CFM

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CFM ISDiversified Trust

Alternative Beta
June 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]

A$.9742	Unit Price
-2.07%	June ROR
-7.05%	Year to date ROR
A$76m	FUM ISD Trust
US$976m	FUM ISD Program

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	-2.1							**-7.1**

Performance figures (%)

	3 months	6 months	Calendar YTD	1 Year	2 Years (%pa)	3 Years (%pa)	Since Inception (%pa)
CFM ISDiversified Trust	-4.1	-7.1	-7.1	-0.2	0.5		-0.7
Offshore strategy in USD	-3.7	-7.3	-7.3	-1.5	-0.3	0.6	3.4

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

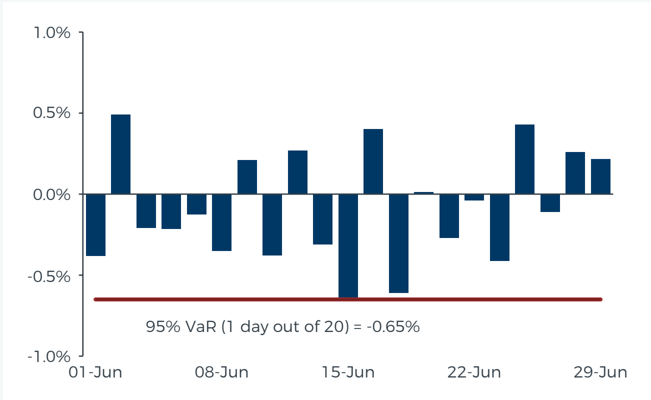
Risk Management

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.

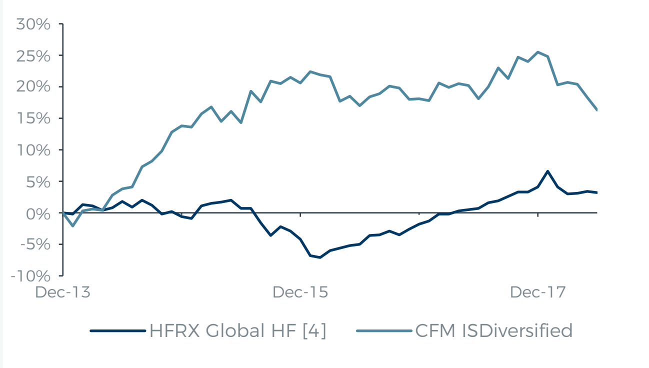
Offshore Benchmark Strategy in USD [2]

June 2018

Performance analysis

	Since Inception	Last 12 months
Total Cumulative Return	16.3%	-1.5%
Annualized Rate of Return	3.4%	-1.5%
% of Positive Months	53.7%	41.7%
Best Month	4.4%	2.8%
Worst Month	-3.6%	-3.6%
Peak to Valley Drawdown	-7.3%	-7.3%
Annualized Standard Deviation	5.7%	6.6%
Sharpe Ratio	0.5	-
Correlation [3] between ISD and		
HFRX Global HF [2]	0.36	0.52
Barclays Global-Agg [4]	0.10	-0.11
MSCI World Index [5]	0.27	0.47

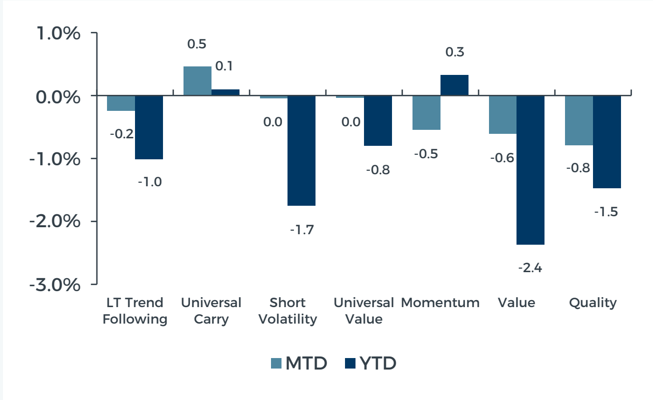
Cumulative returns since inception



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	-1.8	-1.7							**-7.3**

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

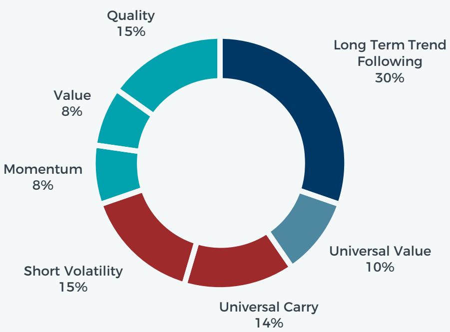
Universal Value

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

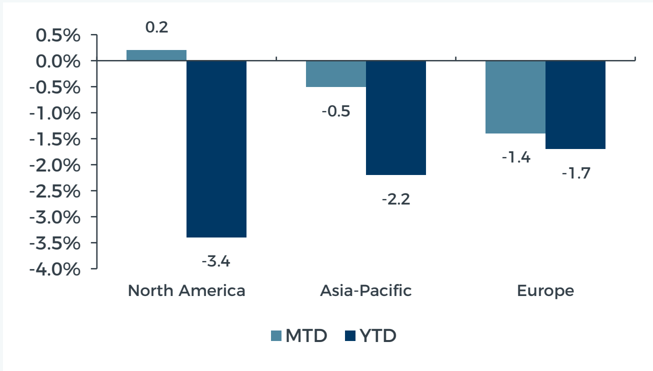
The program buys/sells cheap/expensive instruments in the futures/FX universe relative to both price based and fundamental value metrics.

