Sestante Global Macro Fund

Monthly Investment Report as at 31 July 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

$4.7m

Exit Price

$1.0165

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 Review

The Sestante Global Macro Fund (the 'Fund') returned 0.73% (net) for the month.

In July, the market saw a rally in the risk trade where the Fund benefited mostly due to its equity exposure and the tightening of the bid/offer spread in the bond portfolio. The investment manager has been mostly on the sideline during the month cutting some exposure in emerging market currencies versus the US dollar. The investment manager still believes China and the US will settle the trade war issue, however, it may take longer than previously estimated and could result in more volatility during the third quarter. The investment manager also still believes risk assets will recover by year-end to reach an all-time high before a downtrend in markets during 2019 and 2020. The investment manager is starting to find some good opportunities, especially in the credit market (IG Hard Currency Bond) and in the currency space (emerging market forex), however they want to wait for a better entry point. The Fund's exposure in Chinese equities didn't generate any positive performance during the month as the Chinese market was flat after a large down month in June. Meanwhile, the Chinese currency lost ground during the month due to a strong US dollar and trade war fears. In the forex space, the investment manager has cut Fund exposure on Colombian pesos and Indian rupee versus the US dollar as they fear the dollar's bull run is not over yet and the two currencies have also performed quite well during the year and could be target of risk off. In the commodity space the Fund continues to invest in alpha generating strategies de-correlated to the risk on and off markets.

Performance

	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)
1 month	0.73	0.00	0.73
3 months	-0.07	0.00	-0.07
1 year	N/a	N/a	N/a
3 years (p.a.)	N/a	N/a	N/a
Since inception[2] (p.a.)	1.65	0.00	1.65

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] 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.

Contact Details

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

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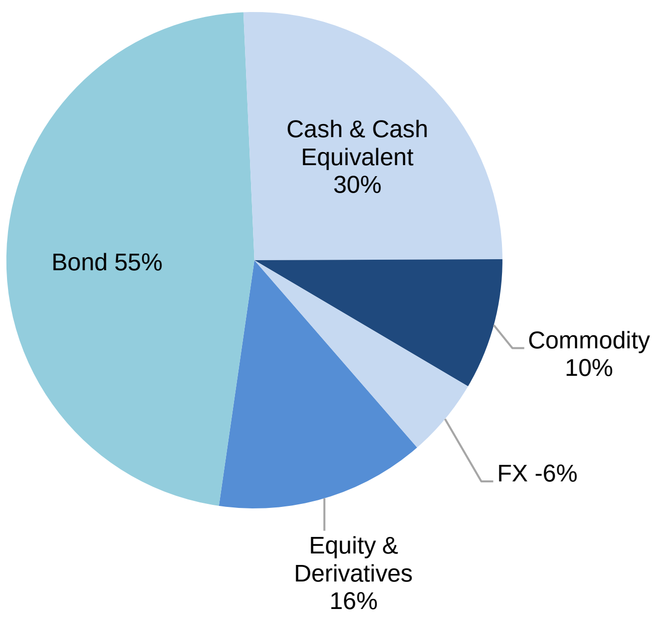
Market Outlook

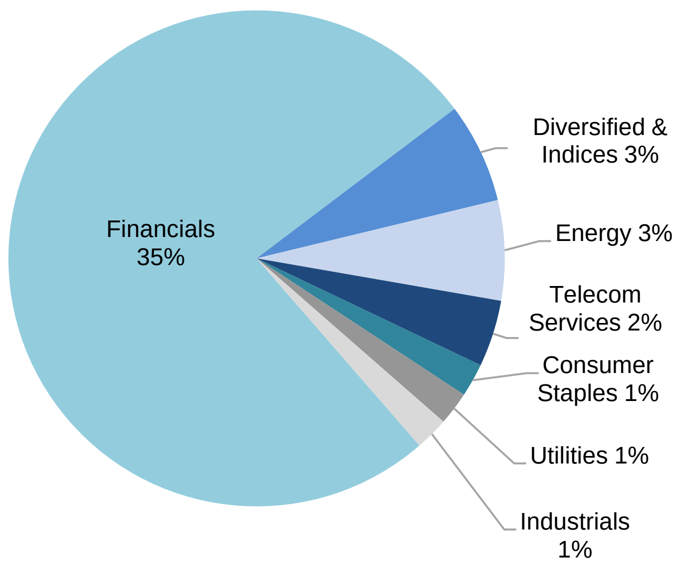
The US Dollar Index was almost 7% higher at the end of July after bottoming out in the middle of February. At that time, investors were concerned that the Federal Reserve was behind the curve as wage pressure was starting to increase, hence forcing the long end of the Treasury curve higher. As the 10 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. 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.

Underlying Fund Portfolio Summary

Asset Exposure



Bond Exposure – Sector Allocation



Important Information

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

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