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# CFM ISDiversified Trust

Alternative Beta  
February 2019

## 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]

<b>A\$97925</b>	Unit Price
<b>-0.04%</b>	February ROR
<b>-0.51%</b>	Year to date ROR
<b>A\$75m</b>	FUM ISD Trust
<b>US\$631m</b>	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	-2.1	-0.3	-1.9	0.4	0.9	-1.5	3.7	-6.1
2019	-0.5	0.0											-0.5

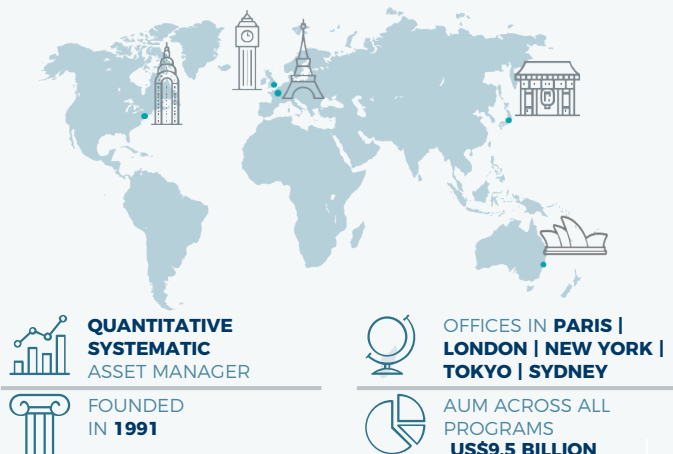
## Performance figures (%)

	3 months	6 months	Calendar YTD	1 Year	2 Years (%pa)	3 Years (%pa)	Since Inception (%pa)
CFM ISDiversified Trust	3.1	2.8	-0.5	-3.6	-0.8	-0.7	-0.4
Offshore strategy in USD	4.1	2.0	0.8	-3.1	-1.7	-1.5	3.0

## Fund details

Inception date:	11 Nov 2015
AIPR:	PIM0034AU
Management fee:	1%
Fund expenses:	Capped at 0.3%
Performance fee:	10%
Buy/sell:	Nil
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



## CFM approach

### Research

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

### Technology

Developing proprietary platforms to implement structured trading strategies across key exchanges

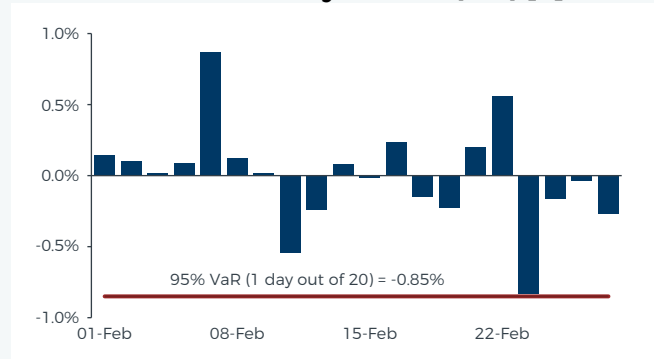
### Risk Management

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.

## Performance analysis

	Since Inception	Last 12 months
Total Compounded Return	16.6%	-3.1%
Annualized Rate of Return	3.0%	-3.1%
% of Positive Months	51.6%	33.3%
Best Month	4.4%	3.3%
Worst Month	-3.6%	-2.3%
Peak to Valley Drawdown	-10.8%	-7.3%
Annualized Standard Deviation	5.7%	5.1%
Sharpe Ratio	0.4	-
Correlation [3] between ISD and		
HFRX Global HF [2]	0.32	0.13
Barclays Global-Agg [4]	0.11	0.05
MSCI World Index [5]	0.21	-0.01

