Ironbark Global Property Securities Fund

Quarterly Investment Report as at 30 June 2017

Asset Class

Property Securities

Investment Objective

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

APIR Code

MGL0011AU

ARSN

110 908 506

Fund Inception Date

20 October 2004

Benchmark

FTSE EPRA/NAREIT Developed Index Hedged AUD[2]

Buy/Sell Spread

+0.30%/-0.30%

Management Cost

1.2250% p.a.[1]

Distribution Frequency

Quarterly

Minimum Investment

$20,000

Fund Size

$48.5m

Exit Price

$0.7919

Number of Stocks

114

Global Market Review

Global property stocks closed higher, with the FTSE EPRA/NAREIT Developed Index returning 1.8% for the quarter. Despite a positive finish, property stocks struggled to keep pace with the broader market, as measured by the MSCI World which returned 3.1%.

Investors started the quarter on edge, as geopolitical tensions and the French election clouded the picture. However, the first round win of pro-Europe candidate Emmanuel Macron proved a circuit breaker. Positive earnings out of the US and Europe also lent support, along with encouraging macro-economic data out of Europe. Macron went on to win the French presidency in a decisive victory, however it was not as smooth sailing in the UK The UK election result in June was tighter than many expected and rekindled political uncertainty in Europe. The result saw the ruling Conservative Party lose its majority, forcing it to broker an agreement with the Democratic Unionist Party, and comes at a tricky time with "Brexit" negotiations to start on July 1. Elsewhere, as widely expected the Federal Reserve hiked rates for the second time this year from 1% to 1.25% with an additional hike indicated for later in 2017, whilst the International Monetary Fund (IMF) raised its gross domestic product (GDP) forecast for China to 6.7% in 2017 (from 6.6%). Meanwhile, after a period of relative calm, volatility did make a comeback late in the quarter as the debate on normalising central bank policy intensified.

On the property stock front, performance was broadly positive. Continental Europe (up 5.8%) led the way as uncertainty eased following the French election result. Asia ex-Japan (up 4.9%) followed, with the REITs particularly strong over the quarter. The UK (up 2.3%) was next, with gains early amid expectations of a softer Brexit, before election uncertainty took hold. Japan closed 2.0% higher, with a double digit positive return from the developers helping to offset weakness from the REITs. The Americas (up 1.0%) eked out a minor gain, with strong returns from industrial, data centres and apartments offset by continued weakness from the retail segment. It was a similar story in Australia (-3.9%), which was dragged down by the retail-focused REITs.

Fund Performance Review

The Fund returned 2.56% net for the quarter, outperforming the benchmark's return of 2.08% by 0.48%.

Overall, sector allocation had a neutral impact, whilst stock selection contributed to the overall result. From a regional allocation perspective, the exposure to the UK had a minor positive impact. However this was offset by the underweight position to the outperforming Asia ex Japan which detracted. Meanwhile, selection was strong across the board, in particular the Americas, Asia ex Japan and Japan.

Performance

	Net Fund Return (%)	Benchmark[2] Return (%)	Active Return (%)
1 month	0.28	0.49	-0.21
3 months	2.56	2.08	0.48
1 year	1.38	2.22	-0.84
3 years (pa)	8.39	8.60	-0.21
5 years (pa)	10.91	11.37	-0.46
7 years (pa)	12.85	13.55	-0.70
10 years (pa)	2.46	4.04	-1.58
Since inception[3] (pa)	7.19	7.79	-0.60

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] For full breakdown of management costs, refer to the PDS dated 29 February 2016.

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

[3] 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 1.8%, outperforming the local benchmark return of 1.0% (in local currency terms).

Overall, sector allocation had a positive impact, as did stock selection. From an allocation perspective, the overweight position to data centres was the standout, along with the underweight position to retail. The retail segment struggled during the second quarter, as retailer weakness and concerns around ecommerce took their toll. On the flipside, the exposure to the relatively defensive healthcare segment detracted. Meanwhile, selection was particularly strong within specialty, data centers and hotels, however healthcare detracted.

