



Ironbark LHP Global Long/Short Fund (Retail)

Quarterly Investment Report as at 31 December 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

31

Fund Size

\$200.7m (represents wholesale and retail share classes)

Exit Price

\$1.7240

Market Review

Global equity markets, as measured by the MSCI All Country World Index, produced positive returns in each month of the fourth quarter. In fact, the index generated positive results in every month of 2017, a first since the inception of the index three decades ago. Asian and North American markets were up materially during the quarter, while Europe produced mixed returns. Most sectors performed well, with the exception of utilities (and other yield related names) that suffered from interest rate hikes. While economic growth has surprised to the upside and unemployment has decreased globally, inflation has not yet reared its head, creating a particularly favourable environment for equity markets. Despite realised volatility of the S&P/500 falling to its lowest level in its history, most markets saw a temporary but strong reversal in the value versus momentum factor in November.

Performance Review

The Ironbark LHP Global Long/Short Fund (Retail) (the 'Fund') returned 2.18% (net) over the December quarter, underperforming the benchmark's return of 5.56% by 3.38%.

Alpha production was strong in October and respectable in December. November was more difficult as factor and sector rotations created some havoc in the markets near month-end which was painful, particularly on the short side of the Fund. For the quarter, the Fund generated positive alpha at levels within expectations, although, on the lower end. Gross exposure ranged from approximately 280% to 295% with an average of nearly 290%. Net exposure ranged from approximately 25% to 35% with an average of roughly 31%. Exposures were fairly consistent during the quarter, with gross exposure dropping slightly into year-end as net exposure rose modestly.

US and Asia related exposure generated the most alpha, followed by Europe, as all regions were absolute and alpha contributors. Consumer discretionary, financials and industrials exposure led the way in alpha production by sector while technology was the laggard. On an absolute basis all sectors contributed positively to results.

During the quarter, approximately 75% of the underlying managers contributed positively to returns. The top contributors included an internationally based global generalist, a financials specialist, and a Japan specialist. The most substantial contributor was able to generate alpha on both the long and short side of their portfolio. Their best performing position was a short in a large industrial conglomerate where an inefficient organisational structure and poor acquisitions led to a significant price decline.

A financials specialist, the second largest contributor, was rewarded for their analysis of idiosyncratic events impacting specialty finance companies as well as general market enthusiasm for financials due to US tax policy changes and rising interest rates. They were able to generate positive alpha in both their long and short portfolios for the quarter. This manager remains enthusiastic about the stock selection environment in financials due to changes in interest rate policy, US regulatory relief, and the potential for merger and acquisition activity

Performance

	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	0.91	1.29	-0.38
3 months	2.18	5.56	-3.38
1 year	5.67	20.76	-15.09
3 years (p.a.)	4.63	10.92	-6.29
5 years (p.a.)	7.98	14.25	-6.27
7 years (p.a.)	7.04	12.10	-5.06
10 years (p.a.)	5.79	6.95	-1.16
Since inception ¹ (p.a.)	6.46	7.41	-0.95

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.

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)

Lastly, a Japan focused manager generated solid profits each month of the quarter. Long exposure in industrials, materials, consumer discretionary, energy and financials contributed the most to returns as the portfolio manager correctly assessed how increasingly positive economic data points in the US would flow through to certain Japanese equities. This manager tends to run with a more tactical approach, but generally centred on low net exposure to markets. In fact, the returns were generated this quarter while running slightly net short exposure.

The three largest detractors to the Fund included a technology specialist with a consumer tilt, a health care specialist, and a technology portfolio manager with a value approach. The technology specialist suffered losses on the short side of their portfolio, while their longs trailed the market. While the manager generated positive performance for the year, sector rotations and investor enthusiasm for certain "hot" subsectors made the fourth quarter a painful one. This was particularly true in internet-related names where both long and short books contributed to losses. This manager ran their portfolio with neutral to net short exposure to the markets over the quarter, which is within the investment manager's expectations for a manager who tends to take on meaningful positions on both sides of their portfolio.

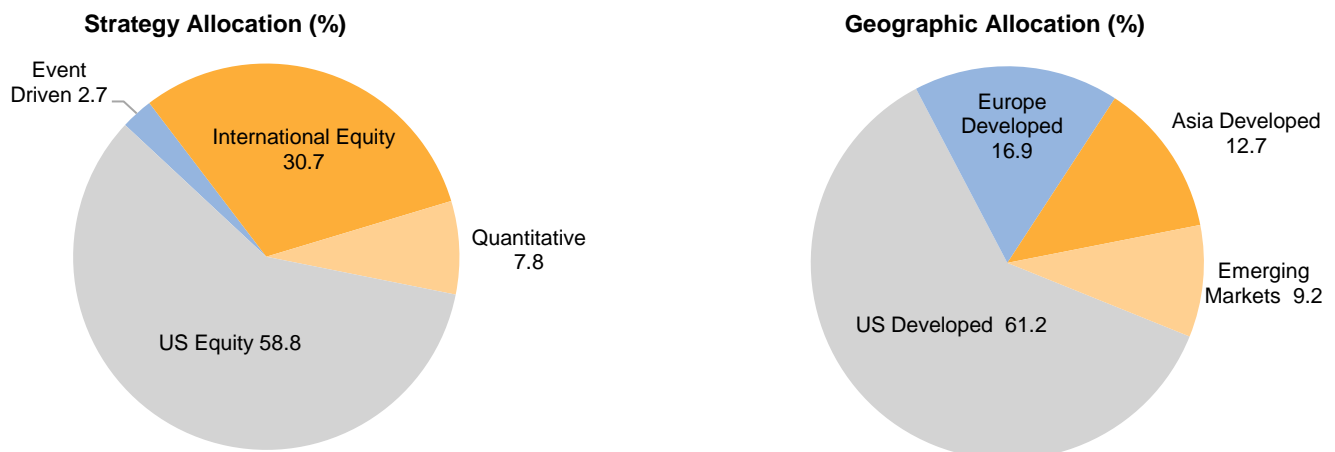
The health care specialist lost money over the quarter, as their contrarian investment style suffered in a momentum driven market. Both longs and shorts contributed to losses, with health care equipment and pharmaceuticals being areas of difficulty on the long and short side and biotechnology proving difficult on the long side. The manager, one of the Fund's most successful long-term sector specialists, views the current environment as a positive for the strategy going forward due to uncertainty in health care driving stock dispersion and the potential for continued merger and acquisition activity. Finally, the other technology specialist, who takes a value approach, created modest positive alpha in their short portfolio, which was unable to overcome underperformance in their long portfolio driven by names in the communications equipment subsector. The portfolio manager is positioned for cyclical themes to play out in semiconductors (short), telecommunications equipment (long), and 3D sensing technology in smartphones (long).

