Sestante Global Macro Fund

Monthly Investment Report as at 30 November 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

$4.6m

Exit Price

$0.9971

Market review

Stock market volatility remained elevated in November as the S&P 500 rallied 8%, fell 6% and then rallied 5% again after bottoming out on October 29. At the end of the month the MSCI AC World Daily TR was down 1.64%, as the Australian dollar recovered to just below the $0.73 level against the US dollar ('USD'). The strength of the Australian dollar was broad based as it was up between 2% and 3% against all major developed currencies and 1.5% against emerging currencies. Emerging markets outperformed the general index for the first time since March. The group was led higher by the Asian ex Japan region as China and South Korea caught a rebound whilst awaiting the outcome of the meeting between Trump and Xi Jinping on December 1st.

The S&P/ASX 300 TR was down 2.18%, underperforming its offshore counterparts for the fifth consecutive month as the softening of the domestic economy appears to be gathering momentum. Resources and energy were the worst performing sectors, with the latter posting double digit losses courtesy of the collapse in oil prices from $65 to just above $50 per barrel (in USD terms). Consumer staples, consumer discretionary and mid-caps took a hit as wage growth and spending remained constrained. Conversely, financials bucked the trend as investors bought back into banks. Despite many headwinds, the sector appears capable of maintaining its dividend yield going forward on the back of a robust capital position. Both the Top 20 and small caps outperformed the rest of the market. Global fixed income hedged back to Australian dollar (up 0.45%) broke its two months losing streak and was back in positive territory since the beginning of the year. US yields moved lower during the month and the curve flattened further as the Federal Reserve stated that the level of its target rate was "just below the neutral range", a retraction from its October's "we are a long way from neutral". Australian fixed income was up 0.24% with little movement in yields, as the 2, 5 and 10 year closing the month at 1.99%, 2.19% and 2.59% respectively. Property (up 0.66%) and infrastructure (down 1.17%) outperformed other growth assets as markets remained in a "risk-off" mode overall. The uncertainty weighed on alternatives' performance (down 0.59%), as the weakness in commodities and in high yield negatively affected commodity trading advisor and macro, and credit strategies.

Performance review

The Sestante Global Macro Fund (the 'Fund') returned 0.04% (net) for the month.

After poor performance from the Fund last month, the Fund continued to struggle in November, especially in the credit space. However, the Fund did benefit from the risk on trading bias, which brought some active short-term trading in futures that created positive alpha. Emerging market credit spreads have widened to a level were the Fund is now starting to see value in its trades versus general risk sentiment. Emerging market credit has been one of the worst performing sectors, however the investment manager believes the worst is behind us. China risk has abated, at least for now, and the Fund may benefit from the good carry trade over the next few months, even if we believe tension will arise again in the future. The investment manager has kept the Fund's short-term investment grade exposure at 65%. 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 decided to buy some upside calls on the US and European equity markets as the market may experience a relief rally after the US and China meeting. The investment manager believes the short-term rally will fade during the first quarter 2019 and will position the Fund for a range bound market with increased volatility. The equity exposure at the end of the month is approximately 18%. The investment manager has been active in short term trading, using equity futures due to the high volatility being experienced in equity markets.

Performance

	Growth Return (net) (%)	Income Return (net) (%)	Total Return (net) (%)
1 month	0.04	0.00	0.04
3 months	-1.59	0.00	-1.59
1 year	-1.47	0.00	-1.47
3 years (p.a.)	N/a	N/a	N/a
Since inception[2] (p.a.)	-0.23	0.00	-0.23

