Ironbark LHP Global Long/Short Fund (Retail)

Quarterly Investment Report as at 30 September 2017

Asset Class

Alternatives

Investment Strategy

Multi-Manager
Long / Short

Investment Objective

To achieve equity-like returns with lower volatility than traditional global equity investments

APIR Code

HFL0106AU

ARSN

093 497 600

Fund Inception Date

31 March 2001

Benchmark

MSCI ACWI NR 100% Hedged AUD

Distribution Frequency

Annually

Minimum Investment

$5,000

Number of underlying managers

33

Fund Size

$203.1m (represents wholesale and retail share classes)

Exit Price

$1.6873

Market Review

Despite some notable headlines, the September quarter was marked by continued and even increasing market stability. The Chicago Board Options Exchange ('CBOE') Volatility Index ('VIX') an options-based measure of expected stock market movement, recently dropped below 10, after recording its lowest quarter on record, forcing the CBOE to introduce new, lower strike prices. This trend has occurred despite increasingly alarming statements from the leaders of the US and North Korea, and the Federal Reserve indicating that it is planning another interest rate increase before year-end, surprising many investors and market forecasters.

Equity markets hit record highs in the September quarter, with the S&P/500 producing gains for the eighth consecutive quarter due to increasing confidence in global growth and corporate profitability. As a percentage of gross domestic product ('GDP'), the value of the US equity market has topped the levels reached in 2007, the last peak prior to the financial crisis. One discordant note is companies that outperformed analyst expectations underperformed in the September quarter per information from Factset. This is in keeping with a recent Bank of America Merrill Lynch ("U.S. Equity Strategy in Pictures," September 17, 2017) report stating that stock selection within sectors has been far less rewarding than taking bets on individual sectors in 2017. Such an environment has proven to be challenging for the Fund's approach that focuses on stock selection within sectors and that utilise the investment manager's transparency and risk systems to ensure there is a reduction in market, sector and factor risk in favour of idiosyncratic skill.

Performance Review

The Ironbark LHP Global Long/Short Fund (Retail) (the 'Fund') returned 1.64% (net) over the quarter, underperforming the benchmark's return of 4.53% by 2.89%.

Alpha production was strong in July and August, and especially so on the short side despite a difficult September, which was marked by strong style, factor and sector reversals. During the quarter, gross exposure ranged from approximately 265% to 280% with an average of 272%. Net exposure ranged from approximately 17% to 29% with an average of roughly 23%. Gross and net exposure followed a similar path by dipping in August before settling back near the quarter's highs at the end of September.

US and European exposure generated respectable levels of alpha as did consumer discretionary, health care, industrials and financials exposure. On an absolute basis, consumer discretionary, financials, health care, materials and technology exposure were profitable while real estate, energy and consumer staples exposure were unprofitable.

Despite the somewhat challenging environment for lower net exposure stock selection strategies over the quarter, roughly two thirds of the underlying managers contributed positively to returns. The top contributors included a technology specialist, a consumer specialist, and a European manager. The most substantial contributor, the technology specialist, was able to generate alpha on both the long and short side of their portfolio, producing very strong returns, more than making up for a somewhat disappointing first half of the year. During the quarter, this manager produced positive returns from a number of different opportunities including longs in gaming, internet software and payment services companies while generating alpha on the short side in the same sectors. Looking forward, the manager has noted they are most excited about their short positions.

Performance

	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	0.07	2.19	-2.12
3 months	1.64	4.53	-2.89
1 year	4.05	19.47	-15.42
3 years (p.a.)	4.72	10.20	-5.48
5 years (p.a.)	7.81	13.89	-6.08
7 years (p.a.)	7.38	12.58	-5.20
10 years (p.a.)	5.77	6.14	-0.37
Since inception[1] (p.a.)	6.43	7.18	-0.75

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. 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] This figure represents the annualised performance of the Fund from the first full month of operation.

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Performance Review (cont'd)

A consumer specialist, the second largest contributor, was rewarded for their analysis of the changing landscape within retail, finding successful longs and shorts in specialty retail and within the industrials sector (those with a consumer/retail bent such as building materials). This manager remains enthusiastic about the opportunity set on the short side in retail, particularly grocery, due to increased pricing pressure coming from the Amazon and Whole Foods combination. Lastly, a European focused manager with a global approach generated solid profits each month of the quarter. Long exposure in health care, technology and industrials (specifically European airlines and utilities) were particularly fruitful. In contrast to the two previously described managers, who are currently running their portfolios with flat to negative market exposure, this European specialist is tactically running their portfolio at relatively higher gross and net exposures to take advantage of movements into year end.

The three largest detractors to the Fund included another technology specialist, an energy specialist and a European-based global generalist. The technology specialist suffered losses on the long and short side of their portfolio. A negative bias to the momentum risk factor, which continued an upward move through the quarter, created headwinds for their short portfolio. A significant part of this manager's long portfolio remains exposed to the upcoming iPhone X launch and in particular several of its suppliers. Those positions declined on media reports that there were production problems and delays with the new iPhone, which is not uncommon, yet still a noisy occurrence around these types of product launches. An energy specialist was challenged as the price of oil rose during the quarter, and lower quality short positions rose more rapidly than higher quality corresponding long positions. This has been a particularly frustrating year for this manager as they had previously navigated volatile energy environments quite successfully. Finally, a European-based generalist produced moderate losses for the quarter after posting significant gains during the first half of the year. Over the past year this global portfolio manager has worked to reduce their style risk while concentrating the portfolio into their highest conviction ideas, and a few more volatile names created losses on the long and short side during the quarter.

