had more solid fundamentals, while a euro without Italy simply cannot exist. If the investment manager's reasoning is correct, the implication is that the European institutions will be increasingly inclined to compromise on the policies pursued by the new Italian government; and if that meant more spending, and if other European countries were to follow through, that would put a cap on the appreciation of the single currency while European equities could see a resurgence.

Important Information

Issued by AZ Sestante Limited ABN 94 106 888 662 AFSL 284442. This document is not an offer of securities or financial products, nor is it financial product advice. As this document has been prepared without taking account of any investors' particular objectives, financial situation and needs, you should consider its appropriateness having regard to your objectives, financial situation and needs. The Fund referred to is issued by AZ Sestante Limited ABN 94 106 888 662 AFSL 284442. To acquire units in the Fund, complete the application form that accompanies the current PDS, which you can obtain from www.azsestante.com or by calling client services on 1800 034 402. You should consider the PDS in deciding to acquire or to continue to hold the Fund. Although specific information has been prepared from sources believed to be reliable, we offer no guarantees as to its accuracy or completeness. The information stated, opinions expressed and estimates given constitute best judgement at the time of publication and are subject to change without notice to you. This document describes some current internal investment guidelines and processes. These are constantly under review, and may change over time. Consequently, although this document is provided in good faith, it is not intended to create any legal liability on the part of Ironbark or any other entity and does not vary the terms of a relevant disclosure statement. Past performance is not an indicator of future results. All dollars are Australian dollars unless otherwise specified. All indices are copyrighted by and proprietary to the issuer of the index.

Contact Details

T: 1800 034 402 | **E:** client.services@ironbarkam.com | **W:** www.azsestante.com

AZ SESTANTE

AZIMUT GROUP