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CFM ISDiversified Trust

Alternative Beta
December 2017

Fund objective

CFM Institutional Systematic Diversified (ISDiversified) is a multi-strategy Alternative Beta program which aims to deliver positive returns over the long term with low historical correlation to traditional asset classes. The program is composed of strategies that have been observed to persist over long periods of time and is invested equally across three strategies: long term trend following, equity market neutral and risk premia.

Key facts [1]

A$1.04798	Unit Price
+1.29%	December ROR
+7.36%	Year to date ROR
A$54m	FUM ISD Trust
US$1.3bn	FUM Master

Key benefits

- A diversified multi-strategy approach
- Risk managed at a target volatility
- Low historical correlation to traditional asset classes
- Aims to provide cost effective access to alternative strategies

ISD Trust monthly returns since inception (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2015											0.0	-0.6	**-0.6**
2016	1.5	-0.2	-0.1	-3.1	0.9	-1.1	1.3	0.5	1.0	-0.2	-1.5	0.2	**-1.1**
2017	-0.3	2.3	-0.5	0.5	-0.2	-1.8	2.8	2.1	-1.2	2.6	-0.3	1.3	**7.4**

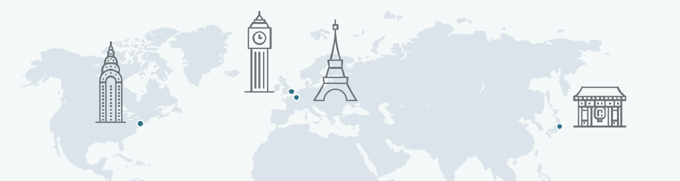
Performance figures (%)

	3 months	6 months	Calendar YTD	1 Year	2 Years (%pa)	3 Years (%pa)	Since Inception (%pa)
CFM ISDiversified Trust	3.6	7.4	7.4	7.4	3.1		2.6
Offshore strategy in USD	3.4	6.3	6.2	6.2	2.0	3.3	5.8

Fund details

Inception date:	11 Nov 2015
AIPR:	PIM0034AU
Management fee:	1%
Fund expenses:	Capped at 0.3%
Performance fee:	10%
Buy/sell:	N/A
Min investment:	A$50,000
Distribution frequency:	Yearly as at 30 June
Pricing:	Daily
Investor time horizon:	3-5 years
Benchmark:	N/A

CFM overview



QUANTITATIVE SYSTEMATIC ASSET MANAGER

OFFICES IN **PARIS | LONDON | NEW YORK | TOKYO**

FOUNDED IN **1991**

AUM ACROSS ALL PROGRAMS **US$11.1 BILLION**

CFM approach

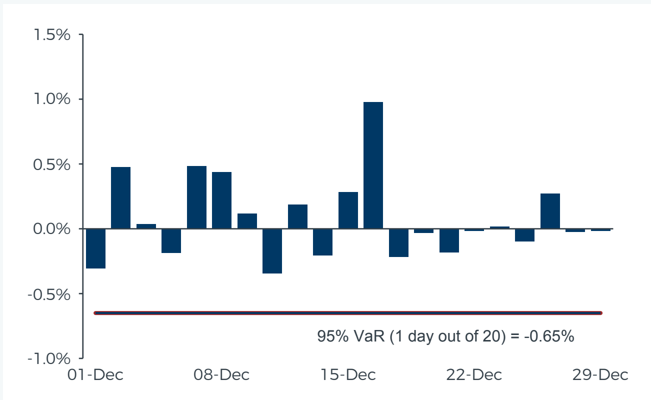
Research
A dynamic research team dedicated to developing new strategies, improving execution algorithms and refining portfolio construction techniques

Technology
Developing proprietary platforms to implement structured trading strategies across key exchanges

Risk Management
An independent risk team providing a multi-layered approach to market and operational risk

Collaboration
A collegiate culture of cross-discipline teams fosters an environment of innovation and performance

ISDiversified Trust daily returns (net) [2]



