Ironbark Global Property Securities Fund

Monthly Investment Report as at 31 May 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

$49.7m

Exit Price

$0.7919

Number of Stocks

119

Global Market Review

Global property stocks posted a modest gain on the month, with the FTSE EPRA/NAREIT Developed Index returning 0.4%. Despite the positive return, property stocks failed to match the broader market which completed a seventh straight monthly advance in May (as measured by the MSCI World which returned 2.1%).

The positive momentum from April continued into May, as global stocks moved higher. European stocks were particularly strong early, as encouraging first quarter economic growth and a six year high Purchasing Managers Index ('PMI') reading suggested further acceleration in the Eurozone. Political uncertainty also showed signs of easing, as Emmanuel Macron won the French presidency vote in a decisive victory, and the US House of Representatives narrowly passed a Republican effort to repeal and replace Obamacare, in favour of the Trump administration. After a period of relative calm, turmoil surrounding the Trump administration bubbled to the surface mid-month, triggering a minor sell-off (major US indices had their worst session in eight months and the Chicago Board Options Exchange ('CBOE') volatility index jumped 46% in one day). However, the period of elevated volatility proved fleeting, as global stocks resumed their upward trajectory supported by positive macro data out of the US, and solid US and European reporting seasons.

On the property front, Europe ex UK (up 4.9%) was the top performer, with stocks pushing higher in the wake of Macron's decisive victory in the final round of the French Presidential elections. Japan (up 2.4%) was next, with the developers outpacing their REIT counterparts on the month. Asia ex Japan posted a gain of 2.2%, with the Hong Kong REITs particularly strong, as they were boosted by the lower 10-Year Treasury bond yield. The United Kingdom slipped -0.4% on the month, with the London focused large caps particularly weak. The Americas fell -1.0%, with retail again weighing on performance. It was a similar story in Australia (-1.1%) whereby industrial and office continue to outperform retail.

Fund Performance Review

The Fund returned 0.99% net for the month, outperforming the benchmark's return of 0.52% by 0.47%.

Overall, stock selection was positive, whilst sector allocation had a neutral impact. From a regional allocation perspective, the exposure to Continental Europe had a minor positive impact, however this was offset by the underweight position to outperforming Asia ex Japan which detracted. Meanwhile, selection was particularly strong in the Americas, followed by Continental Europe, Asia ex Japan and Australia. On the flipside, selection in Japan and the United Kingdom had a minor negative impact.

Performance

	Net Fund Return (%)	Benchmark[2] Return (%)	Active Return (%)
1 month	0.99	0.52	0.47
3 months	0.39	0.05	0.34
1 year	3.87	4.75	-0.88
3 years (pa)	8.66	8.79	-0.13
5 years (pa)	11.90	12.35	-0.45
7 years (pa)	12.32	12.99	-0.67
10 years (pa)	1.58	3.09	-1.51
Since inception[3] (pa)	7.21	7.80	-0.59

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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Ironbark ASSET MANAGEMENT

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Americas Performance Review

The Americas portion of the Fund returned 0.2%, outperforming the local benchmark return of -1.0%.

Overall, sector allocation and stock selection both contributed. From an allocation perspective, the overweight position to outperforming data centres was the leading contributor, along with the underweight to retail and malls. On the flipside, the exposure to healthcare detracted. Meanwhile, selection was strong across the board, led by specialty, hotels, malls, data centres and industrial. The only exception was healthcare which had a modest negative impact.

At the stock level, the underweight position to specialty stock, Spirit Realty Capital (-23.3%) was a leading contributor. Spirit 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 overweight position to industrial REIT, Rexford Industrial Realty (up 9.3%) was another standout. The industrial sector continues to benefit from structural tailwinds (growth of ecommerce), which is leading to strong occupier demand for warehousing. Specific to Rexford, the company reported a solid first quarter 2017 result in May, which confirmed that business conditions remain healthy across its Southern California infill submarkets. In the mall space, the overweight position to outperforming GGP Inc. (up 3.1%) also had a positive impact. GGP bucked the trend in May, as it rose whilst retail peers again traded lower. GGP's first quarter result was solid, with the group looking to fill store closures and take advantage of a dominant portfolio. Options the group is exploring include, selling assets, buying back stock or joint venturing assets.

Asia Performance Review

The Asia ex Japan portion of the Fund returned 2.4%, outperforming the local benchmark return of 2.2%, while the Japan portion of the Fund returned 1.8%, underperforming the local benchmark of 2.4%.

Within Asia ex Japan, the overweight position to the Hong Kong REITs contributed. They were particularly strong during the month, aided by the fall in the 10-Year Treasury. On the flipside, the overweight position to Singapore Developers was a modest detractor as they took a breather after strong outperformance year-to-date. At the stock level, the underweight position to Hong Kong office landlord, Hong Kong Land (-1.8%) had a positive impact. Hong Kong Land's share price pulled back after the Murray Road office site tender was unveiled.

Within Japan, the bias toward developers over REITs had a positive impact, as developers saw strong performance following results and owing to mergers and acquisitions activity. On the selection front, the underweight position to developers Sumitomo Realty & Development (up 11.1%) and Nomura Real Estate Holdings Inc. (up 27.0%) had a negative impact. The latter surged on reports that Japan Post was considering buying the company.

