Sestante Conservative Fund

Monthly Investment Report as at 31 July 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%/-0.10%

Management Costs

0.76% p.a.[1]

Distribution Frequency

Quarterly

Minimum Investment

$20,000

Fund Size

$3.2m

Exit Price

$1.0218

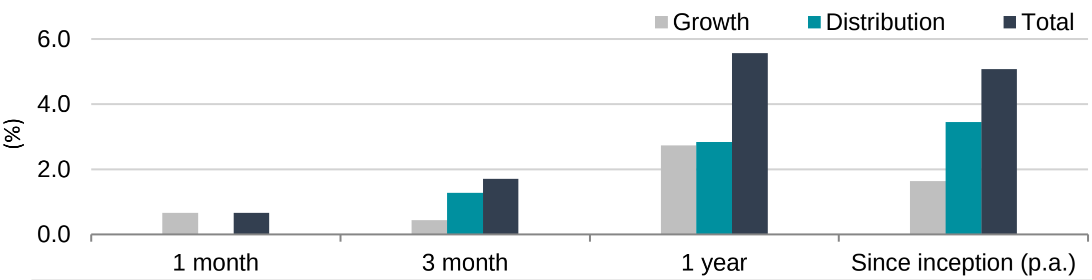
Number of Holdings

21

Market Review

Global equity markets led the way in July, with the MSCI All Country World Daily Total Return Index gaining 2.42%. The US market continued its winning streak despite the huge sell-off in Facebook shares on July 26 (down 19%) which erased a record $119 billion (in US dollar 'USD' terms) off the company's market value in a single day. The loss followed a disappointing quarterly report and caused the technology sector to lag for the month. Europe recovered part of the underperformance accumulated since late May after a new populist government was formed in Italy. Emerging markets closed the month positive, interrupting their slide, but continued to lose in relative terms. The Australian dollar was stronger across the board, stabilising around the $0.74 level against the USD (up 0.58%). The S&P/ASX 300 Total Return was up a solid 1.31%. Returns were driven by financials (banks in particular), telecommunication services, and industrials. These were all sectors which had materially underperformed the broader market in the first half of the year. The resurgence of these laggards caused a change in leadership from value to growth, with the former outperforming the latter for the first time in 2018. The top 20 companies outperformed both the mid cap and the small cap segments of the market, with the latter closing the month negative on the back of returns generated by its resources component. Interest rates were broadly higher in the US and Europe, however global fixed income hedged back to the Australian dollar (up 0.02%) was flat as credit spreads narrowed over the month. The domestic yield curve flattened further as the 2 year yield again breached the 2% level while the 5 and 10 year yields remained unchanged. Australian fixed income (up 0.16%) traded within a tight range overall. After the recent strong recovery, property and infrastructure (up 0.23% and 1.13% respectively) lagged equities but outperformed defensive assets and alternatives (down 0.16%). The latter ranked at the bottom of the list once again as commodity trading advisor and managed futures strategies closed down for the third month in a row on the back of the slump in oil prices. Event driven funds were similarly hurt by the increase in trade friction between the US and China.

Performance



	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)	Benchmark Return (%)	Active Return (%)
1 month	0.66	0.00	**0.66**	**0.25**	**0.41**
3 months	0.44	1.28	**1.72**	**0.81**	**0.91**
1 Year	2.73	2.84	**5.56**	**3.73**	**1.83**
3 Years (p.a.)	N/a	N/a	**N/a**	**N/a**	**N/a**
Since inception[2] (p.a.)	1.64	3.44	**5.08**	**3.57**	**1.51**

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. Returns are rounded to two decimal places. Slight variations to actual calculations may occur.

[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

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Performance Review

The Sestante Conservative Fund (the 'Fund') returned 0.66% (net) for the month, outperforming the benchmark's return of 0.25% by 0.41%.

In July, seven asset classes out of the eight the Fund invests in were positive, with international equities topping the list, followed by Australian equities and infrastructure, while alternatives was the only group to close negative. The Fund's overweight position in growth assets (+9.60%) was a strong contributor as they generated almost the entirety of the total return, while defensive assets were broadly unchanged. Positive contributions came from the Fund's overweight position in Australian (+5.59%) and international (+3.56%) equities and an underweight position in cash (-8.78%). The tactical asset allocation outperformed the strategic asset allocation as all active tilts added value. Conversely, fund selection detracted from the overall result as the Fund's line-up of managers underperformed their respective reference indices in all growth assets subsets apart from alternatives. There, discretionary macro exposure generated almost 1.00% of extra-return, providing limited relief to the Fund. Similarly, fixed income exposure helped as it generated good absolute and relative returns in its global component.