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

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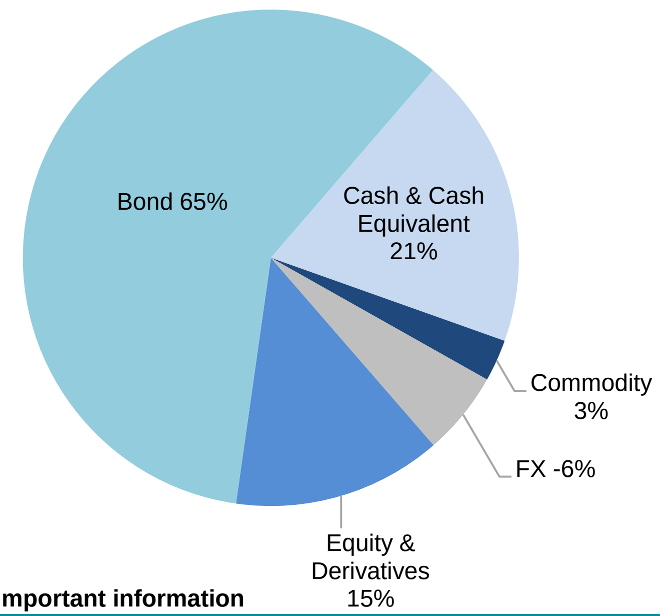
Market outlook

China and the US "agreed to disagree", at least temporarily, at the meeting between Trump and Xi Jinping that took place on December 1st. The beleaguered Chinese domestic market, the so called "A-Shares", and the Chinese offshore market, the largest constituent of all major emerging markets indices, held the line after the announcement, strengthening the outperformance generated over the S&P 500 in November. In addition, despite the confusion generated by the publication by each side of two parallel but not overlapping statements, the Chinese took the lead and prepared to restart the import of American soybeans and liquefied natural gas, thus fulfilling "one of the specific items where there is consensus with the US". In other words, as China committed to buy more US goods, pointing to a success for the Trump administration in the negotiation, market participants started to buy back their exposure to the country. Such an outcome may seem counterintuitive, however it is the exact mirror image of what happened back in May 2018, when market participants criticised the Trump administration for unilaterally imposing tariffs, while simultaneously piling into the US market. To understand the logic behind these movements the investment manager hypothesised that the trade war would be a huge issue for China in the long term and for the US in the short term. The former cannot afford to be cut off from access to US technology and intellectual property if it is to achieve the comprehensive upgrade of its industry defined in the "Made in China 2025" strategic plan. However, the latter could have reached a cyclical peak in economic growth and corporate profit margins in the third quarter of 2018 and it may slow down from here, partly due to the strength of the US dollar, which has also contributed to push the trade deficit to a 10 year high in October.

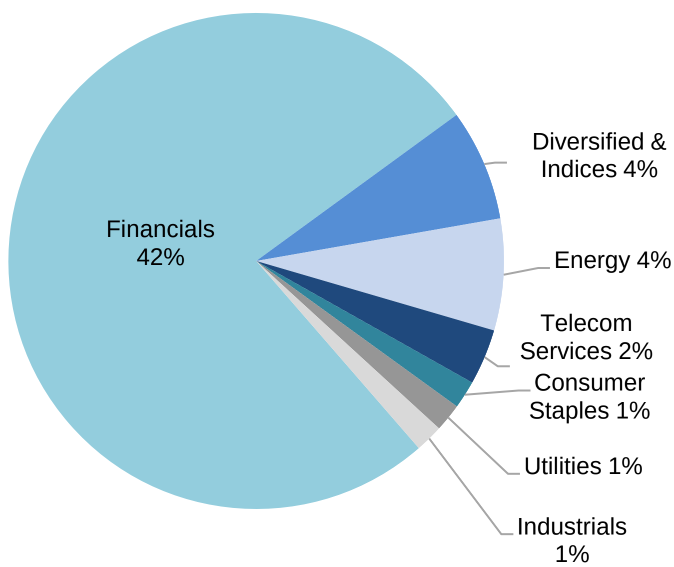
Hence, when the trade war broke out in May 2018 the market immediately moved to price its end result and China sold off. However, when it became clear that the US was unwilling to bare the short-term costs of that ultimate victory, China seized the opportunity to cut a deal, buying time and thus reducing to some extent the odds of a long-term defeat. The investment manager thinks that this dynamic will continue to hold in the foreseeable future and dictate the relationship between China and the US. Ultimately, every time the tension rises to a point where it threatens the US economy in the short term (causing the US market to outperform), China will make concessions to alleviate the most severe consequences for its economy in the long term (causing the Chinese market to outperform). If the investment manager's thesis is correct, it warrants an overweight position in emerging markets going into the end of the year.

Underlying fund portfolio summary

Asset exposure



Bond exposure – sector allocation



Important information

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