At the stock level, selection amongst the specialty stocks was the leading contributor. This included the underweight position to Spirit Realty Capital (-25.6%) which fell sharply in the wake of announcing first quarter 2017 earnings miss and lower funds from operations guidance. The miss was due to higher than expected credit losses, as a number of 'watch list' tenants stopped paying rent. Elsewhere, the exposure to data centres was another strong contributor over the month. The data centres continue to perform well aided by a strong demand and pricing environment. In addition, mergers and acquisition activity also provided support during the quarter with Fund holding DuPont Fabros Technology up 24.0% on the quarter after receiving a takeover offer from peer Digital Realty Trust Inc.

Asia Performance Review

The Asia ex-Japan portion of the Fund returned 6.6%, outperforming the local benchmark return of 4.9% (in local currency terms), while the Japan portion of the Fund returned 2.9%, outperforming the local benchmark of 2.0% (in local currency terms).

Within Asia ex Japan, selection was strong across the board. In particular, the Hong Kong Landlords led by the overweight position to outperforming Swire Properties (up 5.4%) which was strong early in the quarter. The Singapore REITs were also a positive contributor, namely the exposure to Frasers Logistics & Industrial Trust (up 13.4%) which completed a private placement to fund some recent acquisitions. Elsewhere, the Hong Kong developers also had a modest positive impact, largely driven by the underweight to Sino Land which fell 6.0% on the quarter.

Within Japan, the bias toward Developers over REITs had a positive impact. The developers saw positive returns in into and following results, whilst mergers and acquisition activity in the sector also provided a boost. At the stock level, the overweight position to Mori Trust Sogo REIT (up 5.4%) was the leading contributor, whilst on the flipside the underweight position to outperforming developer Sumitomo Realty & Development (up 20.1%) detracted.

Top Active Positions

Largest overweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Alexandria Real Estate	US	2.40	0.76	1.64
Camden Property	US	2.09	0.52	1.58
Welltower	US	3.49	1.93	1.56
Essex Property	US	2.72	1.18	1.54
AvalonBay Communities	US	3.37	1.86	1.51

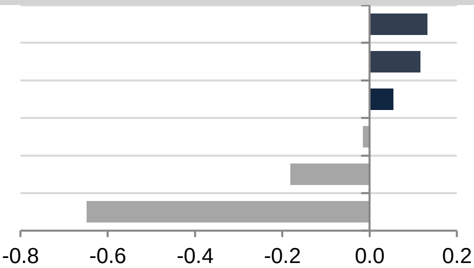
Largest underweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Prologis	US	0.29	2.17	-1.88
Simon Property	US	1.69	3.54	-1.84
Equity Residential	US	0.00	1.65	-1.65
Boston Properties	US	0.00	1.33	-1.33
Digital Realty	US	0.00	1.27	-1.27

Regional Asset Allocation

Region	Fund %	Bench %
United Kingdom	5.12	4.99
Australia	5.81	5.69
Europe ex-UK	12.01	11.95
Japan	10.46	10.48
Americas	56.60	56.78
Asia ex-Japan	9.46	10.11
Cash	0.54	0.00

Active Weight %



Number of Stocks

Country	Fund	Index
United Kingdom	12	38
Australia	10	14
Eurpe ex-UK	16	66
Japan	14	40
Americas	46	152
Asia ex-Japan	16	25
Total	**114**	**335**

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Europe Performance Review

The UK portion of the Fund returned 2.7%, outperforming the local benchmark return of 2.3% (in local currency terms), whilst the Europe ex-UK portion of the Fund returned 6.1%, outperforming the local benchmark return of 5.8% (in local currency terms).

Within the UK, selection was particularly strong amongst the niche operators. This included the exposure to self-storage REIT, Safestore Holdings (up 11.2%) and healthcare REIT, Assura PLC (up 11.3%). Amongst the large caps, the exposure to Industrial REIT, Segro PLC (up 7.2%) also contributed. Segro continues to benefit from positive fundamentals in the logistics space, especially based on the structural changes in retail. In addition, recent pricing of assets highlights the strength of interest in the UK and European logistics space. On the flipside, the overweight position to Great Portland Estates PLC (-8.9%) detracted, as the London office focused stocks generally underperformed.