[1] FUM based on the leveraged equity of the master fund of the Fund, R CFM Diversified Fund, which is trading in accordance with the CFM ISDiversified trading program, as modified to accommodate the rules and restrictions imposed by UCITS, Directive 2014/91/EU such as the restriction to invest in commodities underlyings.
[2] The strategy figures are based on the performance of the offshore fund, CFM Institutional Systematic Diversified Fund LP - USD 6% Volatility ('CFM ISD LP'), which applies a similar trading strategy and target volatility as the Fund. Since June 2017, the performance of the Fund is, however, not fully comparable with that of CFM ISD LP, which includes an allocation to commodities (that is compensated by a slightly lower allocation to the other asset classes), that is not included in the Fund.
[3] HFRX Global Hedge Fund Index
[4] Correlation coefficients are calculated using daily time series
[5] Barclays Capital Global Aggregate Bond Index USD Hedged Standard Leverage
[6] MSCI World Index USD Daily Total Return Net

PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS. THERE IS RISK OF LOSS WHEN INVESTING IN A MANAGED ACCOUNT OR A FUND.

Unless otherwise specified, all monthly performance figures are based on the official NAV of CFM Institutional Systematic Diversified Trust.

Performance analysis

	Since Inception	Last 12 months
Total Cumulative Return	25.5%	6.2%
Annualized Rate of Return	5.8%	6.2%
% of Positive Months	58.3%	50.0%
Best Month	4.4%	2.8%
Worst Month	-3.3%	-1.8%
Peak to Valley Drawdown	-4.3%	-2.1%
Annualized Standard Deviation	5.5%	5.4%
Sharpe Ratio	1.0	1.0
Correlation[5] between ISD and		
HFRX Global HF[2]	0.34	0.48
Barclays Global Agg[4]	0.13	-0.05
MSCI World Index[5]	0.24	0.45

Monthly returns since inception (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2014	-2.1	2.5	0.2	-0.1	2.3	1.0	0.2	3.1	0.8	1.6	2.7	0.8	**13.8**
2015	-0.1	1.9	0.9	-2.0	1.4	-1.6	4.4	-1.4	2.8	-0.4	0.8	-0.7	**6.1**
2016	1.4	-0.4	-0.2	-3.3	0.7	-1.2	1.2	0.4	1.0	-0.2	-1.6	0.1	**-2.1**
2017	-0.3	2.4	-0.6	0.5	-0.2	-1.8	1.6	2.5	-1.3	2.8	-0.6	1.2	**6.2**

CFM ISDiversified strategies

Futures

Long Term Trend Following
Seeks to extract returns from momentum across four asset classes with equal risk allocation to each

Portfolio construction uses a proprietary, adapted mean variance optimisation technique

Risk Premia

Universal Carry
Long high-yielding assets; short low-yielding assets

Short Volatility
Short delta-hedged options at targeted risk

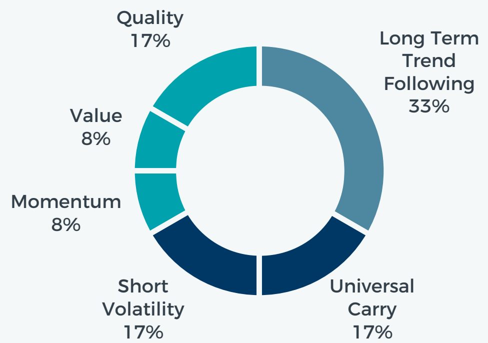
Equity Market Neutral

Momentum
Long term trend on stock residuals

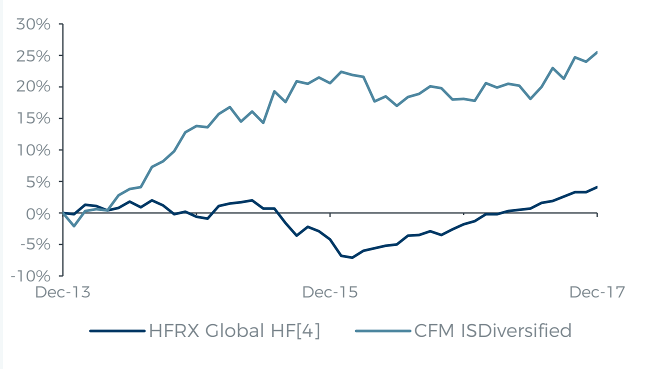
Value
Long value (low price to fundamentals) and short growth (high price to fundamentals)

