Sestante Global Macro Fund

Monthly Investment Report as at 30 September 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

1.49% p.a.[1]

Distribution Frequency

Annually

Minimum Investment

$20,000

Fund Size

$3.0m

Exit Price

$1.0119

Market Review

US equities continued to strengthen in September, with the S&P 500 closing above the 2,900 barrier for the first time, just one month after the NASDAQ closed above the 8,000 level. Japan was the strongest market as the Nikkei rallied to a near 27 year high and posted its biggest monthly gain since October 2017. Despite those positives, the MSCI AC World Daily TR (down 0.24%) was down in Australian dollar terms as the domestic currency weakened against the US dollar (up 0.67%), regaining the $0.72 level. The S&P/ASX 300 TR (down 1.19%) broke its 5 month winning streak as the high growth, high price-earnings ratio, and high momentum complex finally broke down, with the health care, consumer discretionary and consumer staples sectors posting the steepest losses. The sharp increase in bond yields across the domestic curve was detrimental to those “long duration” assets and it also adversely affected interest rate sensitive sectors such as utilities and A-REITs. Cyclicals were a mixed bag as resources and energy sectors rallied strongly while financials were weaker than the market. After having suffered an initial interruption of their 9 month of dominance in July 2018, growth stocks underperformed value stocks once again. In the end, the third quarter closed in favour of value stocks for the first time since the third quarter 2017. Australian mid and small caps outperformed the top 20 companies, reversing prior-month returns. The Federal Reserve hiked its target rate for the third time in 2018 and for the eighth time in the last 3 years, bringing it to a range of 2% to 2.25%. The US 10 year bond yield closed at 3.06%, its highest point on a monthly basis since June 2011, driving long term rates higher across the globe. The Australian yield curve steepened as the 2, 5 and 10 years were up 0.07%, 0.10% and 0.15%, respectively. Declines for Australian (down 0.42%) and global fixed income hedged back to AUD (down 0.38%) were comparable overall. The poor performance of bond markets weighed on property and infrastructure (down 2.11% and 1.06%, respectively). Finally, after a brief respite in August, alternatives resumed their downtrend dragged lower by long/short equities while commodity trader advisor/macro strategies languished.

Performance Review

The Sestante Global Macro Fund (the ‘Fund’) returned -0.13% (net) for the month.

The Fund’s negative performance was mostly due to the bond investments, and particularly, the widening of the bid/offer spread. The Fund has experienced most of this underperformance from investments in short duration emerging market bonds due to the increase of US interest rates and the risk of China/US trade war. The investment manager has not made any big changes to the Fund except for a partial closure of a VIX future exposure due to recent spikes. As there are too many moving parts, especially linked to the US/China trade war, the Fund has decided to stay away from the risk market and try to benefit from some dislocation due to scarce liquidity. The investment manager has been focused recently on commodity curve/alpha strategies as they are decorrrelated from the market. The equity exposure at the end of the month is approximately 16%.

Performance

	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)
1 month	-0.13	0.00	-0.13
3 months	0.28	0.00	0.28
1 year	0.91	0.00	0.91
3 years (p.a.)	N/a	N/a	N/a
Since inception[2] (p.a.)	1.11	0.00	1.11

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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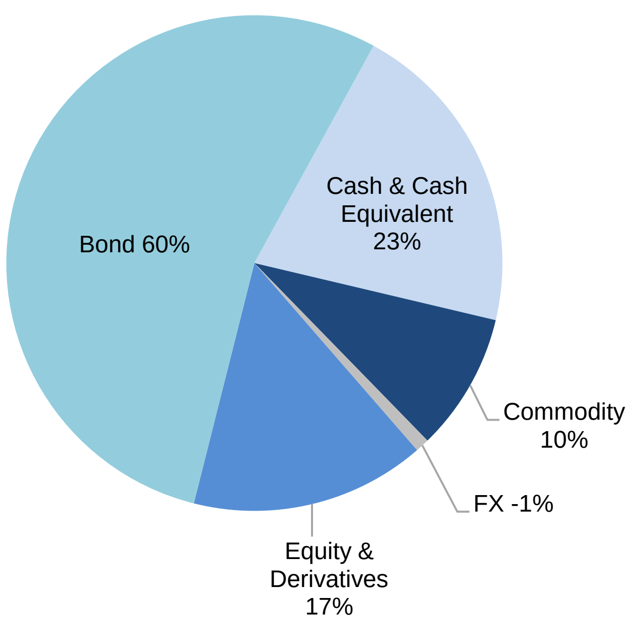
Market Outlook

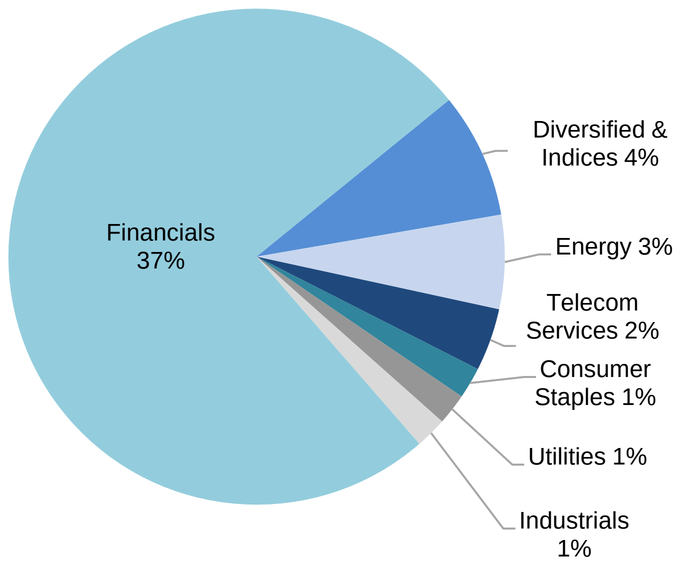
During October, the US market is down around 7% from its secondary top on October 3 on the back of a ferocious two-day 5% correction on October 10 and 11. Interestingly, over the same period of time, US duration and the US dollar have barely moved, that is, they have failed to hedge a diversified, global portfolio during an equity sell-off. The investment manager has believed for some time that the relationship among stocks, bonds and the US dollar was going to break down eventually, and the recent market action seems to confirm that thesis. It can be argued that US duration is the cause, and not the cure, of the recent market volatility. In fact, US treasuries have experienced the longest losing streak on a total return basis since 1976, so far in 2018, and have generated losses on a two-year rolling period. Rates have moved higher making the equity market worried that they may choke off growth and cause a recession sooner rather than later. Hence, not surprisingly, traders have started to cut back predictions for how much the Federal Reserve will hike over the next year. The investment manager's view is that the current expansion will continue to surprise with its durability and longevity. If anything, the investment manager reads the recent market action in the bond space as a confirmation of an economy that will be stronger for longer. The loose fiscal policy in the US will continue to add impetus as, according to the latest projection, the budget deficit is expected to equal 4% to 5% of the gross domestic product for many years to come. Inflation is trending higher and the investment manager believes that the Federal Reserve will be willing to tolerate an overshoot in prices owing to political pressures. In that environment they expect returns for equities to continue to trounce those for bonds as they did in 2016 and 2017, admittedly with more volatility.

Underlying Fund Portfolio Summary

Asset Exposure



Bond Exposure – Sector Allocation



Important Information

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