



Ironbark LHP Global Long/Short Fund (Retail)

Quarterly Investment Report as at 30 June 2018

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

Benchmark Unaware

Distribution Frequency

Annually

Minimum Investment

\$5,000

Number of underlying managers

31

Fund Size

\$198.2m (represents wholesale and retail share classes)

Exit Price

\$1.7674

Market Review

Global equity markets, as measured by the MSCI All Country World Index, produced moderately positive returns during the second quarter, driven primarily by developed markets. Consumer sentiment has varied considerably however weakened at quarter-end, which temporarily pushed US gross domestic product projections downward. Nevertheless, US economic growth and corporate profitability continue to remain strong even as Asia and Europe show signs of slowing. In keeping with that contrast, US equity markets were positive for the second quarter, driven by large cap technology names, while many markets in Asia and across the emerging markets were down significantly.

The first half of 2018 has certainly brought change to the investment landscape. One example is the Chicago Board of Options Exchange's VVIX Index (a measure of how volatile predictions are for future market uncertainty and commonly referred to as the 'vol of vol' index), which demonstrated its highest average in over a decade per the Wall Street Journal. The investment manager believes this is an indication of frequent shifting of market sentiment as the global economic expansion faced potential uncertainty in the form of trade tensions turning into actions, inflation appearing in some regions, and widely divergent fiscal and monetary policies globally. At the same time, some trends persist as growth stocks continued to outperform value stocks, while small capitalisation stocks dramatically outperformed their large capitalisation counterparts broadly.

Performance Review

The Ironbark LHP Global Long/Short Fund (Retail) (the 'Fund') returned -2.08% (net) in June.

During the second quarter, alpha production was strong despite a pullback in June as shorting became increasingly frustrating due to market conditions that demonstrated factor reversals and behavior consistent with short squeezes. Gross exposure ranged from approximately 280% to 330% during the quarter with an average of approximately 305%. Net exposure ranged from approximately 30% to 40% with an average of roughly 35%. Gross exposure grew steadily throughout the quarter, ending at approximately 320% while net exposure fluctuated within a fairly tight range as managers generally harvested gains and responded actively to market trends.

The Americas, Asia and Europe exposures all generated positive results and respectable levels of alpha despite the headwinds of market downdrafts in China and Asia more broadly. While greater China exposure was pleasingly profitable, Emerging Market exposure in Europe and the Americas more than offset the emerging market gains in Asia. Contribution and alpha production were particularly strong in North America. The information technology, industrials and health care sectors drove positive contributions, while consumer discretionary and energy sectors generated negative returns as shorting proved difficult. Alpha production was particularly strong in financials, information technology, industrials, and health care.

Despite the challenging environment within certain equity markets outside of the US, over three quarters of the underlying managers focused on these markets contributed positively to quarterly returns, and over two thirds of the US focused equity managers generated positive returns. The top contributors included a financials specialist, a consumer manager, and a health care sector specialist. The most substantial contributor, the financials specialist, was able to generate alpha in both long and short names. During the quarter, this manager produced positive returns from a number of different opportunities within financials, although had particular success within regional banks.

Performance

	Net Fund Return (%)	
1 month	-2.08	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.
3 months	1.36	
1 year	6.47	
3 years (p.a.)	3.82	
5 years (p.a.)	6.41	
7 years (p.a.)	7.05	
10 years (p.a.)	6.26	
Since inception ¹ (p.a.)	6.43	

Contact Details

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Performance Review (cont'd)

This manager expects heightened merger and acquisition activity within the sector to create investable opportunities. A consumer specialist, the second largest contributor, was able to generate positive returns each month of the quarter. Longs in the consumer discretionary space and shorts in airlines were the key drivers of returns for this manager that runs with modest net exposure. Lastly, a manager with a focus on health care generated solidly profitable returns for the quarter. Returns on longs in small and mid-capitalisation biotechnology names led the way, as acquisition activity within the space directly and indirectly impacted their positions. Research releases related to an annual cancer conference also created tailwinds for a number of holdings. This manager reduced gross exposure coming into the end of the quarter as they took profits on a number of winning trades. However this manager is looking to continued technological innovation and merger and acquisition activity to create new ideas going forward.

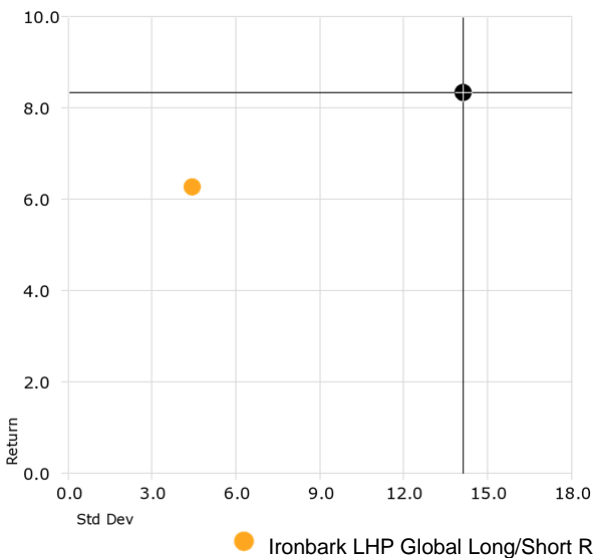
The three largest detractors to the Fund included an Asia specialist, an energy sector portfolio manager and a quantitative equity manager. The long tenured portfolio manager with a pan-Asia mandate took losses primarily on the short side of the portfolio in Japan, where the manager believes deteriorating fundamentals are not yet showing up in market prices.

