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CFM ISDiversified Trust

Alternative Beta
May 2018

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 across four strategies: Trends, Equity Market Neutral, Risk Premia and Universal Value.

Key facts [1]

-1.83%	May ROR
-5.09%	Year to date ROR
A$73m	FUM ISD Trust
US$1.2bn	FUM Master

Key benefits

- A diversified multi-strategy approach
- Risk managed to 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**
2018	0.2	-3.3	-0.1	-0.2	-1.8								**-5.1**

Performance figures (%)

	3 months	6 months	Calendar YTD	1 Year	2 Years (%pa)	3 Years (%pa)	Since Inception (%pa)
CFM ISDiversified Trust	-2.1	-3.9	-5.1	0.1	1.0		0.1
Offshore strategy in USD	-1.6	-4.6	-5.7	-1.6	-0.1	0.6	3.9

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 | SYDNEY**

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

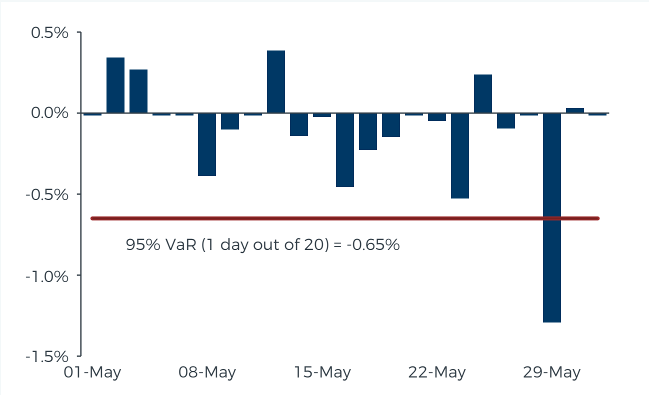
Risk Management

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, R CFM Diversified, which trades in accordance with the CFM ISDiversified trading program, as modified to accommodate the rules & 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 ISDiversified Fund LP - USD 6% Volatility ('CFM ISD LP'), which applies a similar trading strategy and target volatility as the fund, but which has a different fee structure. Since June 2017, the performance of the fund is not fully comparable with that of CFM ISD LP, which includes an allocation to commodities (that is compensated by a slightly lower allocation to other asset classes), that is not included in the Fund.

[3] Correlation coefficients are calculated using daily time series.

[4] HFRX Global Hedge Fund Index.

[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. RETURNS PRESENTED IN THIS DOCUMENT ARE UNAUDITED. ALL OPINIONS AND ESTIMATES INCLUDED IN THIS DOCUMENT CONSTITUTE JUDGMENTS OF CFM AS AT THE DATE OF THIS DOCUMENT AND ARE SUBJECT TO CHANGE WITHOUT NOTICE.

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

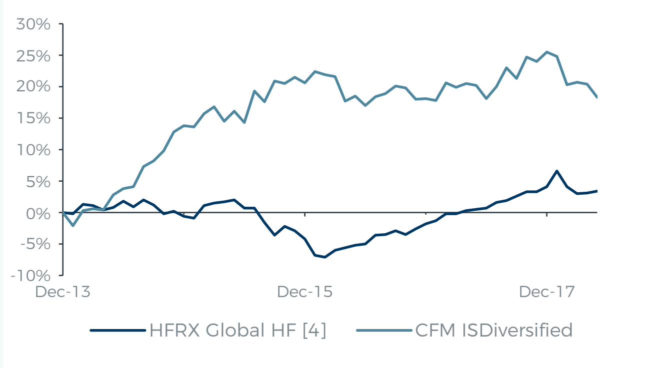
Offshore Benchmark Strategy in USD [2]

May 2018

Performance analysis

	Since Inception	Last 12 months
Total Cumulative Return	18.3%	-1.5%
Annualized Rate of Return	3.9%	-1.5%
% of Positive Months	54.7%	41.7%
Best Month	4.4%	2.8%
Worst Month	-3.6%	-3.6%
Peak to Valley Drawdown	-5.7%	-5.7%
Annualized Standard Deviation	5.7%	6.6%
Sharpe Ratio	0.6	-
Correlation [3] between ISD and		
HFRX Global HF [3]	0.36	0.53
Barclays Global-Agg [4]	0.10	-0.03
MSCI World Index [5]	0.27	0.50

