Ironbark Global (ex-Australia) Property Securities Fund

Quarterly Investment Report as at 30 September 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

$163.4m

Exit Price

$0.9003

Number of Stocks

104

Global Market Review

Global property stocks posted modest gains for the quarter with the FTSE EPRA/NAREIT Developed ex-Australia Index returning 0.8% (in local currency terms). Property stocks underperformed the broader market which returned 3.9%, as measured by MSCI World.

It was a good quarter for equity markets, which were spurred by healthy corporate results and data continuing to point to an improving global economy. Emerging markets led the way, with the US, Japan and Europe also posting solid gains. In the US, stocks hit new highs, as lingering concerns over North Korea seemingly receded late in the quarter. Decent earnings from corporates provided support. President Trump unveiled his much awaited tax framework, and the Federal Reserve announced it would finally begin balance sheet normalisation. In Europe, data underscored the region's economic recovery. German Chancellor Merkel's CDU-CSU alliance won a fourth term in government, although with a worse-than-expected share of the vote. Japan was also strong, supported by a weakening Yen in September. Elsewhere, government bonds sold off late in the quarter as markets started to take central bank tightening communications more seriously. This saw more defensive segments of the market, such as REITs underperform.

On the property front, Asia ex Japan (+6.2%) was the standout, boosted by a strong earnings season which included dividend upgrades and earnings beats. Continental Europe (+2.1%) followed, buoyed by improving macro backdrop. Continental Office, Nordics, German residential, Spain and Ireland were all particularly strong, however this was balanced by weakness amongst the retail segment where sentiment remains negative. The Americas (+0.4%) was steady. Industrial and data centers outperformed on the back of well received results. Industrial demand drivers remain positive, with import activity and e-commerce tailwinds helping market rents to grow at a fast pace. Data center demand continues to benefit from secular tailwinds. Self-storage also performed well, as hurricane Harvey boosted demand. On the flipside, malls underperformed, as disappointing results from mature retailers and department stores weighed on sentiment. The UK (-0.1%) was flat. Earnings season was largely as expected, with the UK holding up better than many feared, whilst capital management initiatives such as asset sales and special dividends were in focus. Despite the solid lead from reporting season, the ongoing uncertainty around the UK's exit from the European Union proceedings weighed on performance. Lastly, Japan (-3.4%) was the clear laggard with the developers which were particularly weak, as higher beta sectors underperformed through the middle of the quarter due to increased risk aversion.

Fund Performance Review

The Ironbark Global (ex-Australia) Property Securities Fund (the 'Fund') returned 0.66% (net) over the quarter, underperforming the benchmark's return of 1.02% by 0.36%.

Overall, sector allocation had a minor negative impact, whilst stock selection contributed. From a regional allocation perspective, the overweight to outperforming Continental Europe, and the underweight to underperforming Japan had a minor positive impact. However this was more than offset by the underweight position to outperforming Asia ex Japan which detracted. Meanwhile, selection was particularly strong in Asia ex Japan and the UK. This was partially balanced by negative selection in Continental Europe, and to a lesser extent Japan and the Americas.

Performance

	Net Fund Return (%)	Benchmark[1] Return (%)	Active Return (%)
1 month	-0.45	-0.14	-0.31
3 months	0.66	1.02	-0.36
1 year	1.51	2.32	-0.81
3 years (p.a.)	8.72	9.43	-0.71
5 years (p.a.)	10.16	10.72	-0.56
7 years (p.a.)	10.89	11.89	-1.00
10 years (p.a.)	3.07	5.03	-1.96
Since inception[2] (p.a.)	7.56	8.32	-0.76

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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Americas Performance Review

The Americas portion of the Fund returned 0.3%, underperforming the local benchmark return of 0.4% (in local currency terms).

