# Sestante Conservative Fund

## Monthly Investment Report as at 30 June 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**

$3.1m

**Exit Price**

$1.0151

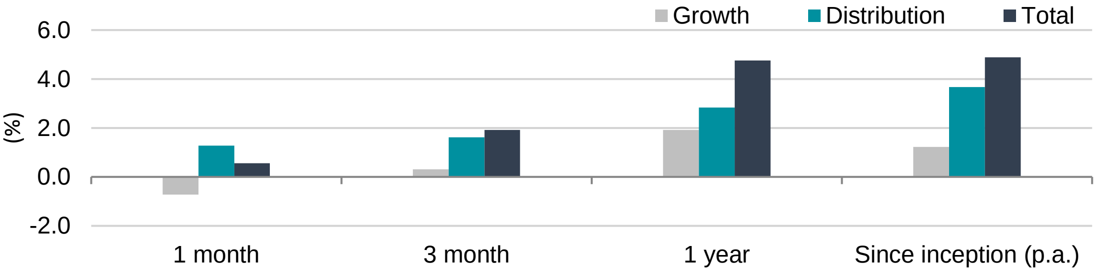
**Number of Holdings**

21

### Market Review

In June, the S&P/ASX 300 Total Return Index was up another 3.19%, bringing its gains for the second quarter of 2018 to an impressive 8.36%. The weakening of the Australian dollar (‘AUD’) which was down between 1.5% and 2.5% against all major currencies, and the repositioning of international investors away from the “risky” Asian ex-Japan equity markets (in particular China) into the relatively “safe” Australian equity markets, were among the factors that supported the returns for the month. Banks, energy, utilities and consumer staples sectors posted the strongest gains while telecommunication services was the only sector to close negative for June. Materials overall lagged, though resources were able to keep pace with the ASX 300. The Top 20 outperformed both the S&P/ASX Midcap 50 and the S&P/ASX Small Ordinaries. The domestic equity market outperformed the MSCI AC World Daily Total Return Index in AUD (1.75%) for the third consecutive month, reducing its lag since the beginning of the year to less than 1% (4.27% versus 5.20%). International markets were negative, in US dollar terms, as returns for Europe and Japan were adversely affected by concerns of potential trade tariffs. In addition, capital outflows from emerging markets accelerated, forcing a 7% underperformance for the region against the US market in the space of just 2 months. On the positive side, property and infrastructure were up 3.87% and 4.29% respectively, as it appears that the risk posed to real assets by rising long term interest rates has been digested by market participants. This is an indication they have reacted positively to the flattening of yield curves in Australia and around the world. Fixed income benefited from that trend too, although the widening of credit spreads continued to weigh on the asset class. All in all, domestic bonds and global bonds, hedged back to the Australian dollar, were up 0.48% and 0.17% respectively. Finally, alternatives (down 0.20%) recorded another disappointing month. Event driven and arbitrage managers continued to thrive owing to a pick-up in merger & acquisition activities in the US. Conversely, commodity trading advisor and managed futures strategies moved deeper into negative territory since the beginning of the year as they incurred losses primarily in the industrial metals and agriculture spaces.

### Performance




| | Growth Return (net) (%) | Income Return (net) (%) | Total Return (net) (%) | Benchmark Return (%) | Active Return (%) |
|---|---|---|---|---|---|
| 1 month | -0.72 | 1.28 | **0.55** | **0.27** | **0.28** |
| 3 months | 0.31 | 1.61 | **1.92** | **1.03** | **0.89** |
| 1 Year | 1.92 | 2.84 | **4.76** | **3.66** | **1.10** |
| 3 Years (p.a.) | N/a | N/a | **N/a** | **N/a** | **N/a** |
| Since inception[2] (p.a.) | 1.23 | 3.67 | **4.89** | **3.61** | **1.28** |

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.

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### Performance Review

The Sestante Conservative Fund (the ‘Fund’) returned 0.55% (net) for the month, outperforming the benchmark’s return of 0.27% by 0.28%.

During June, seven asset classes out of the eight which the Fund invests in were positive. Australian equities were among the top three performers for the third consecutive month. Infrastructure and property continued the winning streak started in March, while alternatives were the only group to close negative. The Fund’s overweight position in growth assets (+9.60%) contributed strongly to returns as they generated a weighted average performance of approximately 2%, while defensive assets posted only small gains. The investment manager has favoured the former over the latter in the past twelve months, and that positioning has been a consistent tailwind for the Fund over that period of time. Positive contributions came from the Fund’s overweight position in Australian equities (+5.59%) and underweight in cash (-8.78%). The tactical asset allocation outperformed the strategic asset allocation as all active tilts added value. Conversely, fund selection was a detractor as managers’ underperformance, although marginal, was widespread among a number of growth and defensive assets.