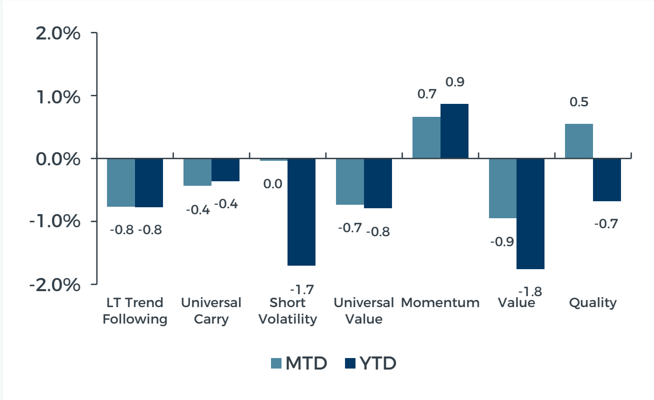
Cumulative returns since inception



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**
2018	-0.6	-3.6	0.4	-0.2	-1.7								**-5.7**

Contribution per strategy (gross)



CFM ISDiversified strategies

Trends

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

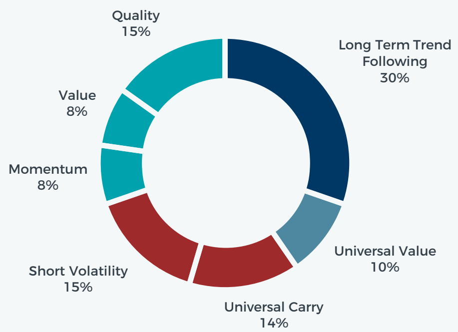
Universal Value

Seeks to exploit value from the mean-reversion of prices on the timescale of years.

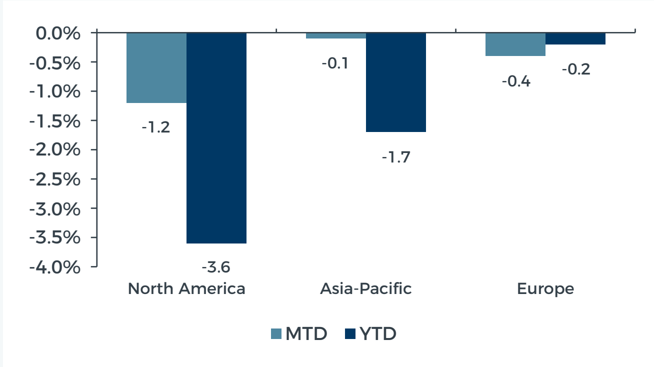
The program buys/sells cheap/expensive instruments in the futures/FX universe relative to both price based and fundamental value metrics.

Portfolio construction uses a proprietary, adapted mean variance optimisation technique.

Strategy AUM allocation



Contribution per geographic zone (gross)



For further details

Call us
1800-435-788

Email us
cfm@cfmaltbeta.com.au

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Key performance figures

Performance		FUM		
-1.8266%	Monthly Return	**AUD$73m**	(AUD$73m equity)	ISDiversified Trust FUM (6% vol)
-5.0831%	YTD Return	**US$3.3bn**	(US$2.9bn equity)	ISDiversified Program FUM (6% vol)
		US$11.1bn	(US$9.0bn equity)	Firm-wide FUM

The returns of the master fund's underlying strategies (Trends, Equity Market Neutral, Risk Premia, Universal Value) represent gross "carve-out" figures resulting from an internal performance attribution process.

Performance report

- Markets were tested to make sense of various political and policy developments (US exiting the Iran nuclear deal; Italian political turmoil; trade war looking more likely as Trump enacted punitive steel and aluminium tariffs), all causing notable intra-month market swings. The Trends program as such struggled for footing during this choppy period, and a flare-up of volatility and risk-off sentiment also left the Short Vol strategy exposed.
- Political haranguing in Italy weighed heavily on markets: along with Italian bonds that sold-off, the Italian bourse (FTSEMIB) plummeted 9.2% during the month. The Eurostoxx 50 gave up 3.7% with contagion jumping to international exchanges as investors' confidence withered. Longs in European exchanges tended to do poorly, with longs in some US exchanges buffering larger losses. The majority of US Treasuries found some purchase as the yield curve shifted lower on dovish sentiment from the Fed and uninspired wage growth. The exception being the shortest tenors (<1 year in maturity) as the front end lifted slightly. European (non-Italian) yields fell, our shorts suffering on the back of the political fallout.
- The US dollar remained resilient (dollar index (DXY) gained 2.3% over the month). As a consequence, and combined with the political confusion in Europe, the single currency lost 3.2% against the dollar. A rising dollar stoked fears in emerging markets as many debt-laden countries, with credit denominated in dollars could run into trouble – the MSCI Emerging Market Index dipped -3.8% as compared to the 0.3% gain by the sister MSCI World Index.
- Macroeconomic data was largely supportive: the US unemployment rate fell below 4% for the first time in 17 years; April US retail sales climbed +0.3% MoM; and the Conference Board Consumer Confidence printed in line with expectations.
- Volatility in equity markets spiked towards the end of the period, despite the CBOE VIX hovering at ~15 points for most of the month. Other asset classes witnessed more animated moves, with the TYVIX (US 10-year volatility index) hitting a three-and-a-half month high on May 29 as political turmoil in Italy reached a climax.