Quality
Assessing stock quality using fundamental data

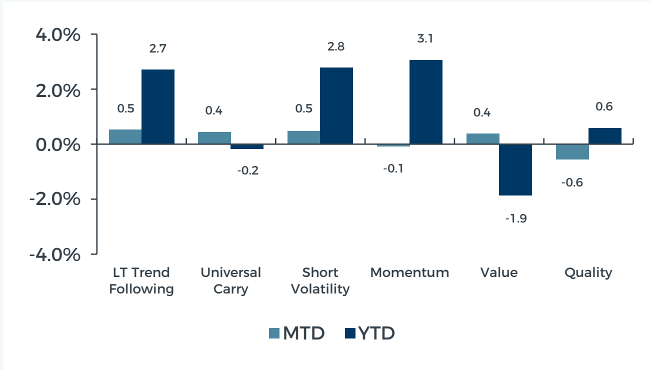
Risk allocation by strategy



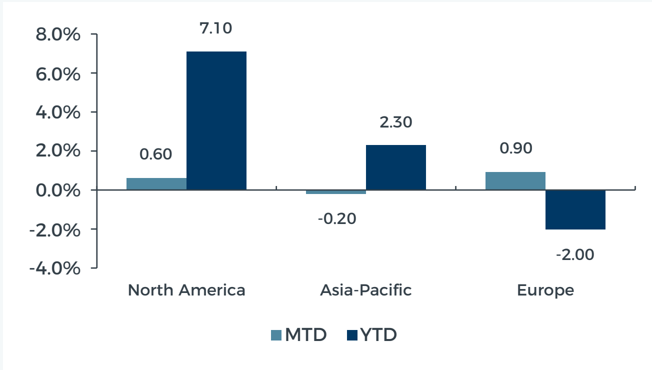
Cumulative returns since inception



Contribution per strategy (gross)



Contribution per geographic zone (gross)



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Important Disclosures

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Key performance figures

Performance		FUM		
+1.2874%	Monthly Return	**AUD$54m**	(AUD$54m equity)	ISDiversified Trust FUM (6% vol)
+7.36%	YTD Return	**US$3.5bn**	(US$3bn equity)	ISDiversified Program FUM (6% vol)
		US$11.1bn	(US$9bn equity)	Firm-wide FUM

The returns of R CFM Diversified Fund's underlying strategies (Long Term Trend Following, Equity Market Neutral, Risk Premia) represent gross "carve-out" figures resulting from an internal performance attribution process.

Performance report

Long Term Trend Following: +0.32%

The final month of the year yielded solid performance for the Long Term Trend Following program. With lower trading volumes, as is typically observed in December, daily returns moved within a narrow sideways range and featured few significant break-outs.

Having hitherto produced positive returns for every month of 2017 except June, Equity Indices again rounded out another month in the black and were the best performing sector. Returns were near-universally positive, bar the exception of the UK market where the FTSE 100 saw a strong rebound over the month on our short position. The UK blue-chip index closed at a record high on December 22, surpassing the previous record level attained in December 1999. The index, having risen over 5% during December, was provided strong impetus from a weaker pound as both the trajectory and substantive measures of Brexit negotiations remain uncertain. A weaker pound makes UK exports more competitive and benefits the London index whose constituents earn the bulk of their revenue abroad.