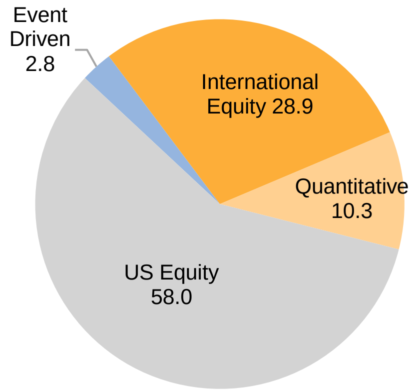
During the quarter, no new managers were added to the Fund. However, there was a move to reduce exposure to several managers who exhibited higher than expected factor tilts, in some cases taking profits and in others allocating away from underperformers. Concentrating risk within particular sector specialists has tended to work in the Fund, however the allocation to the underperforming technology specialist has not in 2017. As a result the investment manager has broadened the Fund's technology exposure over the past several quarters. In a period of challenging conditions for sector specialists, the investment manager remains confident in the majority of the managers, however will take action if confidence slides. Combined with a robust pipeline of attractive new portfolio managers (including within technology), the investment manager expects to see Fund upgrades moving into the end of the year.

Outlook

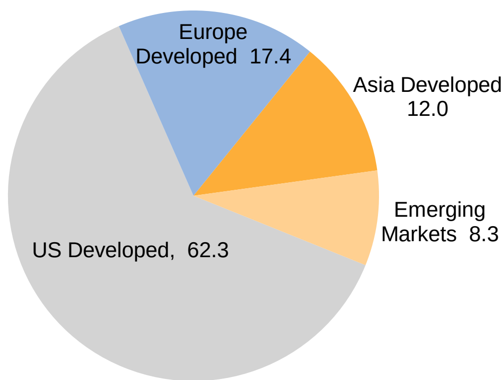
Although stock selection within sectors has underperformed sector selection in 2017, and getting earnings correct has often been a losing trade per the aforementioned Bank of America Merrill Lynch research, the same report notes that over the long run, valuations explain 80% of the variability in 10-year equity returns and that sell side research coverage has decreased from thirteen analysts per stock in 1986 to two in 2017. The investment manager believes this means that skill based stock selection strategies will work over the long term when executed by capable and experienced managers.

Asset Allocation

Strategy Allocation (%)



Geographic Allocation (%)



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Outlook (cont'd)

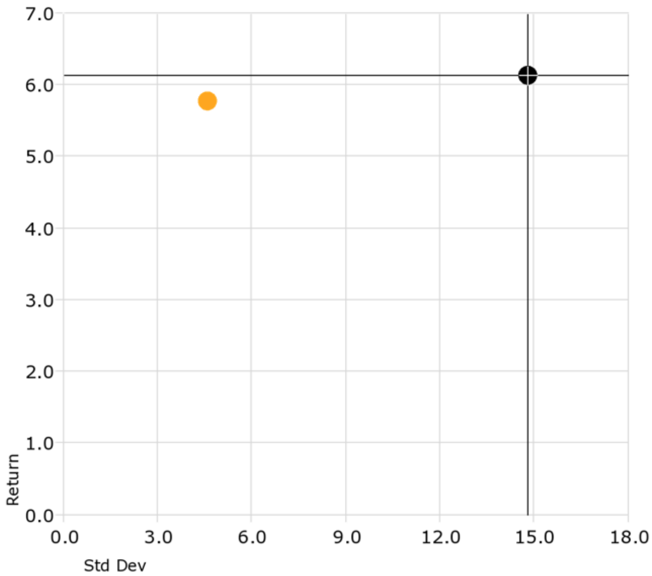
The S&P/500 is closing in on the longest period since 1928 without a 5% correction. The investment manager would suggest that the longer markets go without a correction or normal volatility, the more painful its reappearance will be. It is therefore extremely important to maintain risk discipline and not chase returns, particularly in the parts of the Fund designed to do relatively well in times of market crisis.

In contrast, recent analysis from Morgan Stanley (September 2017 Hedge Fund Recap) indicates that hedge fund exposure to technology names is at all-time highs. The Morgan Stanley research shows that net exposure to the technology sector in US hedge funds is at the 100% percentile rank as measured since 2010 and the average net exposure to technology within North America for Morgan Stanley's hedge fund clients is 39%. That is greater than the Fund's net exposure to all sectors combined. The investment manager's preference for sector specialists in particular and alpha generation more broadly instead of taking market, sector, or style bets remains unchanged. The investment manager acknowledges that other approaches that include more net exposure to the markets and exposure to high performing sectors such as technology have outperformed the Fund recently.

The investment manager's continued emphasis on control of assets and liquidity, detailed knowledge of exposures and positions, and the resultant flexibility to respond to risks and opportunity provides the investment manager confidence that their approach is the ideal way to produce returns in a hedged manner without adding redundant risks to clients' portfolios.

Risk vs Return over 10 years

Time period: 01/10/2007 to 30/09/2017



Ironbark LHP Global Long/Short R

Investment growth of $100 since inception

Time period: 01/04/2001 to 30/09/2017

MSCI ACWI NR 100% Hedged to AUD

Source: Morningstar Direct. Data in AUD

RG240 Disclosure

Since the ASIC Benchmarks and Disclosure Principles Report was issued on 28 September 2015, there has not been any material changes to the Fund's risk profile, strategy or key personnel. State Street Australia Limited was appointed as the Fund's custodian from 1 October 2015.

Important Information

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