## 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	-0.4	-1.3	0.5	-0.3	-2.3	3.3	-7.9
2019	0.0	0.9											0.8

## CFM ISDiversified strategies



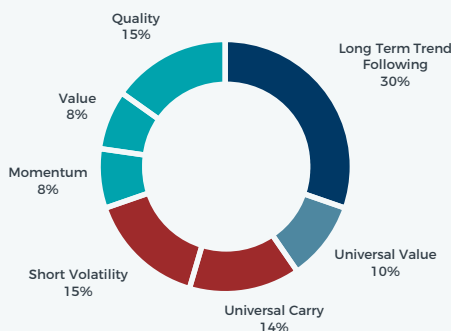
### Trends

**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

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### Strategy AUM allocation



### 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)

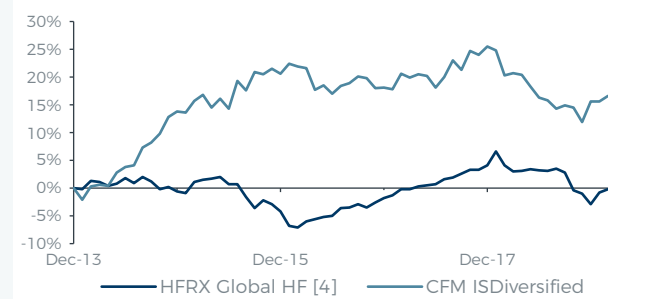
**Quality**  
Assessing stock quality using fundamental data

### Universal Value

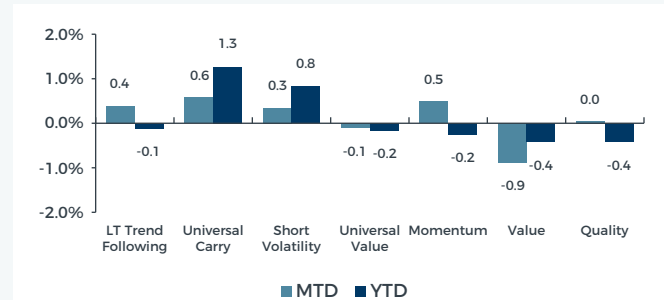
Seeks to exploit value from the mean-reversion of prices on the timescale of years.

The program buys/sells cheap/expensive instruments relative to both price based and fundamental value metrics.

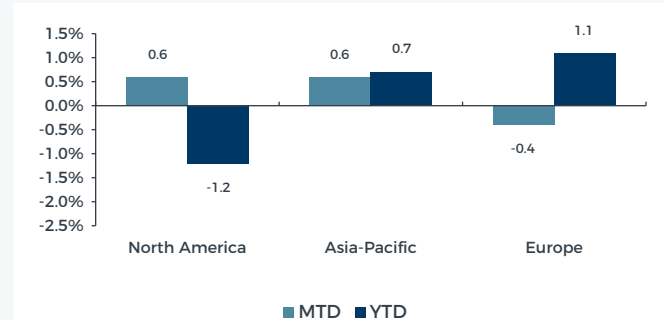
## Compounded returns since inception



## Contribution per strategy (gross)



## Contribution per geographic zone (gross)



## For further details



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### Important Disclosures

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## Key performance figures

Performance	FUM	
<b>-0.0419%</b> Monthly Return	<b>A\$75m</b> (A\$75m equity)	ISDiversified Trust FUM (6% vol)
<b>-0.5051%</b> YTD Return	<b>US\$2.9bn</b> (US\$2.6bn equity)	ISDiversified Program FUM (6% vol)
	<b>US\$9.5bn</b> (US\$7.8bn 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

- ▶ February 11 acted a breakpoint in the period as US-China trade talks got underway. Positive sentiment on these trade negotiations spurred on equity and commodity markets. The MSCI World index gained 2.8% over the month.
- ▶ Fed Minutes released February 20 (of the January 30 meeting) revealed a picture of uncertainty over the trajectory of monetary policy, with officials unclear over the "appropriate" target range for the Fed funds rate later in 2019. Subsequently, the dovish tone of the Fed remaining "patient" boosted appetite for risk assets, with the S&P gaining 3% (3.2% for the total return variant).
- ▶ Fears over a Chinese economy slow-down has remained a key worry for international markets. Economic growth has dipped below the Chinese target (slightly, from 6.5% to 6.4%), with domestic demand, and the lingering trade negotiations acting to fray nerves. The Chinese have announced various stimulus initiatives to invigorate more growth.


**Trends: +0.13%**

The Trend strategy performed well, with all asset classes contributing positively except Equity Indices.

Bonds were positive, with most gains coming from our short positioning on key US tenors, notably the US 2-year, which saw most gains coming during the week of February 8 and again during the final week (although the note traded in a tight range). Our long position in the US 5-year, was, on the contrary, the worst performer in this asset class as the yield rose slightly. Short Term Interest Rates were marginally better than flat, in large part thanks to our long position in the Australian 90-day Bank Bill contract, the yield of which sank 19 basis points.

The program's net long dollar position against a basket of C7 currencies made gains, especially against the Australian dollar, when, during the first week, the Reserve Bank of Australia (RBA) signalled a much more dovish outlook with various analysts expecting a rate cut by August from the current 1.5%. The Aussie finished down 2.5% against the greenback at month-end. The net long dollar position, however, was slightly worse than flat against a selection of minor and emerging market currencies.

