Ironbark Karara Australian Share Fund

Monthly Investment Report as at 31 March 2018

Asset Class

Australian Equities

Investment Objective

To outperform the benchmark (before fees) over rolling 4 year periods

APIR Code

PAT0001AU

ARSN

114 291 299

Fund Inception Date

30 June 2005

Manager Appointed

1 May 2010

Benchmark

S&P/ASX 300 Accumulation Index[1]

Distribution Frequency

Semi-Annually

Minimum Investment

$20,000

Fund Size

$72.5m

Exit Price

$1.5755

Market Review

The S&P/ASX 300 Accumulation Index had a poor month during March, returning -3.73%. Returns were driven by global factors to a large extent, yet local losses were at the higher end of spectrum. Returns were worse than Chinese equities (Shanghai -2.8%) and US technology (NASDAQ -2.9%) despite Australia's distance from US-Sino trade tariffs or fallout from Facebook's privacy scandal and Uber's autonomous car accident.

As well as, or perhaps because of, Trump's emergence as a clear market liability there was a moderation of global activity indicators in March, albeit off very high levels. In addition, the suggestion from the new Federal Reserve Chairman that policy will be less sensitive to financial market movements contributed to significantly greater volatility than investors had become used to in 2017.

Other risk assets turned lower too, with LME metals index down 4% and iron ore 18% lower as Chinese steel prices retreated. Gold (up 0.5%) was held back by further US dollar ('USD') strength (Australian dollar ('AUD')/USD -1.1%). Oil bucked the trend, rising 7.6%, partly due to resumption of better than forecast inventory trends, however it also responded to Trump's hawkish new advisor appointments. It is likely no coincidence that responsiveness to geo-political developments coincided with global oil inventories moving below long term averages.

Domestic trends in employment, retail sales, housing and business confidence were all fairly stable. The Reserve Bank of Australia remained neutral although talked more hopefully of wage growth and faster growth.

All domestic sectors were negative in March, though the REIT sector decline was marginal (-0.1%) and utilities (-0.8%) also fared relatively well as domestic bond yields dropped 21 basis points. The steady flow of negative headlines from the Royal Commission into financial services weighed on financials (-5.9%) and the benchmark overall as the sector comprises more than a third. Finally, TPG's (-10%) result highlighted the current heightened level of competition in the telecommunication sector which declined 6.2%. Global growth proxies came under pressure (metals and mining -5.3%) and some 'disruption' plays saw some selling pressure as overseas sentiment contributed to doubts over the quality of some small cap technology names. Despite this, the divergence between highest and lowest price-to-earnings stocks widened further.

Performance Review & Fund Activity

The Ironbark Karara Australian Share Fund (the 'Fund') returned -3.21% (net) for March, outperforming the benchmark's return of -3.73% by 0.52%.

Brambles was the strongest contributor rising 5.6%. The company held an investor day that reiterated the message that it is lifting prices to offset rising transport costs. This was encouraging as messaging on pricing strategy from new senior management team has been inconsistent over the past year. The current share price reflects little confidence the franchise can grow sustainably.

Performance

	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	-3.21	-3.73	0.52
3 months	-3.52	-3.78	0.26
1 year	3.57	2.86	0.71
3 years (p.a.)	2.66	3.92	-1.26
5 years (p.a.)	6.70	7.62	-0.92
7 years (p.a.)	6.57	7.06	-0.49
10 years (p.a.)	5.14[3]	5.19[1]	-0.05[3]
Since inception[2] (p.a.)	6.43[3]	7.01[1]	-0.58[3]
Since Karara as Investment Manager (p.a.)	6.21	6.90	-0.69

Past performance is not an indicator of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distribution.

[1]The S&P/ASX 300 Accumulation Index was adopted as the Fund's performance benchmark on 1 July 2010. Benchmark calculations prior to this date are based on the S&P/ASX All Ordinaries Index.

[2]This figure represents the annualised performance of the Fund since inception.

[3]Karara Capital appointed investment manager on 1 May 2010, Fund performance prior to this date is not attributable to Karara Capital but the prior manager.

Ironbark Karara Australian Share Fund

Monthly Investment Report as at 31 March 2018

Performance Review & Fund Activity

Other positive contributors included Qantas (up 0.2%), Resmed (up 0.5%), Santos Entertainment (up 0.6%), and James Hardie (up 0.1%) saw follow-on buying after good results in February. CYBG (up 1.1%), Star Entertainment (-0.6%), JB Hi-Fi (-0.5%) and AGL (-0.8%) also outperformed.