Within Continental Europe, the retail segment was the standout, namely the overweight to French listed retail REIT, Klepierre (up 2.0%). Klepierre announced the acquisition of a jumbo mall in Spain, the first acquisition since December 2015, and demonstrates the group's confidence in the Spanish retail recovery. Klepierre also has an active share buyback which likely also provided support. The overweight position to Irish REIT Hibernia (up 10.4%) was another strong contributor. Hibernia reported a strong full year result, with net asset values up 11.9% year-on-year. The strong underlying growth was driven by accretion from successfully executing the development pipeline and continued growth in rental values. Elsewhere, selection was neutral within office, and modestly negative in Switzerland, German Residential and Nordics.

Australia Performance Review

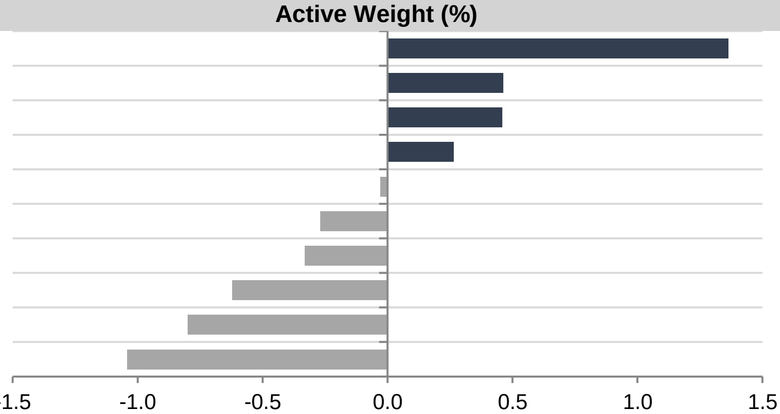
The Australia portion of the Fund returned -3.9%, in line with the local benchmark (in local currency terms).

In Australia, selection within the diversified growth stocks contributed, whilst rental focused had a minor negative impact. At the stock level, the overweight position to Mirvac Group (-1.1%) was the leading contributor for the quarter. Mirvac reportedly received interest from ARA Asset Management for its development at 477 Collins St. The Singaporean investor looking to pick up the 50% stake for $420 million, representing a 4.75% yield. Mirvac's other development at 644 Collins St attracted attention from Morgan Stanley Real Estate, who are reportedly looking to buy 50% for $140 million, at a 5% yield. This was formally announced post quarter end to be $138 million and a 4.97% cap rate. A strong result for the group, and will provide even greater transparency into their 3 year forward earnings.

Sector Asset Allocation

Sector	Fund (%)	Bench (%)
Healthcare	9.45	8.09
Industrial	6.93	6.47
Hotels and Resorts	5.05	4.60
Office	18.34	18.07
Residential	19.03	19.06
Specialty	0.00	0.27
Retail	21.28	21.61
Diversified	15.69	16.31
Storage	2.84	3.63
Other	0.85	1.89
Cash	0.54	0.00

Active Weight (%)



Global Market Outlook & Fund Strategy

On the macro front, 2017 has provided incremental signs suggesting some continuity from late 2016 trends, as global growth is on a strong footing and inflation data has picked up. The reflation thesis that has been driving markets higher is anchored on the expectations of looser fiscal policy in the US, against an improving global cyclical backdrop.

There are a number of tailwinds for the global economy, such as low interest rates, healthy household balance sheets and potential cuts in US corporate tax rates which could spur sub-par US productivity and support world growth. At the same time, there are a few headwinds such as interest rates and policy moves in the US, the pace of tightening in China, and politics in Europe.

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Global Market Outlook & Fund Strategy (continued)

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 risk may be generally low while at the same time, the risk of a recession across markets may also be low. Combined, the investment manager expects stable fundamentals.

Global dividend yields are well covered overall and currently stand at approximately 3.5%.The investment managers 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. Overall, the Fund's expected returns over the coming year fall in mid-high single digits, stemming from stable earnings growth coupled with a healthy dividend yield.

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