The Fund’s line-up in Australian equities gave back around 25 basis points of the outperformance accrued since the beginning of the year on the back of overweight positions in the mid and small caps segment of the market. However, the Fund’s core managers provided relief as they outperformed the S&P/ASX 300 Total Return Index for the month. The investment manager’s preference for credit risk over interest risk was detrimental to the Fund’s global fixed income allocation. It also adversely impacted on the returns of the Fund’s exposure in alternatives, as the widening of spreads in the Asian credit space was responsible for two-thirds of the loss generated by the macro manager in June. The high quality, investment grade companies the Fund invests in were caught in the indiscriminate sell-off in emerging markets that were observed in June. Similar dynamics were at work in international equities, as frightened investors sought refuge in the US market and rotated out of cyclicals, an outcome in direct contrast with the Fund’s regional and sector positioning.

### Manager Allocation (%)

| | |
|---|---|
| **Australian Fixed Interest** | **21.11** |
| CFS Australian Bond Fund | 5.02 |
| Henderson Tactical Income Trust | 10.26 |
| Omega Core Australian Bond Fund | 5.83 |
| **Global Fixed Interest** | **10.69** |
| Macquarie Income Opportunities Fund | 3.52 |
| Omega Global Corporate Bond Fund | 2.95 |
| PIMCO Diversified Fixed Income Fund | 4.22 |
| **Property** | **1.64** |
| Vanguard International Property Securities Index | 1.64 |
| **Alternatives** | **8.00** |
| Sestante Global Macro Fund | 8.00 |
| **Infrastructure** | **0.96** |
| MBA Global Listed Infrastructure Fund | 0.96 |

| | |
|---|---|
| **Australian Equities** | **12.69** |
| Bennelong Ex-20 Australian Equities Fund | 3.39 |
| Pendal Australian Share Fund | 2.26 |
| Fidelity Australian Equities Fund | 2.94 |
| iShares Australian Equity Index Fund | 4.10 |
| **Global Equities** | **13.77** |
| Capital Group New Perspective Fund | 1.98 |
| Ironbark Royal London Concentrated Glb Share Fund | 2.29 |
| Vanguard Emerging Markets Shares Index Fund | 2.14 |
| Vanguard International Shares Index Fund | 2.01 |
| Vanguard FTSE All-World ex-US ETF | 5.35 |
| **Cash** | **31.14** |
| BetaShares Australian High Interest Cash ETF | 17.19 |
| CFS Wholesale Cash Fund | 12.02 |
| Cash | 1.93 |

### Market Outlook

Emerging market currencies depreciated another 2.59% against the US dollar in June, bringing their loss for the second quarter of 2018 to 8.62%, the worst quarterly showing for the group since the third quarter of 2015. At that time, the People's Bank of China (‘PBOC’) had unilaterally decided to let the Chinese currency depreciate against the US dollar, after the latter had materially appreciated against the Euro and the Japanese yen in the previous 12 months. That decision shocked the market, however the investment manager believes in hindsight, it was a rational one as China is the largest trader in the world and 81% of its exports goes to countries other than the US. In addition, the Chinese economy was cooling off as concurrent data at the time was pointing to the weakest gross domestic product growth since 2008. That is not the case today, as the domestic economic environment is currently quite robust. In addition, the PBOC is seeking to maintain a “stable renminbi” as it has no interest in manipulating the value of the currency downward in the midst of the aggressive trade rhetoric coming from the US administration.

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**Market Outlook (cont'd)**

In short, the investment manager is inclined to believe that markets may have overreacted and that the current episode of weakness in emerging markets and strength in the US dollar may prove temporary. In fact, the appreciation of the US dollar was "too strong, too fast" in the investment manager's opinion. If the Federal Reserve is behind the curve as the investment manager suspects, that is, if interest rates are following economic growth and inflation higher, then the investment manager expects equity markets to move higher and the US dollar to move lower, regardless of the increasing differential in yields between the US and the rest of the world. That was the scenario the investment manager positioned for and navigated in 2017, and in which emerging markets recorded strong gains. Conversely, if the Federal Reserve is ahead of the curve, that is, if it is raising interest rates in a weakening economy, the investment manager expects equity markets to move lower and the US dollar to move higher. That is the scenario that market participants seem to have discounted more and more since May 2018. The investment manager remains firmly in the first camp, hence they maintain a constructive view on risk assets and emerging markets for the second part of the year.



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