Star Entertainment ('Star') announced the issue of 10% of its shares to two Hong Kong property conglomerates as part of a broader agreement to promote its facilities to their Asian network and accelerate property development around their casinos. The deal is perplexing as Star is not short of capital and the issue is dilutionary to existing shareholders. The investment manager can only presume Star's new shareholders saw an opportunity after the recent price decline and pressured for the share issue as the price of maintaining their alignment. Star's willingness to do this perhaps indicates their sensitivity to improving their portfolio in the lead up to Crown Sydney's opening in 2021. Earlier in the month the Fund had trimmed Crown (-3.8%) into Star recognising the earlier price divergence.

JB Hi-Fi's modest re-rating was notable given weak trading updates from Harvey Norman and Myer. This is consistent with our view that efficient, focused retailers can continue to take market share from higher cost formats with broad offerings.

Along these same lines the investment manager was pleased by Wesfarmers' announcement to de-merge Coles. This indicates the new CEO is prepared to make big decisions and manage for returns rather than size. The move recognises that supermarket business is now lower growth and separation provides an opportunity for shareholders to make their own choice about whether the pricing of the sector (namely Woolworths) is appropriate. In response to this, the investment manager increased the Fund's position in Wesfarmers and trimmed Woolworths, lifting the underweight. Bunnings is seen as undervalued within the current Wesfarmers structure and the higher growth rates of the overall business (ex Coles) should make this more apparent over time.

Newcrest (-7.5%, not held) fell after a slippage in a tailings dam at its Cadia mine and follows the disruption from an earthquake last year. Production at Cadia, which produces 60% of group earnings before interest, tax, depreciation and amortisation, was temporarily halted. Although the mine has since been restarted, it illustrated the risks in mining where a company is reliant on one operation. Fortescue (-12.2%, not held) downgraded its outlook after acknowledging that the prevailing high discounts on its lower grade iron ore production are likely to be sustained.

Telstra's consensus earnings continued to be revised lower as TPG reiterated its mobile networklaunch strategy was on track but saw falling broadband subscribers and revenue per user. Telstra fell 6.3% although is not held by the Fund.

Nil REIT positioning was the most detrimental sector over the month however the largest individual detractors were Rio Tinto (-8%) and Incitec Pivot (-7.6%). These stocks struggled due to weakening commodity prices and rotation as leading economic indicators moderated. The investment manager believes the outlook for both companies remains attractive with diversified operations, low cost production, relatively low investor expectations and arerepurchasing shares.

Domestic bank contributions were made fairly neutral contribution overall as the sector underweight was offset by stock selection as Commonwealth Bank (-5.3%) performed slightly better than ANZ (-7.5%) and Westpac (-7.0%).

In response to price moves James Hardie and Resmed were trimmed, Oil Search (-4.4%) was increased modestly from Santos, the position in BHP (-5.2%) was increased further and the remaining small position in Amcor (up 2.0%) was exited.

Market Cap Distribution

Market Cap	Fund (%)	Bench (%)
1- 50	71.30	75.94
51-100	15.54	13.05
101-200	7.55	8.21
201-300	2.41	2.80
Ex 300[1]	1.43	0.00
Cash	1.77	0.00

[1]Including Placement Securities

Top 5 Active Weights

Security Name	Active Weight (%)
CSL	-4.42
AGL Energy	3.27
Brambles	2.87
Origin Energy	2.79
Telstra	-2.35

Key Contributors & Detractors for the Month

Top 5 Contributors	Active Position
Brambles	Overweight
AGL Energy	Overweight
Qantas Airways	Overweight
James Hardie Industries	Overweight
Resmed	Overweight

Top 5 Detractors	Active Position
Rio Tinto	Overweight
Woodside Petroleum	Underweight
Incitec Pivot	Overweight
ANZ Banking Group	Overweight
Goodman Group	Underweight

Contact Details
T: 1800 034 402 | **E:** client.services@ironbarkam.com | **W:** www.ironbarkam.com

Ironbark ASSET MANAGEMENT

Ironbark Karara Australian Share Fund

Monthly Investment Report as at 31 March 2018

Market Outlook

The global economy entered 2018 with strong momentum. Global growth indicators remain robust albeit inflationary expectations currently remain modest. The investment manager anticipates above-trend global growth to continue for some time and for slack in the global economy to decline resulting in higher rates of inflation in due course. With the durability of this period of growth still doubted by many market participants, large pools of global capital remain defensively positioned in assets with negative real yields.