Equity Indices found itself in the red, dragged down by short positioning in, predominantly, the Dax, mini S&P, and mini Russell. The German benchmark gained 2.5% on optimism over the US-China trade talks (being heavily stacked by export-exposed constituents). The S&P 500 and Russell 2000 both made strong gains (3% and 5% respectively) on the Fed signalling a continued dovish stance, and speculation over a positive resolution regarding the US-China trade war.

At the start of March, the program maintains net long Bond, Short Term Interest Rate, and dollar positioning. The positioning on Equity Indices has moved from net short, to flat.


**Equity Market Neutral: -0.45%**

The EMN portfolio saw negative returns, with European equities faring the worst. US and Canadian equities were also in the red, with only Australian and Japanese markets contributing positively. Across the entire book, it was the Consumer, Non-Cyclical sector that offered the biggest losses, closely followed by the Industrial sector. The Consumer, Cyclical sector fared best.

**Momentum: +0.49%**

Momentum was both positive, and the best performing cluster in February. Nearly all regions were positive or flat, with the exception of Canada (marginally negative). In the US, it was the Consumer, Cyclical sector that stood out, with the Energy sector that was the biggest drag amongst Canadian stocks.

**Value: -0.97%**

Value securities had a challenging month, with this cluster being the worst performer in February. All regions were negative, except Australia (only slightly better than flat). In Australia, it was the Consumer, Non-Cyclical sector that did best. US value

**Quality: +0.03%**

The Quality cluster was slightly better than flat. Good performance from Japanese and Australian stocks were undermined by Canadian and European names. Canadian firms ultimately fared worst, with the Basic Materials sector the main drag. Japanese stocks did best, led by the Consumer, Cyclical sector.


**Risk Premia: +0.74%**
**Universal Carry: +0.44%**

The Carry strategy had a solid month, with all asset classes showing positive returns. The one exception was Short Term Interest Rates, where our net long Eurodollar position detracted as the Libor USD 3-month rate slipped 12 basis points over the month on Fed dovishness.

Positive returns were also registered by our net long position in Equity Indices. Our long position in the ASX 200 contract garnered the most gains – the Australian benchmark jumped 2.7% on international investors taking advantage of a weaker Aussie dollar.

At the end of the month, the strategy is net short Bonds and Volatility Indices. A net long dollar, Short Term Interest Rates, and Equity Indices positioning is maintained.

**Short Volatility: +0.29%**

The Short Volatility strategy registered gains in February, with positive returns from all asset classes except Equity Indices. While gains were booked from our delta hedged options in the S&P 500 (the index registered only 2 days of moves greater than  $\pm 1\%$ ), losses were predominantly taken by delta hedged option on the Eurostoxx 50: the index registered 4 days with moves greater than  $\pm 1\%$ , with optimism on trade negotiations causing big jumps on February 5 and 15.

Expectation of volatility, however, continued to decrease in February, with the CBOE VIX averaging 15.2, down from an average of 19.6 in January. This was mimicked in Europe, where the VSTOXX, or implied volatility on the Eurostoxx 50, averaged 14.4 (down from 17.4 in January).

Our delta hedged options on Bonds were the best performer over the month. The US 10-year bond moved largely sideways, with the yield remaining in a tight band between 2.6% and 2.7%. The TYVIX index, a measure of implied volatility on US treasuries, drifted lower, only picking up a few basis points towards the end of the month.


**Universal Value: -0.06%**

The Universal Value strategy was negative over February, with all asset classes ending in the red except Equity Indices. Performance in Equity Indices were boosted by good returns from our long position in, notably the Eurostoxx 50, which climbed 3.8% over the month on investors betting on more upside if a trade deal is clinched. Improvements in the labour market (European unemployment has fallen below 8%) should bolster domestic demand, serving as another upside risk for European stocks. The short position in the Dow Jones mini (contract rose 3.8%) detracted most as the benchmark, strongly correlated with the other US indices, surged over the period.

Currencies saw flat performance from dollar positioning in G7 pairs, but, negative returns from emerging market FX: combined, the long Turkish lira (down 3.3% on deepening economic contraction) and long South African rand (down 6% on escalating worries and black-outs at the state run electricity provider) were responsible for the most losses.

At month-end, the strategy is net long Bonds, with net short positioning in the dollar, Short Term Interest Rates, and Equity Indices