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CFM ISDiversified Trust

Alternative Beta
December 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

A$.9743	Unit Price
-1.77%	December ROR
-1.01%	Year to date ROR
A$120m	FUM ISD Trust [1]
US$450m	FUM Master [1]

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	0.7	0.1	1.1	1.2	2.3	-1.6	0.3	-2.0	-0.8	-1.8	**-1.0**

Performance figures (%)

	3 months	6 months	Calendar YTD	1 Year	2 Years (%pa)	3 Years (%pa)	Since Inception (%pa)
CFM ISDiversified Trust	-4.4	-3.5	-1.0	-1.0	-3.6	-0.1	-0.4
Offshore strategy in USD [2]	-3.0	-1.7	1.0	1.0	-3.5	-0.4	2.6

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

QUANTITATIVE SYSTEMATIC ASSET MANAGER

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

FOUNDED IN **1991**

AUM ACROSS ALL PROGRAMS **US$9.5 BILLION**

CFM approach

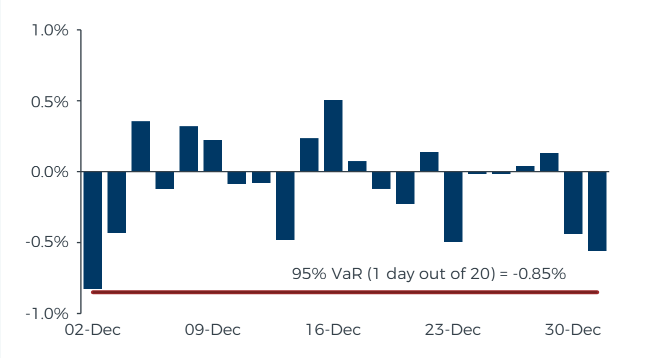
Research
A dynamic research team dedicated to developing new strategies, improving execution algorithms and refining portfolio construction techniques

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)



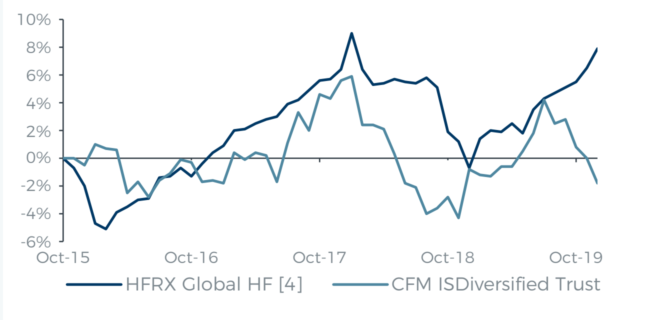
Unless otherwise specified, all monthly performance figures are based on the official NAV of CFM ISDiversified Trust. Returns are net of management and incentive fees.

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.

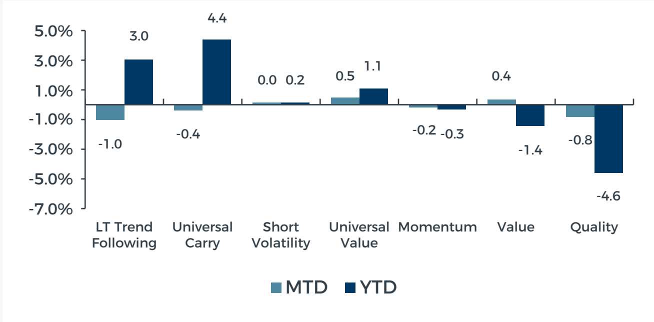
Performance analysis

	Since Inception	Last 12 months
Total Cumulative Return	-1.8%	-1.0%
Annualized Rate of Return	-0.4%	-1.0%
% of Positive Months	46.0%	50.0%
Best Month	3.7%	2.3%
Worst Month	-3.3%	-2.0%
Peak to Valley Drawdown	-9.6%	-5.7%
Annualized Standard Deviation	5.2%	4.6%
Sharpe Ratio	-	-
Correlation [3] between ISD and		
HFRX Global HF [4]	0.22	0.19
Barclays Global-Agg [5]	0.17	0.21
MSCI World Index [6]	0.12	0.04

Compounded returns since inception



Contribution per strategy (gross) [7]



CFM ISDiversified strategies

Trends

Long Term Trend Following
Seeks to extract returns from momentum across different asset classes.