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		
-2.0659%	Monthly Return	**AUD$76m**	(AUD$73m equity)	ISDiversified Trust FUM (6% vol)
-7.05%	YTD Return	**US$3.1bn**	(US$2.7bn equity)	ISDiversified Program FUM (6% vol)
		US$11.1bn	(US$8.9bn 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

- June got underway with mostly solid economic data releases from the US: non-farm payrolls printed 223K for May – above 190K expected; ISM Manufacturing rebounded in May to 58.7 from 57.3. A further flurry of mixed economic data (Consumer confidence slipped, Industrial Production down, while Retail sales improved) was overshadowed by the sustained anxiety over a brewing trade war. A sharp fall in 'New Orders' in the US Philly Fed Manufacturing Index was suggestive of this – dragging the gauge to its lowest point since 2016 - a reading of 19.9 in June from 34.4 in May .
- Risk-off sentiment invaded markets, with emerging markets particularly under pressure (MSCI EM Index fell -4.6% vs. MSCI World, which was flat at -0.17%). The NASDAQ nevertheless hit a record high and ended the month up 0.9%: most of the outperformance in the Tech sector was the jump in the 'FAANG' group of stocks. The second week started with flight to safety: Japanese yen , US Treasuries and German Bonds all picked-up (as key market indices were mostly lower, especially the DAX, as constituent members are heavily reliant on exports).
- Key central banks all held rate-setting meetings in June; with the US Federal Reserve (Fed) raising rates by 25 basis points; the European Central Bank (ECB) committing to current rates at least until the end of summer 2019 (although asset purchases will cease in 2018); and the Bank of England (BoE) holding course.
- The US dollar continued its strong performance (notably against G7-21 currencies) as a dollar liquidity squeeze intensified on Fed hiking and balance sheet tapering. The Dollar Index (DXY) registered a third straight month of gains.
- An anticipated relaxation of output limits by OPEC sent oil lower during the first half of the month, only to rebound as the highly choreographed meeting failed to calm markets over supply fears.

Trends: -0.30%

The strategy, despite a largely tentative market environment, garnered modest gains from Interest Rate markets. Trends was nevertheless down for the month, dragged into the red by Currencies and mostly net long Equity Index positioning. Short Term Interest Rates were the best performing asset class on the back of our short Eurodollar position. The Eurodollar, trading as a discount security tied to the USD Libor, moves lower when the Libor moves higher, and vice versa. The Libor, having been on the rise owing to the Fed keeping to its tightening script, as well as large debt issuance by the Treasury (especially at the front-end of the curve), has been helping to push up short term money market rates. Libor climbed 0.6% in June, with our Eurodollar shorts benefitting.

Bonds profited principally from our short position in the US two-year Treasury note: with the US economy seemingly still in good health, the Federal Reserve reaching its 2% inflation mandate; and Fed forecasts identifying slightly faster growth as per their June 12-13 FOMC meeting, the US yield curve lifted on the front end. The two-year tenor rose 5.8 basis points.

Equity Indices offered negative returns, as global markets struggled to digest the impact, and likelihood of an out and out trade war. These concerns weighed on performance, with the majority of global indices, notably in emerging markets, down or flat over the month. Commitment of Traders (CoT) data shows however that non-commercial traders slightly extended their existing long positioning in the S&P 500 (S&P 500 was up +0.5% in June). The long-short ratio in the S&P Mini during the month increased to 1.53, from 1.46 a month earlier. Our short positioning in the MSCI Emerging Market Index (along with the Dax) was one of the best performing contracts as trade war fears acted as strong discouragement in the outlook of trade-reliant emerging markets.

The main losses, however, came courtesy of Currencies, where the strategy lost predominantly on G7-21 currencies. Emerging market currencies have been subject to violent swings and downward pressure (the JP Morgan Emerging Market Currency Index (EMCI) is down -7.2% YTD). Our long position in the South African rand was the worst performing contract (the rand fell to a near seven-month low on trade fears and a struggling local economy which suffered its worst quarterly GDP contraction in nine years in Q1). Our short position in the Turkish Lira (as the currency fell to record lows against the USD, and nearly -20% YTD on fears that President Erdogan will interfere with monetary policy) buttressed any bigger losses.

At the start of July, the program keeps its net long Equity Indices position, along with a net short STIR futures position. The program has moved from a net short to a net long position in Bonds. A slight net long dollar position has been established.