Trends: -1.04%

Trends had a challenging month. All asset classes contributed negatively, but overall performance was mostly harmed by Bonds – especially our long position in the Italian 10-year future. After reports that the post-election stalemate might result in a populist party tie-up and a potential shift in economic policy, the Italian 10-year yield skyrocketed from ~1.6% during the first week of the month, to a peak of 2.9% on May 29. Our short position in both the US 2 and 10-year also detracted from performance as the US yield curve shifted lower (and flattened), but in an uneven fashion as markets were pummelled with contradictory signals. Non-farm payrolls and wage growth were soft (164k vs. 193K and 2.6% annualized vs. 2.7% respectively) acting as the likely explanation for a slight downward movement in the benchmark US 10-year as the pace of gradual monetary tightening seemed unlikely to be affected.

Currencies were dragged down primarily by the strategy's long positing in the euro and sterling. The sentix Euro Break-up Index (measuring the probability that a euro-area country will leave the Euro within a one year period) rose to a 12-month high during May – reflective of investor's skittish attitude towards the Italian political situation. Although higher oil prices lifted eurozone headline annual consumer price inflation (1.9%), core inflation rests well below the ECB target at 1.1%. Combined with political tension and lower growth prospects, the European Central Bank (ECB) is expected to keep monetary policy accommodative – all this keeping downward pressure on the euro. Our long position in the euro, against this background, was our worst performing major currency. Heavier losses were avoided by our short position in key G7-21 currencies, especially the Turkish lira (down –10.3% on President Erdogan's comments of wanting more direct monetary policy oversight), and the Brazilian real (-6% over the month).

Global equity markets, notwithstanding being stymied by unique political and geopolitical events, continue to be supported by a positive macro environment with the MSCI World Index rising slightly (+0.3%). Equity Indices, despite being the best performing sector, slipped into negative territory, overwhelmingly dragged down by our long position in the Italian MIB. Our long position in the Nasdaq (+5.3%) emerged as the best performing contract.

At the start of June, the program keeps its net long Equity Indices position (slightly reduced), along with a net short STIR futures position. The program has moved from a net short to long position in Bonds, while a slight net short dollar position is retained.

Equity Market Neutral: +0.30%

The EMN program performed well, contributing positively during the month. The positive performance, across all clusters, were chiefly driven by European securities, while Japanese securities delivered the most negative returns. While Australian equities were slightly up, all other regions were largely flat. Technology was the leading sector, whilst Consumer, Non-Cyclical was the biggest detractor when aggregated over all clusters.

The program's statistically factor neutral position maintains marginal long positions in the Technology, Consumer, Cyclical, Basic Materials and Financial sectors (all reduced). The strategy's short position in the Consumer, Non-Cyclical and Industrial sectors (short exposure marginally reduced) was also maintained, as other sector exposures remain low.

Momentum: +0.79%

The momentum cluster regained its lustre, with solid performance during the month. All regions contributed positively to overall performance lead by Europe and the US, with Australian equities the laggard. All sectors were up (Consumer, Cyclical the best) with the exception of Utilities that were all but flat. There was little to distinguish between individual sectors, with solid, but yet not stellar positive performance across the spectrum.

Value: -1.15%

Value was the worst performing cluster during May, hampered by poor performance in all regions, but especially in the US: the Consumer, Non-Cyclical and Communications sectors dragging most on performance in this region. Globally, all sectors were down – with the exception of Basic Materials and Utilities (flat). Consumer, Non-Cyclical emerged as the worst sector.