One manager was added to the Fund during the quarter, a portfolio manager with expertise in European cyclicals. The investment manager also moved on from three managers during the quarter, consisting of smaller allocations within health care and industrials. The investment manager adjusted position sizes based on conviction levels throughout the quarter and going into year-end. For example, exposure was added to two financials managers where the investment manager's conviction has grown, as well as to a real estate and an energy specialist who have interesting market environments in which to invest. The Fund trimmed several managers including a quantitative manager whose approach has become less complementary, in the investment manager's view, and a lagging technology specialist. The investment manager is excited about the Fund's manager sourcing efforts, and a more difficult environment for large multi-strategy and global macro hedge funds has sparked a number of interesting portfolio manager opportunities that are being explored.

Outlook

The fourth quarter, and 2017 as a whole, was characterised by increasingly confident equity markets as a result of global economic growth, a strong corporate earnings season, and US tax cuts. Corporate earnings improved in 2017 and are predicted to do so in 2018 on the back of global economic growth, increased business spending, and robust manufacturing activity. In the midst of this backdrop, pockets of volatility have risen to the surface periodically as evidenced by the last week of November when technology stocks underperformed consumer, financial and energy stocks by an average of 4% over a several day period. This momentum reversal may have been the result of leading equity managers selling into year-end or rotations by quantitative or macroeconomic traders. While it did not last for long, it is a good reminder that having the patience and fortitude that comes from knowing what you own and why you own it may become valuable again in the near future.

Asset Allocation



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Outlook (cont'd)

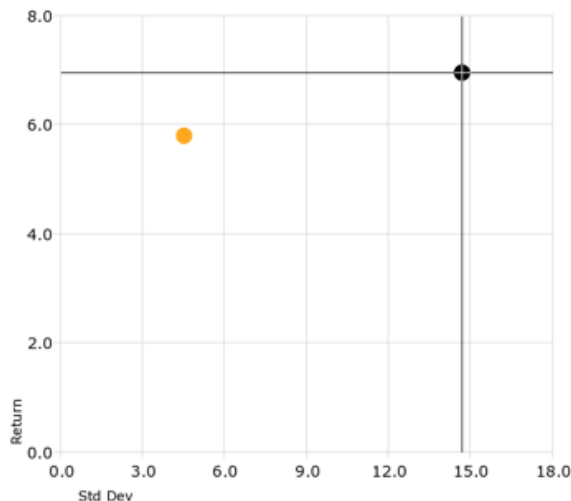
The past eight-year period has been characterised by quite modest economic growth combined with easy monetary conditions, access to credit (accompanied by an almost frenzied need for yield) and rapidly rising markets accompanied by remarkably low volatility. As more robust global growth is observed, the market may test the bounds of these Goldilocks (i.e., preternaturally benign) financial conditions where interest rates have remained low but markets have risen smoothly and rapidly.

In recent days, a long-time market sceptic (Jeremy Grantham of Grantham, Mayo and van Otterloo) and a long-time bull (Jim Paulsen of the Leuthold Group) have reversed course and are now respectively predicting a 50% melt-up and a 10-15% correction in the near future. It is more helpful to view future market returns along a probability spectrum rather than focusing on a single predicted outcome.

The investment manager's strong bias is to build portfolios that will benefit investors across a broad range of future market outcomes and 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 gives confidence that their approach is the best way to produce returns in a hedged manner without adding redundant risks to the investors' overall Fund. The Fund's lower net, lower beta approach has not and will not keep up with bull runs in equity markets, as observed in 2017. The investment manager believes the best run portfolios will choose to pick up beta cheaply and efficiently outside of the hedge fund marketplace and utilise hedge funds to create more unique and specialised exposures and returns. The investment manager's long term track record, in their opinion, shows the value of that approach, particularly when the "easy" returns have disappeared.

Risk vs Return over 10 years

Time period: 01/01/2008 to 31/12/2017



● Ironbark LHP Global Long/Short R

Investment growth of \$100 since inception

Time period: 01/04/2001 to 31/12/2017



● 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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