Equity Market Neutral: -2.31%

After a welcome repose in May, the strategy took on heavy losses in June – continuing to underperform within the program. All clusters were negative, with the Quality cluster leading the drawdown. No region was spared negative performance, with US equities faring the worst.

Sectors most negatively affected were Basic Materials, Industrials, and Automotive (as a looming trade war – President Trump approved 25% punitive tariffs on $50 billion worth of Chinese goods on June 15 – is already claiming its first victims). Aggregated across the book, our long positioning in the mining sector suffered the biggest losses, especially in the UK. Our short position on a selection of US biotechnology names also acted as a significant drag on overall performance. Strong performance from our long position in the US retail sector stemmed any bigger losses.

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

Momentum: -0.69%

A reversal in momentum stocks was noted, where Cyclical sectors (having outperformed YTD) corrected abruptly mid-June: especially in the U.S and swung towards defensive sectors. Momentum, despite all regions (bar Canada) contributing negatively to overall performance (led by US equities), was the best performing cluster. Nearly all sectors were down (Consumer, Non-Cyclical the worst) with the exception of Industrials, which were all but flat.

Value: -0.71%

All regions were down (with the exception of Australia that was flat) and the US the worst. While this cluster has been lagging YTD, some sectors nevertheless delivered some positive performance, albeit modest: Industrials, Energy, Basic Materials, and Financial were all in the black, with Consumer, Cyclical the main detractor.

Quality: -0.90%

Performance in Quality was mixed, with European equities underperforming most. The Energy and Financial sectors were positive, whilst Basic Materials underperformed, especially from mid-month.

Risk Premia: +0.34%

Universal Carry: +0.35%

The strategy continued to do well, with robust returns in June pushing the strategy into overall positive territory for the year. All sectors, except Short Term Interest Rates, were up. As opposed to Trends and within the diversified mandate of ISD, the Universal Carry strategy maintains a long Eurodollar position. Heavy losses incurred on these contracts, made this the worst performing asset class.

The best returns were delivered by Currencies, where, despite heavy losses in a selection of G7-21 currencies (notably our long position in the South African rand which lost 7.5% against the dollar in June), performance in G7 currencies were universally positive. The strategy retains a net long dollar position against all major currencies, which, as the dollar recorded a third straight month of gains (DXY dollar index +0.52% in June) bode well for our positioning.

At the end of June, the strategy is net long Equity Indices and STIR futures, along with a net long dollar position. The Bond sector has moved from a flat to a slight net short position.

Short Volatility: 0.00%

With markets looking for purchase amidst a significant amount of uncertainty, the Short Vol strategy performed reasonably well – registering only a minor loss over the period. Daily performance during the month was erratic, with only Bonds ending in the black. Volatility in Bonds drifted slightly up leading to what became a bitter G7 meeting during the weekend of June 9, with the CBOE ten-year TYVIX reaching 4.55 on June 11 – the high for the month. A busy schedule of Central Bank meetings that followed did little to unsettle volatility on Treasuries, with the TYVIX moving mostly sideways in a very tight band between ~3.65 and 4.10.

Volatility in other asset classes, however, rose suggestively, with the CBOE VIX – after reaching a 4½-month low on June 6 (11.64 points) rose steadily to an intraday month high of 19.36 points on June 25 as Trump threatened even more punitive tariffs on China. As turmoil returned to markets, traders have been forced to shell out more for volatility protection – with the cost of VIX calls reaching similar levels as was seen during February. Our delta hedged options on key Equity Indices performed well, with only positioning in the S&P 500, and specifically the Dax (implied volatility on the Dax as measured by the V1X reached a six-week high on June 28 of 19.64 points) suffering negative returns. Eurostoxx and Nikkei delta hedged options both, however, showed positive returns.

The worst performance came from Currencies. As with the Value strategy, June 14 marked a particularly tumultuous time in the month, with Equity Indices all contributing negatively as markets processed diverging Central Bank monetary policy signals. Currencies also came under fire, as the euro had its worst day against the greenback in two years as the ECB projected a much slower normalization trajectory.

Universal Value: -0.20%

The strategy was down, despite an uninterrupted positive streak from June 15. Better performance was stymied by heavy losses on June 14, as the ECB confirmed it will end asset purchases in December (but with no expected rate change before end of summer 2019). Markets were conflicted after a dovishly-tainted press conference (only a day after a hawkish Fed decision that signalled (at least) two more rate rises in 2018. The diverging policies, turned into a rally for the US dollar (biggest single-day gain in four-months) and Currencies – where we are exclusively short the US dollar – got roiled, ultimately ending the month as the worst performing sector. A widening gap between short-term US and European rates underpinned the dollar rally on June 14, but was to be exacerbated for the remainder of the month as the Japanese yen suffered on surging oil prices towards the end of the month; euro tripping over political fissures in Germany; and the pound suffering at the hand of further Brexit uncertainty.

Equity Indices emerged as the best performing sector, with our short position in the Dax the best performing contracts, as the German benchmark (comprising various export-heavy constituents) shed -2.4% on trade war contagion fears.

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