Ironbark Global Property Securities Fund

Monthly Investment Report as at 31 January 2018

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[1]

Distribution Frequency

Quarterly

Minimum Investment

$20,000

Fund Size

$46.4m

Exit Price

$0.8268

Number of Stocks

118

Global Market Review

Global property stocks closed lower with the FTSE EPRA/NAREIT Developed Ex-Australia Index returning -1.2%, underperforming the broader equity market (as measured by the MSCI World which returned 3.8%). The pro-cyclical trade that pushed broader equities higher in 2017 continued into 2018. Against this backdrop, the more defensive segments of the market such as utilities, real estate and telecommunications generally underperformed.

More broadly, global stocks were propelled higher in January by the continued optimism about broadening global economic growth and profit expansion. Most major gauges logged healthy gains over the month. In the US, stocks hit new highs as companies indicated the tax overhaul will boost earnings this year. There was strong data in China, with fourth quarter growth of 6.8% and December industrial output growth of 6.2% ahead of expectations. In Germany, Angela Merkel made a breakthrough toward her fourth term after months of stalemate. Meanwhile, the increasing optimism seems to be catching up with bond markets, as investors factor in the prospect of accelerating prices increases in the US. The 10 Year Treasury yield touched almost four year highs, before settling at 2.71%, which was an increase of approximately 30 basis points over the month.

On the property front, Japan (up 7.8%) was the standout, with both the REITs and developers rising sharply on the month. Asia ex-Japan (up 4.4%) also finished positively, driven by strength in the higher beta developers and landlords. Continental Europe slipped 1.0%, with positive performance from the office segment offset by weakness in the Nordics, residential and retail. The backdrop of higher interest rates weighed on the UK and Australian property stocks which slipped 2.9% and 3.1% respectively. The laggard on the month was index heavyweight the US REITs which fell 4.0%. The pro-cyclical trade that pushed broader equities higher in 2017 continued to put the US REIT market out of favour at the start of 2018.

Fund Performance Review

The Ironbark Global Property Securities Fund (the 'Fund') returned -0.67% (net) for January, outperforming the benchmark's return of -1.31% by 0.64%.

For January, overall, sector allocation and stock selection both contributed. From a regional allocation perspective, the overweight position to outperforming Asia ex Japan had a positive impact, along with the underweight to underperforming Americas. On the flipside, the underweight to outperforming Japan had a minor negative impact. Meanwhile, selection was particularly strong in the Americas. Asia ex Japan and Continental Europe also contributed, whilst Japan had a negative impact.

Performance

	Net Fund Return (%)	Benchmark[1] Return (%)	Active Return (%)
1 month	-0.67	-1.31	0.64
3 months	3.26	2.10	1.16
1 year	8.58	7.32	1.26
3 years (p.a.)	3.43	3.47	-0.04
5 years (p.a.)	9.13	9.32	-0.19
7 years (p.a.)	10.16	10.66	-0.50
10 years (p.a.)	4.87	6.19	-1.32
Since inception[2] (p.a.)	7.21	7.70	-0.49

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.

[1] 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.

[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 -2.7%, outperforming the local benchmark return of -4.0% (in local currency terms).

Bucket allocation had a positive impact. This was driven by the overweight to the more cyclical hotel segment, and underweight to the health care and retail segments. In what was a largely pro-cyclial environment, the short duration and more economically sensitive hotels segment outperformed, whilst the more defensively orientated segments such as health care were out of favour to start 2018. At the stock level, selection was particularly strong amongst the specialty, hotels, industrial and Canada segments. The standouts were exposure to timber REIT, Weyerhauser Company and hotel REIT, Extended Stay America which both added 6.5% on the month.

Europe Performance Review

The UK portion of the Fund returned -3.0%, underperforming the local benchmark return of -2.9% (in local currency terms), whilst the Europe ex-UK portion of the Fund returned -0.5%, outperforming the local benchmark return of -1.0% (in local currency terms).