Slack in the US economy and labour market is now relatively low and rapidly decreasing in Europe and Japan. Given this, the highly expansionary monetary policy pursued by the three key central banks is increasingly less appropriate and risks are rising that the market is underestimating the pace of tightening that may ultimately be required. However, the investment manager anticipates that the key central banks will tolerate inflation modestly exceeding their targets as wage inflation picks up.

With the global earnings outlook improving and a decent gap between earnings and bonds yields, there is scope for the stock market to weather somewhat higher interest rates. The key macro risks remain twofold:

- The sustainability of debt driven Chinese growth. Given the success of 2016's stimulatory efforts, the Chinese Government's focus has moved judiciously towards containing risks, controlling credit growth and advancing reform. The investment manager expects policy to be more modulated going forward and overall less supportive for steel making materials.
- The willingness of the market to fund the growing Twin Deficits of the US following the implementation of their significant tax cuts
- The structural challenges in Europe remain unresolved. Better growth and recent electoral outcomes are encouraging but adverse political risks remain
- A material escalation of trade tariffs. The tariffs imposed today are likely to have minimal real economic impact, however, an unlikely widespread escalation would have both inflationary and long-term growth implications

Whilst the global growth improvement is relatively synchronised, Australia is lagging. The investment manager anticipates that Australian gross domestic product ('GDP') growth will remain modest at around 2-3%. Strong population growth is assisting headline growth numbers with per-capita growth quite low in a historical context.

The modest uptrend in domestic economic data is encouraging, particularly the employment growth. Overall, the investment manager expects aggregate consumer spending to be broadly in line with household income growth (approximately 4%), which is still low in a historical context. Further strength in the Australian dollar could jeopardise this.

House prices are high by any measure and conditions in the housing market vary considerably outside of Melbourne and Sydney. The tightening of credit to the investor segment of the market has had a cooling impact on the housing market with a reasonable likelihood of small real price declines over the next couple of years. As a small open economy, the key risk to house prices remains external macro shocks which have, if anything, diminished of late.

Moderate global growth and the return of pricing power in some sectors suggest a reasonable backdrop for many stocks. Although, after the expansion in valuations in recent years, sustained gains will require continuing profit delivery.

Portfolio Characteristics

No of large cap stocks
33

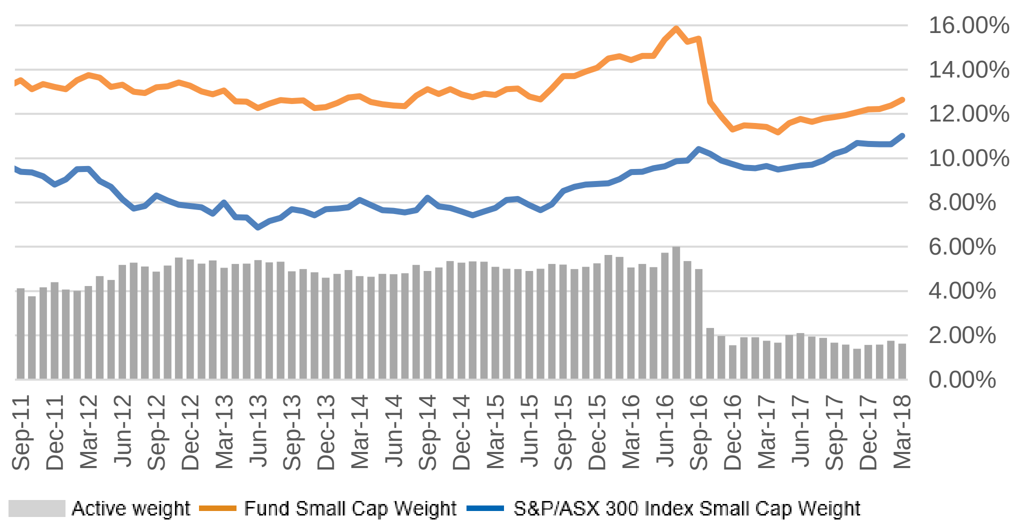
No of small cap stocks
60

Cash
1.77%

Portfolio Turnover (1yr)
43.44%

Sharpe Ratio (1yr)
0.29

Standard Deviation (5yrs)
11.43%



Contact Details
T: 1800 034 402 | **E:** client.services@ironbarkam.com | **W:** www.ironbarkam.com

