



# Sestante Global Macro Fund

## Monthly Investment Report as at 31 May 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.<sup>1</sup>

### Distribution Frequency

Annually

### Minimum Investment

\$20,000

### Fund Size

\$4.5m

### Exit Price

\$1.0183

### 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 Review

The Sestante Global Macro Fund (the 'Fund') returned 0.11% (net) for the month.

During the month of May there was a return of volatility, mostly due to European political noises. The issue in Europe brought a stronger US dollar ('USD') especially versus the Euro but also versus most of the Emerging Market currencies. Market participants are not yet long on the US dollar but they have definitely cut their Euro and Emerging Market positions. The Fund is well positioned for this movement, however the Fund got caught and were stopped out of 75% of a long Argentine Peso versus short US dollar position. The investment manager still believes this trade offers a good carry, however the Fund is very close to the stop loss. The position at the moment is below 1% of the net asset value of the Fund. The investment manager has kept the Fund long on Indian rupee and Colombian Peso versus the US dollar as the investment manager believes these two countries will benefit from a commodity tail wind over the next few months (oil and copper). The Fund has also maintained a long position on the Australian and New Zealand dollars vs the Euro as these positions are still in profit.

### Performance

	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)
1 month	0.11	0.00	0.11
3 months	-0.08	0.00	-0.08
1 year	N/a	N/a	N/a
3 years (p.a.)	N/a	N/a	N/a
Since inception <sup>2</sup> (p.a.)	1.83	0.00	1.83

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.

<sup>1</sup> 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.

<sup>2</sup> This figure represents the annualised performance of the Fund since inception.

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# Sestante Global Macro Fund

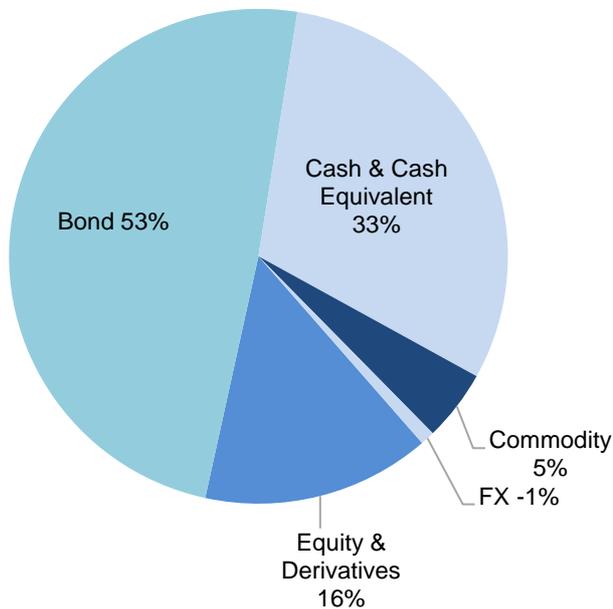
Monthly Investment Report as at 31 May 2018

## Performance Review (cont'd)

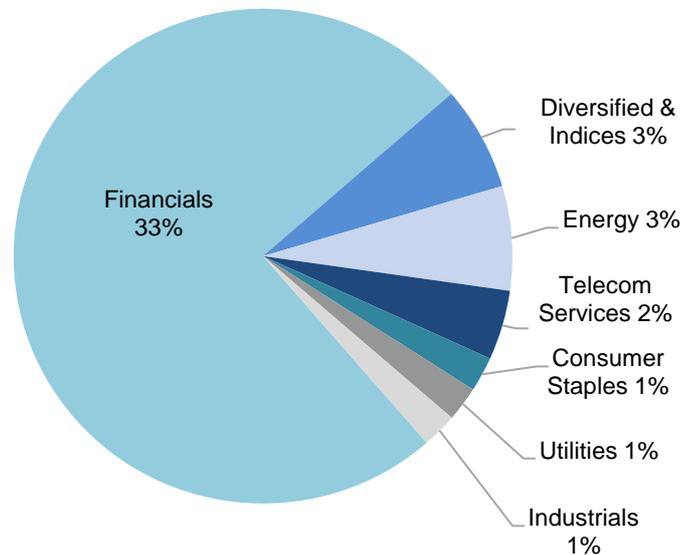
The Fund has maintained its long European Equity and US Equity positions but has cut most of the Emerging Market exposure. As some of the long Emerging Market trades are winding down the Fund has experienced some widening of its Emerging Market corporate bond spreads generating a negative performance. The investment manager does expect a more significant correction in the second quarter and will use any sell-offs as an opportunity to increase Fund 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 this is where they see more opportunities. The Fund will invest in asymmetric trades (decorrelated from the markets risk on/off trade) to create more alpha trade strategies, mostly focused on the commodities curve/carry space.

## Underlying Fund Portfolio Summary

Asset Exposure



Bond Exposure- Sector Allocation



## 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 "QuitItaly" 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.

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## Market Outlook (cont'd)

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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

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