Within the UK, selection and allocation had a fairly neutral impact over the month. At the stock level, the underweight to Intu Properties (-10.9%) was a leading contributor as a slew of bad news from retailers hurt retail landlord shares. This was partially offset by the overweight to mall peer, Hammerson (-9.9%) which also closed sharply lower on the month. Elsewhere, amongst the smaller-cap property stocks, the overweight to St Modwen (up 1.7%) had a positive impact, as the outlook for regional UK commercial and residential property remains positive.

Within Continental Europe, selection was strong across the board. In particular, the overweight to French listed mall REIT, Klepierre (up 0.3%) had a positive impact. Elsewhere, selection was positive within the Office segment, namely the underweight to Fonciere des Regions (-6.4%). Fonciere des Regions slipped after reports the company was mulling an offer for Paris-based peer, Icade.

Asia Performance Review

The Asia ex-Japan portion of the Fund returned 4.9%, outperforming the local benchmark return of 4.4% (in local currency terms), while the Japan portion of the Fund returned 6.7%, underperforming the local benchmark of 7.8% (in local currency terms).

Within Asia ex-Japan, bucket allocation and selection had a positive impact. Allocation wise, the underweight to Hong Kong REITs had a positive impact. The relatively defensive REIT segment lagged both their local property and equity market counterparts, given the backdrop of higher interest rates and risk-on market sentiment. Meanwhile, selection was particularly strong within the Hong Kong landlords, namely the overweight position to Hang Lung Properties (up 8.4%) and Swire Properties (up 8.5%). The landlords with Chinese business such as Hang Kung and Swire generally outperformed during the month.

Within Japan, selection amongst the REITs and the developers had a negative impact. Amongst the REITs, the leading contributor was an overweight position to outperforming Premier Investment Corporation (up 9.2%), however this was more than offset by overweight positions to underperforming Japan Logistics Fund (up 0.8%), Mori Hills REIT (up 2.3%) and Global One REIT (up 3.4%). Selection amongst the large cap developers also had a negative impact, namely the underweight to Sumitomo Realty & Development (up 13.0%) which was in part aided by its greater exposure to the condominium market.

Top Active Positions[1]

Largest overweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Camden Property Trust	US	2.12	0.53	1.59
Alexandria Real Estate	US	2.15	0.83	1.32
Gecina	FRA	1.89	0.61	1.28
Sunstone Hotel Investors	US	1.52	0.25	1.27
Rexford Industrial	US	1.40	0.15	1.25

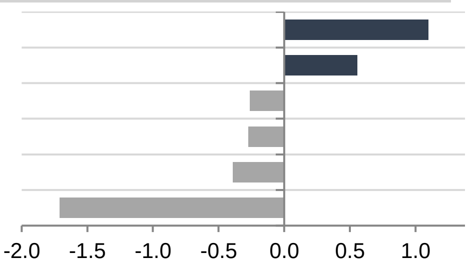
Largest underweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Sun Hung Kai Properties	HK	0.00	1.67	-1.67
AvalonBay Communities	US	0.00	1.58	-1.58
Digital Realty Trust	US	0.00	1.54	-1.54
Public Storage	US	0.67	1.95	-1.29
Sumitomo Realty	JPN	0.00	1.12	-1.12

Regional Asset Allocation

Region	Fund %	Index %
Asia ex-Japan	12.61	11.51
United Kingdom	5.85	5.29
Japan	10.71	10.97
Australia	5.68	5.99
Europe ex-UK	12.89	13.28
Americas	51.28	52.99
Cash	0.98	0.00

Active Weight %



Number of Stocks

Region	Fund	Index
Asia ex-Japan	17	26
United Kingdom	12	37
Japan	16	40
Australia	8	14
Europe ex-UK	15	66
Americas	50	148
Total	**118**	**331**

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

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Australia Performance Review