Quality: +0.66%

Quality enjoyed a positive month, aided by strong performance from all regions (except Japan where the Industrial sector acted as the biggest drag). The US and Europe were vying for a tie as best performing region. Aggregated over all regions, the Technology along with Consumer, Cyclical, were the standout sectors. The Consumer, Non-Cyclical sector pulled down overall returns.

Risk Premia: -1.10%

Universal Carry: -0.91%

Despite the strategy having more positive than negative daily returns (14 against 9), Universal Carry suffered from poor returns in particular from Interest Rate Markets, slipping into negative territory for the first time in three months.

Bonds were the worst performing sector, as interest rate markets were overwhelmingly influenced by the political discord in Italy. Our long position in the Italian 10-year captured the most negative returns, with most other positions gaining or largely flat. An exception was our short position in the German 5-year Bobl, a tenor that fell 21 basis points as investors were seeking out the relatively safety of German sovereigns.

Short Term Interest Rates were the sole positive sector, owing to our long position in Eurodollar. The Eurodollar, trading as a discount security tied to the USD LIBOR, moves higher when the LIBOR moves lower, and vice versa. The LIBOR declined 1.8% in May, benefitting our longs.

Equity Indices, ended the month slightly in the red, despite good performance from our long position in the UK FTSE (the index gained 2.3% in May, thanks in part to a better macro backdrop: strong annual wage growth of 2.9% outrunning CPI at 2.4%). The strengthening dollar (gaining 3.5% against the pound) also backed the rise in the UK benchmark equity index. Our long position in the Italian MIB and European Stoxx 50 hampered better performance.

Currencies also contributed negatively, with solid performance from our universally long dollar positioning amongst G7 currencies not able to eclipse the poor performance form a selection of emerging market currencies. The majority of G7-21 currencies detracted from performance (notably our long position in the Turkish lira) as emerging market currencies started to look much less attractive against a rising yield and rising dollar backdrop.

At the end of May, the strategy is net long Equity Indices and STIR futures, along with a net long dollar position. The Bonds sector is flat.

Short Volatility: -0.19%

The program, despite a jittery session, ended the month slightly down as negative returns in Bonds and Currencies eroded the gains from Equity Indices.

Volatility in Bonds spiked, a victim of the uncertain political narrative in Europe; volatility on Treasuries (CBOE 10-year TYVIX as proxy) climbed 15.5%. Equity market implied volatility jumped during week three, hitting its highest level for the month on May 29 (VIX peaked above 18 points intraday) as the political developments in Italy came to a head and spooked investors. As a result, delta hedged options on the S&P 500 contributed negatively (as did the options on the DAX). However, delta hedged options on the Nikkei (implied volatility on the Nikkei, the VNKY, was less acute) harvested a few basis points along with the Eurostoxx 50.

Currencies, due to our delta hedged options on the euro, were the worst performing sector. Implied volatility measured by one-month at-the-money options rose steadily throughout the month: from ~6.5 points on May 1, to a three-month high of 8.7 on May 29. With the euro coming under pressure on mixed data (positive labour market and consumer confidence signals, against higher oil prices and declining European PMI), the currency experienced a bumpy session. The pound, only marginally better than flat, were less volatile, as one-month at-the-money options saw tight sideways movement between 7 and 8 points.

Universal Value: -0.53%

The Universal Value strategy suffered in May. Performance during the month was defined by a plummeting Italian 10-year future on our long position, and exacerbated by a flight to German sovereign safety, impacting our short position in notably the German 5-year, but also the 2-year Schatz (yield down by 8 basis points) and 10-year Bund (yield down by 22 basis points). As such, Bonds were the worst performing sector. Short Term Interest Rates were marginally positive, and the best performing sector on the back of our long Eurodollar position (see Universal Carry for more details).

A strengthening dollar battered our near-exclusively long positioning on G7 currencies (bar the euro which has been transitioned from long, to short the greenback). Long positions on key, struggling G7-21 currencies (noticeably the Turkish lira) added to the losses in this sector.

Equity Indices, despite profiting from our long position in the FTSE, suffered at the hand of our long position in the Italian MIB, and Eurostoxx 50.

Considering the performance characteristics of the Universal Value strategy, the current drawdown is within expectations.

Heading into June, the strategy is net short Bonds and Equity Indices, along with a net long STIR futures and short dollar position.