US equities secured a string of closing records over the period. Stocks were given a boost early in the month as the US Labor Department, on December 8, posted the widely monitored US payrolls data that beat estimates (228,000 newly created non-farm jobs, easily beating the median forecast of 195,000 from the survey of economists by Bloomberg). The best one-day performance for the program in equities came on December 15, as any residual fears of US lawmakers fumbling heavily anticipated tax reforms, dissipated. US indices, as a consequence, provided the best returns, with our long position in the S&P 500 finishing as the top performer.

Currencies were the main detractor for the program, with the New Zealand dollar having come out as the worst performing contract of the month. The announcement on December 12 of Adrian Orr taking over as governor of the Reserve Bank was positively received by markets, with the Kiwi dollar reaching a two-week high against the dollar on our short position. The program managed to claw back some losses on our long position on the Canadian dollar as both retail sales (+1.5% MoM in October against a forecast of +0.3%) and CPI (+0.3% MoM in November versus +0.1% expected – bringing inflation to 2.1%, above the Bank of Canada's 2% target) surprised on the upside.

Global interest rate markets had a testing year-end, reflected in Bonds which was a main detracting sector for the program. Bond yields rose across most major developed markets as investors witnessed increased hawkish sentiment from various central banks as economic slack continued to shrink. This was compounded by supply shocks as both the US and Germany are primed to issue large amounts of debt in 2018, notably Germany who is keen to capitalize on low yields. With euro zone inflation expectations at a 10-month high, euro-nation bonds, especially the German 5-to-30 year curve, saw strong steepening and our long positioning, particularly on the 5-year 'Bobl' future, suffered losses.

The program's biggest one day gain came courtesy largely from Equities, which, on December 7, staged a rally as US technology stocks were back in vogue and optimism for the prospect of US tax reform strengthened.

The LTTF program wraps up 2017, like the final month, with positive performance. The best performance over the year came courtesy of Equity Indices, while Currencies were the biggest detractor. Heading into the New Year, a position of net long Equities and Bonds (although marginally reduced) is retained, whilst dollar positioning is close to net flat. The program maintains a net short position in STIR futures (slightly increased from November).

Equity Market Neutral: -0.21%

The final month of 2017 featured lackluster performance for the EMN strategy, with overall negative returns recorded over the month. These were neatly split between positive and negative trading days.

The best single name performer was H&M, the world's second-largest fashion chain listed in Stockholm. Releasing sales figures for Q3 that came in well under expectations, the company blamed a lack of footfall as shoppers gradually move and adopt to the online shopping environment. Analysts cited worries of the firm's perceived inability – especially as compared to main rival Inditex – to adapt to this shifting business landscape. Shares fell 13% on December 15 on our short position.

At the other end of the scale, a surge in the share price of BioMarin Pharmaceuticals on news that it successfully completed a breakthrough gene therapy trial, was the standout single name detractor. Its price jumped 7.4% on our short position on December 11.

Performance for the EMN strategy in 2017 was overall positive. A dominant theme was the outperformance of the Momentum cluster – almost exclusively responsible for the bulk of returns. The Quality cluster was also positive, while the Value cluster weighed heavily on overall performance. The program's statistically factor neutral position maintains marginal long positions in the Technology (although further reduced over the period); Consumer, Cyclical; Basic Materials and Financial sectors. The strategy's short position in Consumer, Non-Cyclical and Energy (with short exposure increased) were also maintained, as other sector exposures remain low.

Momentum: +0.01%

Momentum, although finishing the year as the best performing cluster, ended the month flat. The divergence between European (strong upward rally) and US (severe sell-off) performance, already established in previous months, were amplified.

While gains were concentrated in European equities, these were entirely neutralized by a sell-off in US momentum stocks, especially in the Energy and Consumer, Non-Cyclical sectors. These sectors were also the worst performing sectors over the entire portfolio, whilst most other sectors ended the month also flat or in negative territory (with the exception of Basic Materials and Communications).

Value: +0.42%

The Value cluster found some reprieve with strong performance across most regions, especially in the US. European equities also showed strong gains, with the German and Finnish markets spearheading the rise. Although the only cluster yielding a positive payoff during the month, it was nevertheless – by a substantial margin – the worst performing cluster over the year.