Bucket allocation had a minor negative impact. The overweight to data centers, which continues to benefit from strong secular growth, contributed. However this was more than offset by the underweight to outperforming self-storage, which bounced back strongly in September on improving fundamental outlook, and as hurricane Harvey boosted demand. At the stock level, selection was particularly strong amongst the apartment, data center and retail segments, whilst specialty, regional malls and office all had a negative impact. Amongst the apartment stocks, the overweight to Sunbelt focused REIT, Camden Property Trust was a standout. The exposure to single family rental REIT, Invitation Homes (+5.0%) was another leading contributor. In August, Invitation Homes announced an agreement to combine in an all stock merger-of-equals transaction with Starwood Waypoint, creating the largest single family rental company with approximately 82 thousand homes. The combination increases scale and density in many markets, and should help deliver operating efficiencies.

Europe Performance Review

The UK portion of the Fund returned 1.0%, outperforming the local benchmark return of -0.1% (in local currency terms), whilst the Europe ex UK portion of the Fund returned 1.7%, underperforming the local benchmark return of 2.1% (in local currency terms).

Within the UK, selection was strong within both the large cap and niche segments during the quarter. Amongst the large cap segment, the exposure to Segro PLC (+10.7%) was the top contributor yet again, as the industrial REIT continues to benefit from the shift in demand for urban warehouses as online retail growth remains high. Meanwhile, its Continental European business is being supported by the recovery in confidence. Meanwhile, the exposure to student accommodation property stock Unite Group (+5.9%) was the top contributor amongst the niche operators. Unite's 2017 first half result, announced late July were strong with, (i) another record in occupancy levels, (ii) guidance for 3.0-3.5% rental growth reiterated, (iii) a development pipeline truly accelerating in the current year, (iv) improved stability of income, and (v) stable yields.

Within Continental Europe, selection was positive within the diversified bucket, however this was offset by negative selection within the retail, office and Nordic segments. Strong Irish real estate markets and rapidly improving Spanish office supported the Fund's diversified exposure. On the flipside, the overweight to Continental Retail REIT, Klepierre (-7.5%) was the leading detractor, as negative global news overwhelmed solid operational performance.

Asia Performance Review

The Asia ex Japan portion of the Fund returned 7.3%, outperforming the local benchmark return of 6.2% (in local currency terms), while the Japan portion of the Fund returned -4.1%, underperforming the local benchmark of -3.4% (in local currency terms).

Within Asia ex Japan, selection was particularly strong amongst the Hong Kong and Singapore developers. In Hong Kong, the exposure to Henderson Land (+20.1%) was the standout. Developers with vast farmland such as Henderson Land outperformed amid expectation for faster government approval for conversion.

Top Active Positions

Largest overweight stocks

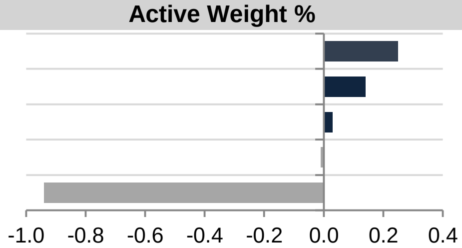
Stock	Country	Fund %	Index %	Active Weight %
Alexandria Real Estate	US	2.52	0.81	1.71
Welltower	US	3.58	1.90	1.68
Camden Property Trust	US	2.20	0.61	1.59
Rexford Industrial	US	1.57	0.15	1.42
Duke Realty	US	2.16	0.75	1.41

Largest underweight stocks

Stock	Country	Fund %	Index %	Active Weight %
AvalonBay	US	0.00	1.81	-1.81
Prologis	US	0.67	2.46	-1.80
Digital Realty	US	0.00	1.78	-1.78
CK Asset Holdings	US	0.00	1.64	-1.64
Simon Property	US	2.34	3.69	-1.35

Regional Asset Allocation

Region	Fund %	Index%
United Kingdom	5.63	5.38
Europe ex UK	13.35	13.21
Japan	10.55	10.53
Asia ex Japan	11.35	11.36
Americas	58.58	59.52
Cash	0.54	0.00



Number of Stocks

Country	Fund	Index
United Kingdom	13	38
Europe ex UK	15	67
Japan	15	40
Asia ex Japan	16	27
Americas	45	149
Total	**104**	**321**