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

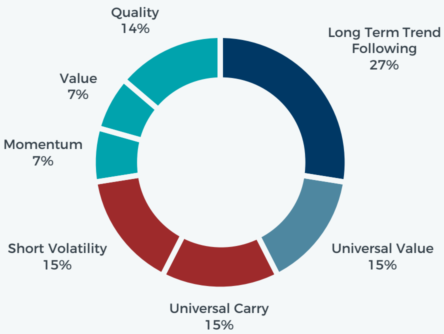
Universal Value

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

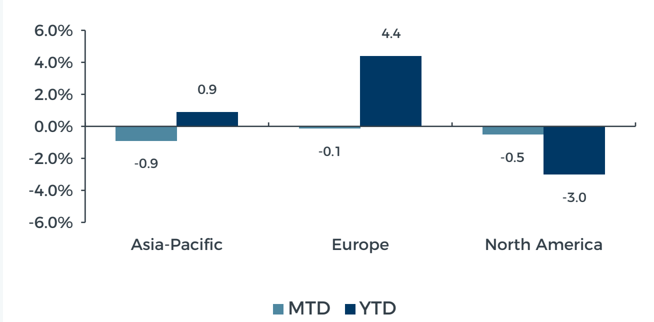
The program buys/sells cheap/expensive instruments relative to both price based and fundamental value metrics.

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

Strategy AUM allocation



Contribution per geographic zone (gross) [7]



For further details

Call us
+61 2 9159 3100

Email us
cfm@cfmaltbeta.com.au

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Footnote definitions

1. FUM based on the leveraged equity of the master fund, InRIS 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. 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.
7. Figures are based on unaudited estimates of the gross performance of the InRIS CFM Diversified program.

Disclaimer

SBai Standards Board for Alternative Investments SIGNATORY May '19

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Key performance figures

Performance		FUM	
-1.7734%	Monthly Return	**$A120m** leveraged FUM / **$A120m** equity	ISDiversified Trust (6% vol)
-1.0079%	YTD Return	**US$2.7bn** leveraged FUM / **US$2.3bn** equity	ISDiversified Program (6% vol)
		US$9.5bn leveraged FUM / **US$7.8bn** equity	Firm-wide

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.

The Investment Committee has decided to adjust the allocation weights of the individual strategy sleeves. As the Universal Value strategy has been proven in production since its introduction in mid-January 2018, the decision has been made to increase the weight of this strategy from 10% to 15%, necessitating a reduction in the weights of Long Term Trend Following and Equity Market Neutral (each by 2.5%) strategies. The allocation for InRIS CFM Diversified, the Master fund of CFM ISDiversified Trust, modified mid-December 2019, is now as follows:

- Long Term Trend Following: 27.5%
- Equity Market Neutral: 27.5%
- Short Volatility: 15%
- Universal Carry: 15%
- Universal Value: 15%

Performance report

- Markets were, not unlike the rest of the year, largely informed by the ebb and flow of global uncertainties – primarily the US-China trade negotiations and Brexit. Positive developments on both improved demand for risky assets (esp. emerging markets); sent the US dollar weaker; and saw Bond yields climb higher.
- Equity markets enjoyed a festive rally. US indices hit record highs owing to positive progress on US-China trade negotiations, along with good support from US consumers – US Personal Outlays for the previous month increased by 0.4% - a ninth consecutive monthly rise. US confidence indicators are also remaining buoyant. The SPX gained 2.9% during the month, and finished 29% stronger over the year (+31.5% for the total return variant).
- The US dollar suffered its second worst monthly performance of 2019 as the DXY Index fell 1.9%. While the dollar made gains in 2019 on strong(er) US growth and attractive interest rate differentials between the US and the rest of the developed world, it also acted as a safe-haven play amidst the US-China trade war. Positive sentiment towards a trade deal in December took risk of the table, with fewer consequently seeking the safety of the greenback.
- Brexit uncertainty was mitigated by a convincing election victory for Boris Johnson and the Tories on December 12. UK equities rallied post-election day, with the pound registering a volatile period: sterling gained in the lead-up, as polls predicted a Conservative victory; reacted positively to the upside shortly after, before dipping lower a few days later; and, finally, making gains during the final week.