Most sectors were up, with Financials leading the way. Of the only three sectors that featured negative performance, Consumer, Non-Cyclical fared the worst; followed by Industrial and Energy. The program continued to add to our slightly long position in Financials, continuing a rotation away from Consumer, Non-Cyclical.

Quality: -0.65%

The Quality cluster's poor performance from November persisted, owing to lagging Japanese stocks, especially in the Industrial and Communications sectors. The cluster was down in every region, except Europe, where it was all but flat.

The best performance came from the Consumer, Cyclical sector – driven by a strong showing in the US and Europe. The Consumer, Non-Cyclical sector, was, however, the biggest detractor over the period – with the cluster down in all regions, most notably in the US. The program reduced our minor long position in the Consumer, Non-Cyclical, in favor of the Industrial sector.

Risk Premia: +1.70%

Universal Carry: +0.77%

The generalized carry strategy saw out 2017 in a positive fashion, with both Equity Indices and FX sectors displaying solid performance. Interest Rate markets were however a sizeable detractor to overall performance.

Whilst returns from Equity Index carry varied across regions, strong returns were seen in most developed markets – making this the best performing sector over the period. Our long position in Hong Kong, German and US markets all contributed positively. The UK market, however, was the top contributor as the FTSE 100 – fanned by a weak pound – reached a string of all-time highs over the period, finishing the month 5.4% higher.

Carry in the FX sector contributed positively, overwhelmingly driven by gains from our long positioning in G7-21 currencies. Our long position in the South African rand was the stand-out contributor, as the greenback lost nearly 10% against the rand. The election of the business friendly Cyril Ramaphosa as next leader of the ruling African National Congress (ANC), and, as such, likely successor to the embattled incumbent Jacob Zuma, was well received by markets. A likewise long position in the Turkish lira (+~3% on solid GDP figures and central bank rate hike) and Indian rupee (+~ 1% as consumer prices increased 4.9% in November – a 15 month high) handed further profits to the strategy.

Short Term Interest Rates were the worst performing sector, predominantly dragged down by our long position in the Eurodollar contract. Short term dollar interest rates increased following the Federal Open Market Committee's decision on December 13 to further tighten monetary policy by raising the Federal Funds rate by 25 basis points.

Performance was randomly distributed through the month, although days with positive performance outnumbered the negatives. Through 2017, the performance was largely negative (largely owing to a challenging year for Currencies), with only three out of twelve months recording positive performance. The Carry strategy, as a result, was slightly down and ended the year as the largest detractor for the program. Going into December, the program maintains net long positions in Equity Indices and Short Term Interest Rates, with net short positions in the dollar. The program meanwhile, has moved from a small net short position to a small net long position in Bonds.

Short Volatility: +0.91%

December delivered strong positive returns for the strategy, as delta hedged options on all sectors, except Commodities (which was near flat), showed gains. Equity Indices and Currencies led the pack. The biggest one day move occurred on December 4 from the program's hedged DAX and Eurostoxx 50 options as both these indices rallied on news that the U.S. Senate approved a Republican-sponsored proposal for tax reform. As optimism waned and possible delays to the tax reform came into focus, the S&P 500 experienced a slight drawback. As a consequence, our hedged S&P options brought further noteworthy gains on December 14. Returns, these two examples notwithstanding, were however evenly dispersed over the period.

Market volatility was otherwise muted, with implied volatility – as measured by the VIX – moving sideways in a narrow channel of no more than 1 point divergence from an average of 10.23 over the period. Although moves on European and Japanese equity markets were more pronounced, the demand for volatility protection in major equity markets hovered at its lowest level in more than three weeks according to the Bank of America GFSI Skew index.

The Short Vol strategy was the leading performer for the program over the past year. The strategy, benefitting from a historically low volatility environment, garnered exclusively positive monthly performance from January through to August before forfeiting minor losses in Q4.