The Australia portion of the Fund returned -3.2%, underperforming the local benchmark return of -3.1%. In Australia, the bias toward the diversified growth segment had a slightly negative impact, as the residential developers were particularly weak on the month. At the stock level, the overweight to Scentre Group (-1.0%) and underweight to Chart Hall Retail REIT (-7.9%) had a positive impact. Scentre outperformed despite no material news over the month, and Charter Hall Retail came under pressure after Moody's changed its credit outlook of Baa1 from stable to negative. On the flipside, the main drag on performance was the overweight to underperforming petrol station REIT, Viva Energy which closed down 8.0% on the month.

Global Market Outlook & Fund Strategy

In the investment manager's view, hints of inflation rising faster than anticipated is the primary culprit behind the recent "rate-normalisation" sell-off. Over the coming months, the investment manager will be carefully monitoring inflation and look to identify any clearer signs of inflation accelerating. From a broader perspective, a notable change in the macro data to completely take risk off the table has been absent. Furthermore, credit markets remain relatively stable and healthy despite the equity market sell-off in early February. Additionally, the rise in 10-year yields has received significant press since the start of the year, however other areas of the credit market have seen far less volatility. Regarding interest rates, the investment manager does not have explicit rate expectations, but the base case scenario would call for a gradual increase in the US 10-year bond yield driven by continued gradual acceleration of the US economy. However, rates have risen much faster than expected due to market optimism for increased growth driven by US tax reform. Although rates have risen faster than expected, the market has experienced this recently in 2013 with the Taper Tantrum and in 2016 after Trump's election win and these spikes were followed by periods of interest rate reversion lower, so it is very early in the year to assume this upward trend in rates continues for the duration of 2018. Consensus currently calls for 3 rate hikes in 2018 and the investment manager would agree with consensus. The investment manager believes that the Federal Reserve will remain data dependent and gradually raise short term rates in a well-telegraphed manner.

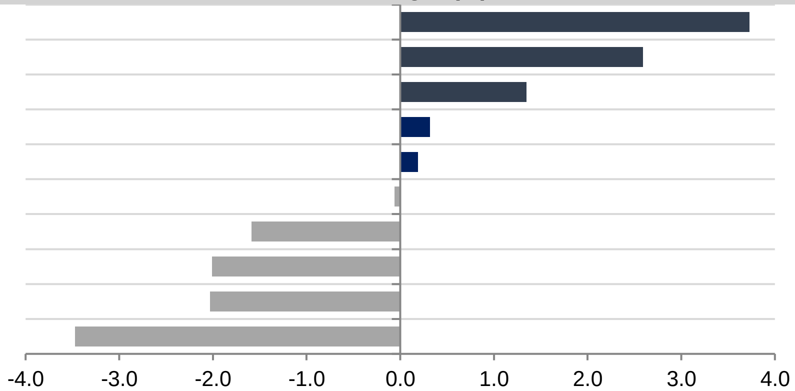
On the property front, supply remains subdued providing limited downside to rental rates. In place, rents in most sectors and regions are below market, providing highly visible cash flow growth. Meanwhile, private real estate pricing should be stable as a sizable backlog of allocated capital remains to be invested. US values have plateaued while select ex-US valuations continue to rise.

Overall, the investment manager has a bias towards global property stocks with high-quality assets or business models that operate in market segments with favourable supply/demand dynamics and, importantly, solid management teams with a solid track record of adding value for shareholders. 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 favourable 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, however 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 (%)	Bench (%)
Specialty	4.11	0.38
Industrial	9.51	6.92
Residential	20.90	19.55
Office	16.82	16.50
Hotels & Resorts	4.96	4.77
Storage	3.46	3.52
Other	1.78	3.37
Healthcare	4.53	6.54
Diversified	14.82	16.85
Retail	18.13	21.60
Cash	0.98	0.00

Active Weight (%)



Important Information

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