# Ironbark Global (ex-Australia) Property Securities Fund

## Quarterly Investment Report as at 31 December 2017

**Asset Class**

Property Securities

**Investment Objective**

Seeks to outperform its benchmark, after fees, over rolling three year periods

**APIR Code**

MGL0010AU

**ARSN**

110 908 793

**Fund Inception Date**

20 October 2004

**Benchmark**

FTSE EPRA/NAREIT Developed ex-Australia Index Hedged AUD[1]

**Distribution Frequency**

Quarterly

**Minimum Investment**

$20,000

**Fund Size**

$161.0m

**Exit Price**

$0.9373

**Number of Stocks**

111

### Global Market Review

Global property stocks rose, with the FTSE EPRA/NAREIT Developed (ex-Australia) Index returning 3.1% for the quarter. More broadly, the positive momentum on global markets continued in the fourth quarter with the MSCI World Index returning 5.3%. Investors were encouraged by solid earnings and synchronised economic growth. US tax cuts also helped equity markets this quarter.

Most major equity markets closed higher. Japan led the way, with the Topix up 8.7% for the quarter, and a healthy 22.2% in 2017. Japanese corporate earnings were bolstered by strong global growth and a pick-up in global trade, whilst Shinzo Abe comfortably won the election in October, providing political stability. The US was next, with the S&P/500 adding 6.6% for the quarter, and 21.8% for the year. Healthy corporate earnings, the reduction in the tax rate to 21% (from 35%) and stronger than expected third quarter gross domestic product ('GDP') growth all contributed to the strong showing for US stocks. The UK followed with the FTSE/100 returning 5.0% for the quarter, and 11.9% for 2017. In response to a weak currency which had been pushing inflation higher, the Bank of England increased interest rates for the first time in more than a decade, and in December the completion of phase one of the Brexit negotiations occurred. Continental Europe underperformed, with the MSCI ex-UK finishing the quarter down -0.6%, posting a return of 12.2% for the year. Despite a broadly flat Euro, the Continent underperformed as a rise in political noise dampened sentiment toward risk assets in the region.

On the property stock front, performance was broadly positive. The UK led the way, up 8.2% for the quarter, and 12.1% for the year. The large caps were particularly strong in the fourth quarter as the completion of phase one of the Brexit negotiations provided a boost, along with merger and acquisition in the retail segment and further direct market support. Asia ex-Japan rose 7.0% during the quarter, to cap a stellar year which returned 38.1%. The REITs did much of the heavy lifting in the fourth quarter, with Hong Kong leading the way. Continental Europe closed 5.8% higher for the quarter, and 15.9% for the year. The German residential segment topped the charts in the fourth quarter, closely followed by office. Japan closed up 2.6% on the quarter, however Japan was the clear laggard for 2017 with a -5.3% return. In the fourth quarter, the developers outpaced their REIT counterparts which were flat. Lastly, the Americas returned 1.5% for the quarter, and a very modest 3.0% for the year. Malls were the top performers for the quarter as dominant mall REITs, General Growth Properties, Macerich and Taubman all benefitted from potential merger and acquisitions and activism during the period.

### Fund Performance Review

The Ironbark Global (ex-Australia) Property Securities Fund (the 'Fund') returned 4.11% (net) over the December quarter, outperforming the benchmark's return of 3.42% by 0.69%.

Overall, sector allocation and stock selection both contributed. From a regional allocation perspective, the overweight position to outperforming UK had a minor positive impact. Meanwhile, selection was positive in all regions, with the Americas, Continental Europe and the UK particularly strong.

### Performance

| | Net Fund Return (%) | Benchmark[1] Return (%) | Active Return (%) |
|---|---|---|---|
| 1 month | 1.59 | 1.09 | 0.50 |
| 3 months | 4.11 | 3.42 | 0.69 |
| 1 year | 8.79 | 8.47 | 0.32 |
| 3 years (p.a.) | 5.70 | 6.33 | -0.63 |
| 5 years (p.a.) | 9.82 | 10.32 | -0.50 |
| 7 years (p.a.) | 10.48 | 11.21 | -0.73 |
| 10 years (p.a.) | 4.73 | 6.77 | -2.04 |
| Since inception[2] (p.a.) | 7.74 | 8.43 | -0.69 |

Past performance is not an indicator of future results. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distribution. Retail investors should refer to net returns. If investing through an IDPS Provider, the total after fees performance return of your investment in the Fund may be different from the information in this report.

[1] Benchmark FTSE EPRA/NAREIT Developed ex Australia Index (TR, Net of WHT, Hedged to AUD). The Fund changed its benchmark from the UBS Global ex Australia Real Estate Investors Index (TR, Net of WHT Hedged to AUD) to the FTSE EPRA/NAREIT Developed ex Australia Index (TR, Net of WHT, Hedged to AUD) on 1 February 2015.

[2] This figure represents the annualised performance of the Fund from the first full month of operation.

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Ironbark ASSET MANAGEMENT

# Ironbark Global ex-Australia Property Securities Fund

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## Americas Performance Review

The Americas portion of the Fund returned 2.4%, outperforming the local benchmark return of 1.5% (in local currency terms).