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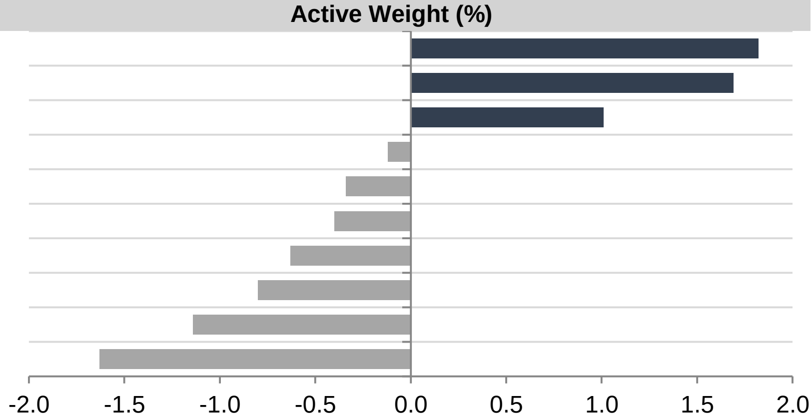
Asia Performance Review (cont'd)

Meanwhile, in Singapore, the exposure to Global Logistics Properties (+13.8%) was the leading contributor. On 14 July, more than seven months since the company first announced its strategic review, Global Logistics Properties announced that it had received an offer of 3.38 per share (in Singapore dollar terms) in cash from a consortium of Chinese investors to take the company private.

Within Japan, positive selection amongst the developers was balanced by negative selection within the REITs. Amongst the REITs, the underweight to underperforming Japan Hotel Reit Investment Corporation (-10.7%) was the leading contributor, however this was more than offset by the overweight to underperforming Japan Logistics Fund (-8.9%). Meanwhile, amongst the developers, the exposure to NTT Urban (+4.0%) had a positive impact, as it performed well in the lead up to its result. The exposure to Daibiru Corporation (+6.8%) also had a positive impact, after it reported a solid result which was driven by the improving Osaka office market. On the flipside, the underweight to outperforming developers, Sumitomo Realty & Development (-1.4%) and Nomura Real Estate Holdings (+10.2%) detracted. In general, the developers with greater condo exposure such as Sumitomo and Nomura outperformed.

Sector Asset Allocation

Sector	Fund (%)	Index (%)
Specialty	2.13	0.31
Office	20.42	18.73
Industrial	7.40	6.39
Retail	19.69	19.81
Health Care	7.71	8.05
Hotels and Resorts	4.50	4.90
Storage	3.31	3.94
Residential	19.79	20.59
Other	0.94	2.08
Diversified	13.57	15.20
Cash	0.54	0.00



Global Market Outlook & Fund Strategy

The recovery of the world economy is now in its ninth year. In many places this recovery is still slow-moving. However central banks continue to be accommodating and, for the first time in years, the investment manager anticipates a simultaneous pickup in both the emerging and advanced economies.

Against this backdrop, there are several factors that contribute to the investment manager's optimistic outlook for the asset class. Firstly, 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. Secondly, supply remains subdued providing limited downside to rental rates. Lastly, the risk of a recession across markets may also be low. With these considerations combined, the investment manager expects stable fundamentals.

Global dividend yields are well covered overall and currently stand at roughly 3.5%. The investment manager expects dividend growth to remain positive in 2017 due to strong cash flow growth and low payouts. The investment manager agrees that higher interest rates poses the most immediate risk to the global real estate market, however the investment manager currently believes the market has already largely priced this factor into share prices. Furthermore, since the Federal Reserve has officially entered a tightening phase, the investment manager expects global real estate performance to be increasingly dictated by underlying fundamentals instead of uncertainty around future monetary policy and swinging Treasury yields. Globally listed real estate is trading attractively relative to historical valuations when measured against Net Asset Value ('NAV'), broader equities and fixed income alternatives. The investment manager believes growing cash flow growth coupled with increased external growth suggest listed real estate could deliver mid to high single digit returns over the next 12 months.

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