The investment manager's fund selection in Australian equities was adversely impacted by the abrupt rotation in "investment style" and "size" factors from "growth" to "value" and from "small" to "large". In particular, the Fund's mid-cap growth exposure was the largest relative detractor after a protracted period of outperformance as it was affected by both changes. Similarly, a small cap value manager was able to strongly outperform the S&P/ASX Small Ordinaries Index owing to his value discipline, however, it could not keep pace with the S&P/ASX 300 Total Return on the back of their focus on smaller companies. Results for the Fund's core managers were in line with the index overall. The Fund's positioning in international equities was a mixed bag. On one hand, the tilt away from large companies, the underweight position in the US and the overweight position in emerging markets were key detractors. On the other hand, returns were boosted by the overweight position in the industrial sector and by good stock picking in the technology and the health care sectors.

Manager Allocation (%)

Australian Fixed Interest	**20.67**	**Australian Equities**	**12.61**
CFS Australian Bond Fund	4.91	Bennelong Ex-20 Australian Equities Fund	3.37
Henderson Tactical Income Trust	10.05	Pendal Australian Share Fund	2.25
Omega Core Australian Bond Fund	5.71	Fidelity Australian Equities Fund	2.91
Global Fixed Interest	**10.45**	iShares Australian Equity Index Fund	4.08
Macquarie Income Opportunities Fund	3.44	**Global Equities**	**14.30**
Omega Global Corporate Bond Fund	2.88	Capital Group New Perspective Fund	1.99
PIMCO Diversified Fixed Income Fund	4.13	Ironbark Royal London Concentrated Glb Share Fund	2.32
Property	**1.60**	Vanguard Emerging Markets Shares Index Fund	2.17
Vanguard International Property Securities Index	1.60	Vanguard International Shares Index Fund	2.04
Alternatives	**7.85**	Vanguard FTSE All-World ex-US ETF	5.78
Sestante Global Macro Fund	7.85	**Cash**	**31.57**
Infrastructure	**0.95**	BetaShares Australian High Interest Cash ETF	17.27
MBA Global Listed Infrastructure Fund	0.95	CFS Wholesale Cash Fund	11.76
		Cash	2.54

Market Outlook

The US Dollar Index was almost 7% higher at the end of July after bottoming out in the middle of February. At that time, investors were concerned that the Federal Reserve was behind the curve as wage pressure was starting to increase, hence forcing the long end of the Treasury curve higher. As the 10 year yield quickly reached the 3% threshold, government bond markets took a hit and the S&P 500 sold off 10% in a relatively short period of time. The Federal Reserve was quick to regain control of the situation by immediately adopting a more hawkish language. It then raised its target rate two more times in March and June, and it promised more monetary tightening in the second half of 2018 and into 2019. Fast forward to today and the 10 year yield is pushing up against the 3% barrier once again. However the S&P 500 has recovered almost all its losses while investors are now concerned that the Federal Reserve is ahead of the curve and it may cause a recession if it continues to hike. The investment manager's view is that the strength of the US dollar has gone too far and too fast in recent times, exactly as interest rates had gone too far and too fast back in February.

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Market Outlook (cont'd)

The investment manager believes that the aim of the Federal Reserve is to manage an orderly repricing of the Treasury curve as the economy has entered its late cycle phase. This has been illustrated by an annualised growth of 4.1% in the second quarter of 2018, while inflation has been running above the 2% level for nine consecutive months, and has now accelerated to 2.9%. The 10 year yield appears to be ready to breach higher as the US budget deficit continues to widen faster than anticipated, and occurring while there is an economic expansion. In addition, the US government is imposing tariffs on its trading partners and oil prices are rising. In short, all factors point to renewed upward pressure on the long end of the Treasury curve. The magnitude and the speed of this movement will be crucial for the performance of equity markets, as it was back in February. In any case, the investment manager expect the US dollar to resume its downward trend when this occurs.

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