Top Active Positions

Largest overweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Welltower	US	3.84	1.88	1.96
Alexandria Real Estate	US	2.31	0.74	1.57
Essex Property	US	2.66	1.20	1.46
AvalonBay Communities	US	3.29	1.87	1.42
Rexford Industrial Realty	US	1.44	0.13	1.31

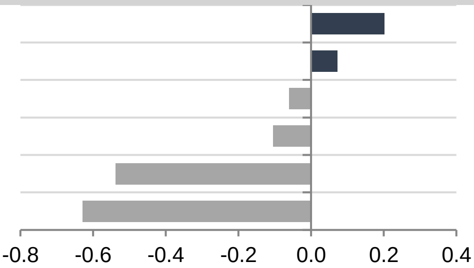
Largest underweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Simon Property	US	1.62	3.46	-1.84
Ventas	US	0.00	1.68	-1.68
Equity Residential	US	0.00	1.68	-1.68
Digital Realty	US	0.00	1.34	-1.34
Boston Properties	US	0.00	1.33	-1.33

Regional Asset Allocation

Region	Fund %	Bench %
United Kingdom	5.36	5.16
Australia	6.03	5.96
Japan	10.81	10.87
Europe ex UK	11.82	11.92
Americas	54.91	55.45
Asia ex Japan	10.01	10.64
Cash	1.06	0.00

Active Weight %



Number of Stocks

Country	Fund	Index
United Kingdom	12	37
Australia	10	14
Japan	15	40
Europe ex UK	17	67
Americas	51	151
Asia ex Japan	14	26
Total	**119**	**335**

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Europe Performance Review

The UK portion of the Fund returned -0.8%, underperforming the local benchmark return of -0.4%, whilst the Europe ex UK portion of the Fund returned 5.3%, outperforming the local benchmark return of 4.9%.

Within the UK, selection was mixed. The standout was the overweight position to outperforming industrial REIT, Segro PLC (up 3.6%). 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 Great Portland Estates PLC (-8.9%) detracted, as the London office focused stocks underperformed. The uncertain environment in the run up to the election, and potential implications for EU exit negotiations were likely factors weighing on the segment.

Within Continental Europe, selection was strong within diversified, retail and office. This was partially offset by negative selection within the German residential segment. Amongst the diversified stocks, the overweight position to Irish REIT Hibernia (up 9.0%) was a standout. Hibernia reported a strong full year result, with NAV up 11.9% year over year. The strong underlying growth was driven by accretion from successfully executing the development pipeline and continued growth in rental values. Elsewhere, the overweight position to French listed retail REIT, Klepierre (up 3.1%) also contributed. Klepierre announced the acquisition of a jumbo mall in Spain (11m visitors), 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.

Australia Performance Review

The Australia portion of the Fund returned -0.9%, outperforming the local benchmark of -1.1%.

In Australia, selection within the more growth orientated property stocks was positive, namely the overweight position to outperforming Mirvac Group (up 0.4%) and underweight position to underperforming Stockland (-2.7%). The underweight position to rental focused Vicinity Centres (-4.2%) also had a positive impact. Retail REIT Vicinity underperformed in May as the current retail sales environment and lack of development leasing commentary overshadowed portfolio initiatives. Elsewhere, the underweight position to outperforming Goodman Group (up 4.8%) detracted, as it continues to benefit from demand for logistics from e-commerce retailers and the negative sentiment towards retail REITs.

Global Market Outlook & Fund Strategy

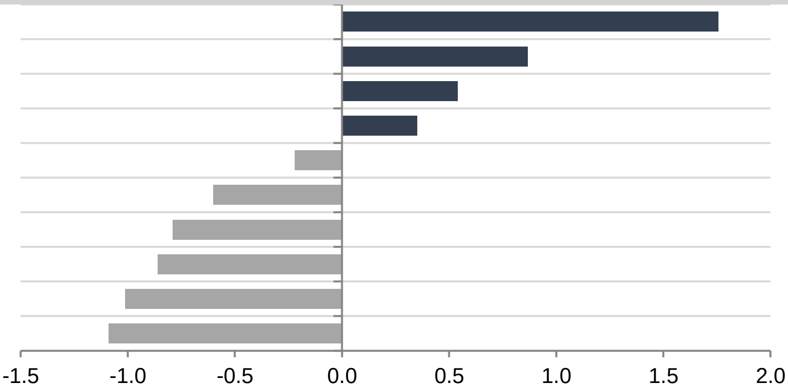
Global growth has accelerated since the third quarter 2016 and is now at its strongest level in five quarters (in year-on-year percentage growth terms), supported by both developed and emerging markets. In the investment manager's view, global growth is expected to accelerate to 3.5% for 2017, versus 3.1% in 2016. 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 the risk to capital values from rising interest rates, and the US, which is already in the late stage of its economic expansion. Other key risks the investment manager is watching include policy moves in the US, the pace of tightening in China, the strength of the global investment spending recovery, and politics in Europe.

Against this backdrop, there are several factors that contribute to the investment manager's optimistic outlook for the asset class. First, initial yields on property relative to 10-year sovereign bond yields are 3% on average globally which is 0.75% higher than the longer term average and provides a shock absorber in the event interest rates rise abruptly. Second, 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.

Sector Asset Allocation

Sector	Fund (%)	Bench (%)
Industrial	8.18	6.42
Hotels and Resorts	5.30	4.43
Healthcare	8.42	7.89
Office	18.51	18.16
Specialty	0.00	0.22
Storage	3.11	3.71
Residential	18.39	19.18
Diversified	15.70	16.56
Other	0.83	1.84
Retail	20.50	21.59
Cash	1.06	0.00

Active Weight (%)



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Global Market Outlook & Fund Strategy (continued)

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, but 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 investment manager'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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