Bucket allocation had a minor positive impact. This was driven by the underweight position to the underperforming health care segment. In general, the more defensively orientated segments underperformed in what was a relatively risk-on environment. This was partially offset by the overweight to the underperforming data centre segment which took a breather following strong year-to-date performance. At the stock level, selection was particularly strong amongst the data centre, office and mall segments. Data centre stock, Interxion (up 15.7%) was the top contributor, as it reported a strong result which included a beat on revenue and raised guidance. Amongst the mall stocks, the overweight to Macerich was a standout. Macerich surged 20.5% after activist investor Third Point disclosed a stake in the $9 billion (in US dollar ('USD') terms) mall-owner. Meanwhile, the underweight to lower quality mall REIT, CBL & Associates Properties ('CBL') (-30.9%) also had a positive impact. CBL fell sharply in the wake of a disappointing third quarter result, whereby it cut annual guidance and lowered its dividend. This was partially offset by negative selection within the hotel segment, namely the overweight to underperforming Extended Stay America (-4.1%).

## Europe Performance Review

The UK portion of the Fund returned 10.6%, outperforming the local benchmark return of 8.2% (in local currency terms), whilst the Europe ex-UK portion of the Fund returned 7.6%, outperforming the local benchmark return of 5.8% (in local currency terms).

Within the UK, selection was strong within both the large cap and niche segments over the quarter. Amongst the large cap segment, the overweight position to outperforming British Land (up 16.0%) and an underweight to underperforming Land Securities (up 4.8%) contributed. British Land was buoyed by an upbeat first half of the 2018 financial year result, which included positive progress on the leasing front, whilst Land Securities reported a slightly weaker than expected result. Meanwhile, within the niche segment, the overweight to outperforming student accommodation stock, Unite Group (up 18.1%) was a standout. Unite benefitted from broker upgrades reflecting positive student housing growth outlook and potential for earnings upgrades in coming years.

Within Continental Europe, selection was particularly strong with the office, German residential, and retail segments. Amongst the office stocks, it was the exposure to Paris CBD focused Gecina (+12.2%), which posted double digit gains on the back of the brightening mood for Parisian office demand being driven by the Macron government and Brexit. The overweight to German residential stock Buwog (up 16.6%) was another standout, as it surged on the back of a takeover offer from peer, Vonovia SE. Meanwhile, within retail, the preference for Klepierre (up 10.4%) over peer Unibail (up 2.1%) also contributed. Klepierre benefitted from a strong third quarter update, which included a strong acceleration in retailers' sales. Meanwhile, Unibail-Rodamco slipped later in the quarter after it announced an agreement to acquire Westfield, creating a REIT leader with a €61 billion ($72 billion in USD terms) portfolio of prime shopping center assets across Europe and the US.

## Asia Performance Review

The Asia ex-Japan portion of the Fund returned 7.2%, outperforming the local benchmark return of 7.0% (in local currency terms), while the Japan portion of the Fund returned 3.2%, outperforming the local benchmark of 2.6% (in local currency terms).

Within Asia ex-Japan, selection was positive within the Singapore developers and Hong Kong REITs. Amongst the Singapore developers, the overweight to City Developments (up 10.2%) was the standout. City Developments was buoyed by the residential recovery that is taking place in Singapore, whilst the share price also responded favourably to the company's announcement of a potential cash offer of for Millennium & Copthorne Hotels hospitality portfolio. Meanwhile, the overweight to Link REIT (up 16.5%) was another top contributor. Link surged after announcing the conclusion of its strategic review, which resulted in the disposal of 17 properties at a premium of 51.7% over the appraised value of the properties, which was ahead of market expectation.

Within Japan, selection amongst the REITs was particularly strong and helped offset some negative selection within the developers segment. The top contributor was the overweight to Global One Real Estate Investment Corporation which jumped 9.0% after the company announced a share buyback and strategy review to increase shareholder returns. The overweight to Japan Senior Living Investment (up 14.3%) also had a positive impact, as it announced the signing of a merger agreement with Kenedix Residential Investment during the month.

# Ironbark Global ex-Australia Property Securities Fund

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### Global Market Outlook & Fund Strategy

Overall, the investment manager has a bias towards global property stocks with high-quality assets or business models that operate in market segments with favorable supply/demand dynamics and, importantly, solid management teams with a solid track record of adding value for shareholders.