The energy sector specialist, who was the second largest detractor, gave back most of their gains from the first quarter. This manager was affected by a short bias to larger capitalisation names as well as exposure to the Bakken producing region. They continue to run with very low net exposure as they seek to insulate returns from commodity price movement. The quantitative equity manager, who specialises in applying adaptable models to technical equity selection, was hurt primarily on the short side of the portfolio in the energy and information technology sectors.

The investment manager added a modestly sized position at quarter end in a quantitative equity manager with a statistical arbitrage focus. This manager had generated a strong track record within a well-known multi-manager firm and has been developing quantitative investment strategies for over twenty years. This particular approach tends to be market and beta neutral and is intended to be uncorrelated to the Fund's core fundamental long/short equity exposure. Despite the addition, overall quantitative exposure in the Fund continues to move lower. The investment manager also terminated one manager, a real estate sector specialist, as the investment manager believes another specialist in this area that runs a more opportunistic and scalable portfolio is a better fit for the overall portfolio construction of the Fund. The investment manager will look to optimise their mix of approaches across sectors and geographies, and they expect to make a few changes in the back half of the year accordingly.

Risk vs Return over 10 years

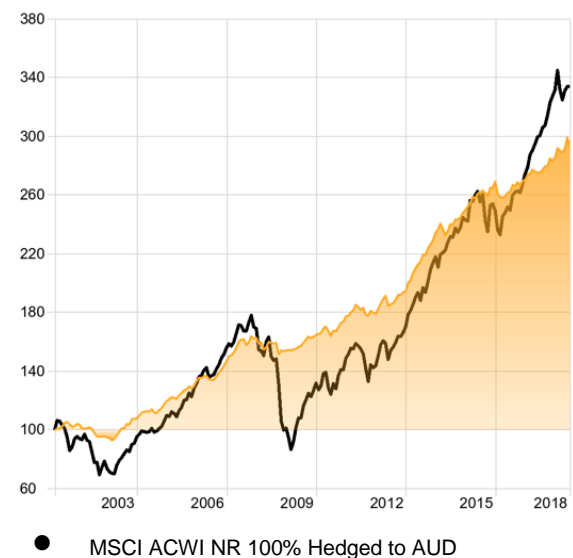
Time period: 01/07/2008 to 30/06/2018



Source: Morningstar Direct. Data in AUD

Investment growth of \$100 since inception

Time period: 01/04/2001 to 30/06/2018



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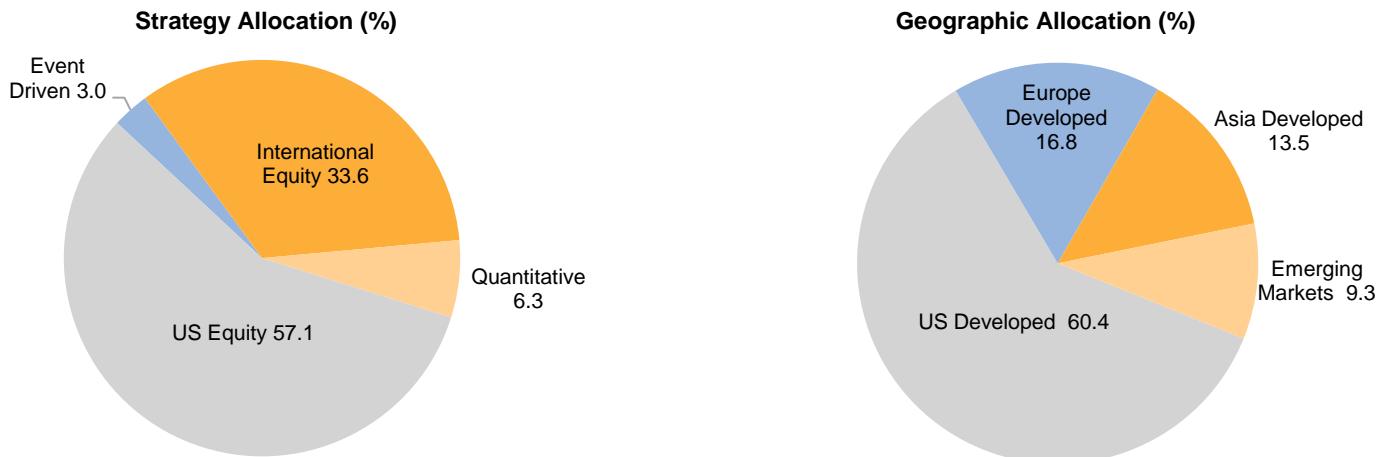
Outlook

Within the heavily researched US equity markets, the first quarter 2018 earnings season resulted in the S&P 500 posting its highest earnings growth since the third quarter of 2008. However, much of the corporate outperformance had already been priced into stock prices considering the subdued response witnessed for those reporting positive surprises. According to FactSet, respective companies that recorded beats experienced an average price increase of 0.2% over a four-day window (in other words, two days before reporting, two days after reporting), compared to the five-year average of 1.1% over the same window of time.

Outside of the US, the more violent economic headwinds of a China slowdown and emerging markets volatility are evidenced by some of these markets entering bear market territory. The current bull market in developed economies has been of impressive length, however is facing the macroeconomic headwinds of trade tensions impacting future growth estimates, the end of synchronous global growth more broadly, and fears related to interest rates and yield curves. Investors face markets that seem to present more questions and fewer easier opportunities than has been seen in some time.

The investment manager believes long/short equity hedge funds, and more specifically portfolios focused on alpha-oriented managers with limited market and factor exposures, prove their worth across a range of potential market outcomes. The investment manager's focus is to improve the efficiency by which their portfolios seek their objectives by proactively finding the best mix of portfolio management talent globally, improving access to research, data, and analysis, and reducing the overall costs of doing so. The investment manager is focused on those objectives across the firm and believe their managed account platform and risk analytics provides an excellent toolkit to achieve them.

Asset Allocation



Important Information

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