Ironbark Karara Australian Share Fund

Monthly Investment Report as at 31 March 2018

Market Outlook (cont'd)

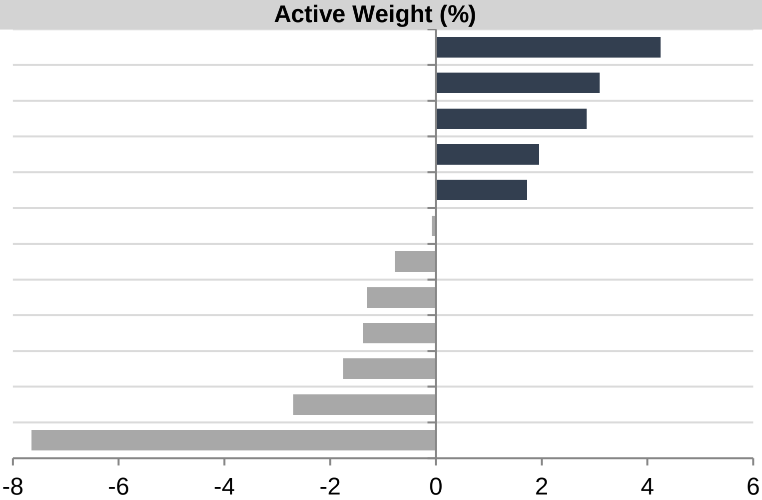
Overall valuation metrics now appear quite reasonable in a historical context, however high valuation dispersion exists with valuations stretched for stocks with defensive growth characteristics. The investment manager expects this starting point, along with the prospect of higher nominal and real bond yields and broadening growth, is increasing the opportunity cost of holding these stocks. Failure by individual companies to meet or exceed expectations, which is quite common and possibly likely to become more so in an environment of tighter input markets, can be expected to have bigger consequences than has been the case over the past couple of years. The Fund remains underweight to this area.

The Fund remains generally positioned for a more reflationary environment than is currently priced by the market and the investment manager continues to believe there are good risk adjusted returns available in many sectors. Within this, the emphasis is on attractive quality companies whose prospects are unappreciated by the market.

Asset Allocation

Sector Weights	Fund (%)	Bench (%)
Energy	9.42	5.17
Consumer Discretionary	7.96	4.87
Utilities	4.83	1.98
Materials ex Metals & Mining	6.06	4.11
Industrials	9.17	7.44
Information Technology	2.29	2.37
Consumer Staples	6.98	7.75
Metals & Mining	12.34	13.65
Health Care	6.41	7.79
Financial ex Property Trusts	32.33	34.08
Telecommunications Services	0.06	2.76
Property Trusts	0.38	8.03
Cash	1.77	0.00

Active Weight (%)



Important Information

Issued by Ironbark Asset Management Pty Limited ABN 53 136 679 420 AFSL 341020 ('Ironbark'). Data as at 31 March 2018. This document is not an offer of securities or financial products, nor is it financial product advice. As this document has been prepared without taking account of any investors' particular objectives, financial situation and needs, you should consider its appropriateness having regard to your objectives, financial situation and needs. The Fund referred to is issued by Ironbark Asset Management (Fund Services) Ltd ABN 63 116 232 154 AFSL 298626. To acquire units in the Fund, complete the application form that accompanies the current PDS, which you can obtain from www.ironbarkam.com or by calling client services on 1800 034 402. You should consider the PDS in deciding to acquire or to continue to hold the Fund. Although specific information has been prepared from sources believed to be reliable, we offer no guarantees as to its accuracy or completeness. The information stated, opinions expressed and estimates given constitute best judgement at the time of publication and are subject to change without notice to you. This document describes some current internal investment guidelines and processes. These are constantly under review, and may change over time. Consequently, although this document is provided in good faith, it is not intended to create any legal liability on the part of Ironbark or any other entity and does not vary the terms of a relevant disclosure statement. Past performance is not an indicator of future results. All dollars are Australian dollars unless otherwise specified. All indices are copyrighted by and proprietary to the issuer of the index.

Contact Details

T: 1800 034 402 | **E:** client.services@ironbarkam.com | **W:** www.ironbarkam.com