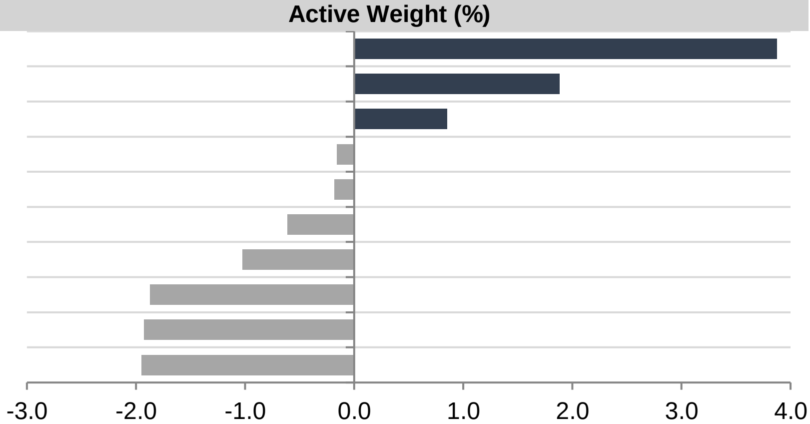
On the macro front, the investment manager expects GDP growth to continue to accelerate in the first half of 2018 which would be positive for both equities and real estate, more specifically. The International Monetary Fund ('IMF') recently upgraded its outlook for growth through 2018 to 3.6% and 3.7% in 2017 and 2018, respectively. While the IMF's forecast for the US remained relatively steady at 2.1%, the Eurozone was upgraded strongly from 1.6% to 1.9% in 2018 while Japan was upgraded to 1.5%. Growth in Europe and Japan are benefitting from higher trade, declining unemployment and rising consumer confidence.

Against this backdrop, there are several factors that contribute to the investment manager's optimistic outlook for the asset class. Firstly, is stable economic growth, with the risk of a recession remaining low. Secondly, real estate fundamentals in the aggregate are in balance. Outside of a few markets and sectors globally, construction remains in check and tenant demand is stable to improving. Thirdly, Central Banks are expected to remain relatively accommodative, given an elevated level of spare capacity globally, uncertainty over fiscal and political events, and as government debt remains elevated. Lastly, initial yields on property relative to 10-year sovereign bond yields are higher than the longer term average and provides a shock absorber in the event interest rates rise abruptly. Lending activity also remains in check, with investors using less leverage this cycle than in the past.

Valuations remain at historically attractive levels relative to private real estate, equities, and fixed income, which sets REITs up well from an asset allocation standpoint for 2018. A strong fundamental backdrop for property stocks combined with favorable supply/demand dynamics should continue to drive ample cash flow growth going forward. There are likely broader sector level themes that may impact each sector, the investment manager believes stock selection will be the key driver going forward in this market. Growing cash flow growth coupled with increased external growth suggest listed real estate can deliver mid to high single digit returns over the next 12 months.

### Sector Asset Allocation

| Sector | Fund (%) | Index (%) |
|---|---|---|
| Specialty | 4.30 | 0.43 |
| Industrial | 8.23 | 6.35 |
| Office | 17.65 | 16.80 |
| Hotels & Resorts | 4.77 | 4.92 |
| Storage | 3.76 | 3.94 |
| Other | 3.15 | 3.76 |
| Residential | 19.64 | 20.67 |
| Diversified | 13.44 | 15.31 |
| Health Care | 5.45 | 7.38 |
| Retail | 18.50 | 20.44 |
| Cash | 1.11 | 0.00 |




### Top Active Positions[1]

**Largest overweight stocks**

| Stock | Country | Fund % | Index % | Active Weight % |
|---|---|---|---|---|
| Camden Property Trust | US | 2.44 | 0.60 | 1.84 |
| Alexandria Real Estate | US | 2.56 | 0.88 | 1.68 |
| Equity LifeStyle | US | 2.07 | 0.52 | 1.56 |
| Sunstone Hotel | US | 1.68 | 0.26 | 1.42 |
| Extended Stay America | US | 1.38 | 0.00 | 1.38 |

**Largest underweight stocks**

| Stock | Country | Fund % | Index % | Active Weight % |
|---|---|---|---|---|
| AvalonBay Communities | US | 0.00 | 1.76 | -1.76 |
| Sun Hung Kai Properties | HK | 0.00 | 1.70 | -1.70 |
| Digital Realty Trust | US | 0.00 | 1.66 | -1.66 |
| Public Storage | US | 0.89 | 2.21 | -1.33 |
| Realty Income Corporation | US | 0.00 | 1.15 | -1.15 |

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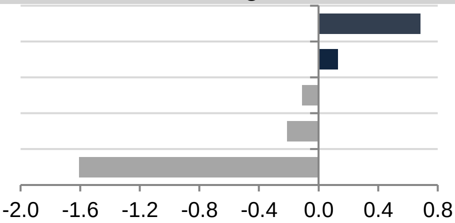
### Regional Asset Allocation

| Region | Fund % | Index% | Active Weight % |
|---|---|---|---|
| United Kingdom | 6.19 | 5.51 | |
| Asia ex-Japan | 11.89 | 11.76 | |
| Europe ex-UK | 13.59 | 13.70 | |
| Japan | 10.27 | 10.47 | |
| Americas | 56.95 | 58.56 | |
| Cash | 1.11 | 0.00 | |




[1]Regional and Country allocation is based on country of listing.

### Number of Stocks

| Region | Fund | Index |
|---|---|---|
| United Kingdom | 12 | 37 |
| Asia ex-Japan | 16 | 27 |
| Europe ex-UK | 16 | 66 |
| Japan | 17 | 40 |
| Americas | 50 | 148 |
| **Total** | **111** | **318** |

### Important Information



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