Trends: -1.10%

The Long Term Trend Following program delivered negative results this month, with mixed performance across asset classes.

FX offered the most negative returns to the program: a net long dollar position against both a basket of developed market and G7-21 currencies registered losses as the DXY Index dropped 1.9%. Notable detractors were net long US dollar positioning against trade sensitive currencies, especially the Norwegian krone and the euro – the former gained 5.1% on rising oil prices and further interest rate hikes by Norges Bank being considered likely amidst a strengthening economy; the latter gained 1.8% on correspondingly improved growth and trade prospects.

Performance in interest rate asset classes also detracted: positioning in key sovereign bonds recorded the most losses, with yields rising and investors seeking out risky assets as the US and China inched closer to a trade deal. Long positions in Australian bonds registered the most losses, as the entire Australian curve lifted: the Aussie 3-year and 10-year gained 26 and 34 basis points respectively. Long positioning in Short Term Interest Rates (STIRS) also contributed negatively, specifically long positioning in the Eurodollar as the 3-month USD Libor rate rose slightly.

Market-cap weighted, developed market equity benchmark indices rounded of the year with yet another positive period (globally up ~2.9%). However, the strategy's slightly net long Equity Indices ended the period in the red. Overall performance was stymied by idiosyncratic losses in, notably, a long Australian S&P/ASX 200 contract. The Australian benchmark balked against the end-of-year global equity rally, and the contract fell 2.7%. The biggest drop came in the first week, when uncertainty about the trade war re-emerged after President Trump announced he was in no rush to conclude any deal before the 2020 elections. Dips in the benchmark in later weeks came after better than expected macro prints – especially jobs data – prompting investors to take risk off as the expectation of further cuts by the Reserve Bank of Australia dwindled. A short position in the Hong Kong H-Shares contract (and mini-MSCI Emerging Market), were other standout detractors. The H-Shares contract gained 9.1% on a cocktail of improving trade prospects, and better-than-expected macro data from China: industrial profits impressed and the Caixin Manufacturing and Services PMI figures beat economists' surveys and prior prints.

A net long Credit Indices position delivered positive returns, along with the good performance of Equities, and was the best performing asset class over the month.

At month-end, the program maintains its net long Credit Indices, Short Term Interest Rates, Equity Indices and US dollar position. Bond positioning is largely flat.

Equity Market Neutral: -0.81%

The Equity Market Neutral program finished in negative territory this month. European equities were the largest drag on performance, but all major regions ended either in the red or flat.

Across the entire book, the Industrial sector detracted the most – the program has a slight net short exposure in this sector, with strong performance from a selection of European firms especially dragging on overall returns. Short positions in the German copper producer Aurubis (+27.3% on a strong earnings beat); UK-based engineering conglomerate Weir Group (+8.2% on the Conservative election victory and analyst upgrades); and Dutch dredger Boskalis (+7.5% on being awarded a substantial reclamation contract in Manilla Bay) are some examples of unusual, idiosyncratic firm performances.

Meanwhile, the Consumer, Cyclical sector fared best. The program has, overall, a slight net long exposure to this sector and consequently benefited from the strong equity performance going into the New Year. UK equities fared particularly well, with long positions in, for example, the retailer Dunelm Group (+35.6% on better full-year profit expectations and encouraging online shopping figures) and property developer Berkley Group (+6% on positive sentiment for the UK property market after convincing election result reducing some Brexit uncertainty) acting as examples of firms that boosted returns for the strategy.

Momentum: -0.13%

The Momentum factor ended in negative territory, with the Communications stocks the main drag on better performance. However, some gains were recorded in the US where the Energy sector contributed most. Energy sector names gained as oil prices crept higher on an improving economic outlook.

Value: +0.38%

Value delivered positive returns, with most regions either positive or flat. European equities delivered the best returns, while Australia and Canada were the only regions where minor negative returns were recorded. Overall, the Utilities sector fared best.

Quality: -1.05%

The Quality cluster ended in the red - all regions were negative this month, with Europe featuring the worst performance. All sectors in that region, except Consumer, Cyclical and Energy, posted losses with the Consumer, Non-Cyclical sector being the worst.

