



Sestante Global Macro Fund

Monthly Investment Report as at 30 June 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

\$4.6m

Exit Price

\$1.0091

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 Review

The Sestante Global Macro Fund (the 'Fund') returned -0.90% (net) for the month.

June was characterised by risk-off in the emerging markets especially in Asia. The down movement was mostly felt in the Fund's exposure to investment grade Asian credit and Chinese equity. Chinese equity was down 7.8% for the month and the Chinese currency was down 3.42% versus the US dollar. The investment manager has hedged the Fund's China exposure over the past few months by decreasing it to 3%. The Fund has only lost 30 basis points on this position over the month. The other negative 60 basis points of performance was due to the widening of investment grade bond spreads that represent, at the moment, roughly 40% of the Fund's exposure. The investment manager has partially hedged the Fund's long equity exposure in China, shorting futures in Hong Kong and due to the short duration of around 2 years, the investment manager has not adjusted the Fund's Asia credit exposure as the Fund is mostly invested in high quality investment grade bonds. The investment manager has bought some volatility exposure to protect the Fund's US equity exposure and has decreased the European equity exposure. In the forex space, the Fund is running very few positions, especially in commodity producing countries (Colombia, India, and Argentina) versus the US dollar with the total forex exposure now decreased at less than 2%. The investment manager has decided to wait and see how the US and China trade war saga plays out before deploying more cash at risk. In the commodity space, the investment manager aims to invest in alpha generating strategies de-correlated to the risk-on and risk-off markets.

Performance

	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)
1 month	-0.90	0.00	-0.90
3 months	-0.56	0.00	-0.56
1 year	N/a	N/a	N/a
3 years (p.a.)	N/a	N/a	N/a
Since inception ² (p.a.)	0.91	0.00	0.91

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.

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Sestante Global Macro Fund

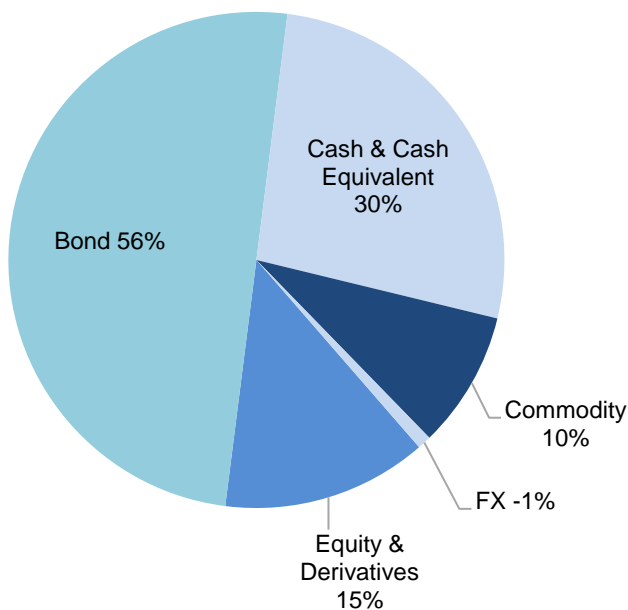
Monthly Investment Report as at 30 June 2018

Market Outlook

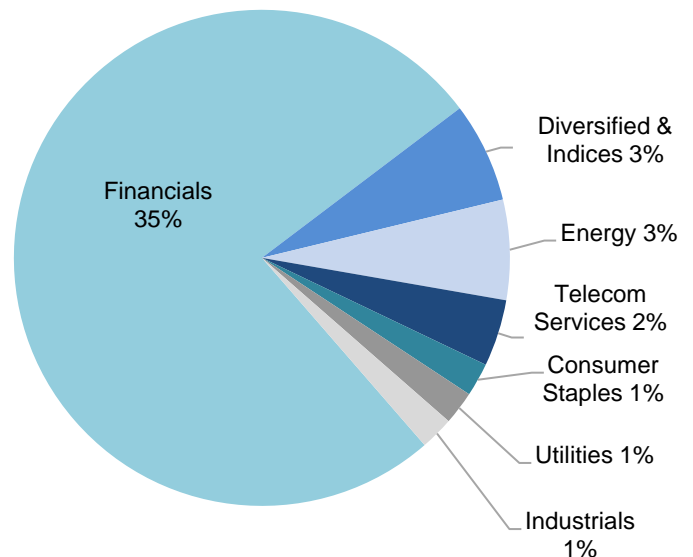
Emerging market currencies depreciated another 2.59% against the US dollar in June, bringing their loss for the second quarter of 2018 to 8.62%, the worst quarterly showing for the group since the third quarter of 2015. At that time, the People's Bank of China ('PBOC') had unilaterally decided to let 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. 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.

Underlying Fund Portfolio Summary

Asset Exposure



Bond Exposure- Sector Allocation



Important Information

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