Risk Premia: -0.62%

Universal Carry: -0.55%

The Universal Carry Trade strategy delivered negative returns this month.

The majority of losses came from Equity Indices. The short position in the mini-MSCI Emerging Market contract was responsible for a significant part of the negative returns – the contract gained 7.7%, rounding of the year with its second best monthly performance this year. Riskier emerging market assets got a helping hand in the form of better-than-expected Chinese economic indicators (the largest country component in the index); declining trade tensions; and lower Brexit uncertainty.

Interest rate asset classes also offered negative returns. The main bearish rationale for fixed income was the improving trade outlook, making safe-haven assets less attractive. Long positioning in European sovereign paper was the main detractor, especially the German and French 10-year benchmarks – the yields of both having risen 17 basis points.

Modest gains were, however, registered by long positioning in Credit Indices, especially from North American investment grade.

At month-end, the strategy retains its net short Bonds position. The strategy also maintains its net long Credit Indices, Short Term Interest Rates, Equity Indices, and dollar position.

Short Volatility: -0.07%

The Short Volatility strategy delivered negative performance this month.
Daily returns were uniformly positive or flat over the month, with only a few days where returns were meaningfully negative. The biggest daily loss was registered on December 12, the day on which President Trump tweeted, shortly after the US cash market open, that they were "Getting VERY close to a BIG DEAL with China. They want it, and so do we!" Equity markets reacted positively, with the S&P 500 and Nasdaq closing at record highs (+0.9% and +0.8% gains respectively on the day).
Delta hedged options in Bonds contributed positively. The US benchmark 10-year Treasury saw much more muted price swings, with the yield moving in a relatively tight range between 1.7 – 1.9%. The implied volatility also fell, with the TYVIX Index breaking below the 4 points level, and hitting levels last observed in May.
Delta hedged options on FX registered the most losses for the strategy. Overall volatility was slightly higher as the US dollar came under selling pressure following a move to riskier currencies on the back of positive trade negotiation news. Delta hedged options on the British pound, however, were responsible for the majority of losses in this asset class. The UK went to the polls on December 12, with markets bullish on the pound leading up to Election Day. Following a convincing win for Johnson, the implied volatility collapsed, from nearly 12 points before Election Day, to 7.5 points the day after. Sterling staged a rally leading up to the election, only to retreat a few days after the Tory win. Making gains again in the final week, finally pushed the pound 2.6% higher. The USD-GBP trading pair featured six trading days where daily price change exceeded ±0.5%. Moreover, three of these days featured daily price changes that exceeded ±1%,
Delta hedged options on Equity Indices delivered negative returns, with the S&P 500 responsible for the majority of the losses. The US benchmark index gained 2.9%, and featured eight (out of 21) days where daily returns exceeded ±0.5%. The VIX spiked during the first week of the month – owing to uncertainty about the direction of trade negotiations (reaching 16 points on December 3), but edged lower after hopes flared up about an imminent trade deal, and Brexit uncertainty diminished (closing at 12.1 points on December 16).

Universal Value: +0.48%

The Universal Value strategy registered positive performance this month. Most asset classes ended in positive territory, except Equity Indices (and Short Term Interest Rates, which was slightly worse than flat).

FX offered the best returns among the various asset classes. With a net short US Dollar position, both baskets of developed, and emerging market currencies made strong gains as the greenback fell 1.9% - its second worst monthly performance in 2019. Amongst G7 currencies, the long Swiss franc was the best performer (+3.3% against the US dollar), with a long Brazilian real the best among developing market currencies (+5.4%).

Equity Indices, meanwhile, offered the most negative returns. A short position in the mini-Nasdaq contract was the worst performer, as the technology benchmark thundered to a record high near month-end. The index gained 4% over the month – good performance from constituents such as Amazon (+2.6% over the period on reports that the online retailer celebrated its best holiday season on record) aided in pushing the index to finish above 9,000 points for the first time. Short positioning in key emerging market indices (notably the Hang Seng) also foiled better performance.

Going into the new month, the strategy maintains its net short Bonds, Credit Indices, as well as net short dollar position. A long position in Short Term Interest Rates is maintained, along with a net long Equity Indices position.