Ironbark Paladin Property Securities Fund

Quarterly Investment Report as at 30 September 2017

Asset Class

Property Securities

Investment Objective

Seeks to outperform the benchmark, after fees, over rolling three year periods.

APIR Code

PAL0002AU

ARSN

087 897 667

Fund Inception Date

28 February 1995

Benchmark

S&P/ASX 300 A-REIT Accumulation Index

Distribution Frequency

Quarterly

Minimum Investment

$20,000

Fund Size

$280.2m

Exit Price

$0.8947

Number of Stocks

22

Market Review

The S&P/ASX 300 Property Accumulation Index returned 1.9% for the September quarter, outperforming the broader Australian share market (as measured by the S&P/ASX 300 Accumulation Index which posted a return of 1.3%).

Three key themes defined the third quarter of 2017 for the Australian REITs:

i) 2018 financial year earnings guidance was stronger than expected, with the sector expected to deliver around 4.3% earnings growth for the 12 months to 30 June 2018, which was modestly higher than expected.

ii) Retail landlord operating metrics remain challenged. Retail sales growth is slowing, now 2.1% growth over the 12 months to August, which compares to 3.2% for the prior comparable period. The investment manager expects a confluence of factors now represent headwinds for the retail sector, including rising energy costs, anaemic wage growth, out of cycle interest rate rises by Australian banks and anecdotes of weaker demand for residential housing. Retail landlords generally underperformed the sector over the quarter, with Westfield, Scentre and BWP Property Trust dragging the sub-sector relatively lower.

iii) Merger and acquisition activity within the small capitalisation REITs remains a feature. Over the past 3-4 months the investment manager has seen a lot of activity, such as:

   a) In September, Property Link Group ('PLG') gained 7.5% on the back of a takeover attempt by Centuria Capital ('CNI') and Centuria Industrial REIT ('CIP'). CNI and CIP acquired a combined 17% strategic interest in PLG, however PLG has recently rejected the advance from the parties. In early October, ESR Pte Ltd announced that it had acquired an 18% interest in PLG. In the recent past, ESR have been an aggregator of industrial REITs in Singapore.

   b) Astro Japan ('AJA') was delisted following the successful bid by Blackstone to acquire all of AJA's interests in its Japanese assets at $7.18 per share.

Performance Review

The Ironbark Paladin Property Securities Fund (the 'Fund') returned 2.23% (net) for the September quarter, outperforming the benchmark's return of 1.94% by 0.29%.

Holdings that were major contributors to performance included the average overweight positions to outperforming Mirvac Group, GPT Group and the underweight to underperforming Dexus. The major detractors from performance was the average underweight position to outperforming Iron Mountain Chess Depository and the overweight positions to underperforming Viva Energy REIT and Charter Hall Retail REIT.

Performance

	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	0.74	0.57	0.17
3 months	2.23	1.94	0.29
1 year	-2.20	-1.97	-0.23
3 years (p.a.)	12.18	12.48	-0.30
5 years (p.a.)	13.10	13.21	-0.11
7 years (p.a.)	12.18	12.25	-0.07
10 years (p.a.)	-0.85	-0.40	-0.45
Since inception[1] (p.a.)	7.69	8.13	-0.44

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. 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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Ironbark ASSET MANAGEMENT

Ironbark Paladin Property Securities Fund

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Fund Strategy

The investment manager is attracted to the social infrastructure sub-sector. Specifically to the length and structure of the long leases within childcare operators, and look to retain an overweight position. The Fund also retains a net overweight position to the retail sub-sector, however selectively has exposure with the preferred names of GPT and Westfield Group. The Fund also retains a net underweight position to the diversified residential developer sub-sector, with Mirvac being the preferred exposure.

Key Contributors over the Quarter

Stock	Code	Index Return %	Fund position	Attribution impact %	Explanation
Mirvac	MGR	7.51	O/W	0.20	Mirvac outperformed 5.6% during the September quarter, delivering a total return of 7.5%. At its 2017 financial year results, Mirvac guided to a stronger than expected 2018 financial year earnings guidance of 6-8% and distribution guidance of 6.0% growth, after delivering a strong 11% earnings per share growth in the 2017 financial year. Recently, Mirvac has announced it will raise capital in a fund which will assess 'build-to-let' opportunities initially in Sydney, and ultimately across Australia. There is reportedly institutional interest if yields of 4.0-4.5% are possible. The investment manager views 'build-to-let' as a viable opportunity for Mirvac, to further leverage their urban and mixed use development capability.
Dexus	DXS	0.21	U/W	0.10	Dexus underperformed 1.7% during the September quarter, delivering a total return of 0.2%. At their recent 2017 financial year results, Dexus reported 2017 financial year funds from operations (FFO) up a moderate 1.1% versus the previous corresponding period. Management reiterated dividend per share guidance of 4.0-4.5% growth in the 2018 financial year, inclusive of 2.0-2.5% FFO growth in the underlying portfolio. However, it is worth noting this implies headline FFO growth of just 0.7%, which was a weak result amidst a very strong office leasing market.
GPT	GPT	3.55	O/W	0.09	GPT outperformed 1.6% during the September quarter, and delivered a total return of 3.5%. At their recent first half 2017 result, GPT management upgraded their earnings forecast from 2.0% to 3.0% growth on 2016. 2017 distribution guidance remains at 5%, implying 24.5 cents per share. GPT's comparable net property income growth of 3.8% compared favourably versus industry peers, driven in part by solid execution on cutting operating expenditure to drive better like-for-like growth for the division.
BWP Trust	BWP	-1.01	U/W	0.09	BWP Trust underperformed 2.9% during the September quarter, and delivered a total return of -1.0%. BWP's 2017 financial year result was 'in-line' on the earnings front (up 4.3%), and guidance for the 2018 financial year was for the distribution to remain unchanged, reflecting the start of some repositioning challenges from Bunnings' departures.
Abacus Property	ABP	19.96	O/W	0.09	Abacus outperformed 18% during the September quarter, and delivered a total return of +20%. Abacus reported a strong 2017 financial year results with earnings per share up 46% year-on-year, driven by transactional profits, performance fees and earlier-than-expected residential settlements, although earnings were pre-announced last month. Abacus provided the 2018 financial year distribution guidance of 18 cents, up 3% year-on-year growth.

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Key Detractors over the Quarter

Stock	Code	Index Return %	Fund Position	Attribution Impact %	Explanation
Iron Mountain	INM	13.89	U/W	-0.12	Iron Mountain ('INM') outperformed 12.0% during the September quarter, delivering a total return of 13.9%. At the start of August, INM announced its 2017 second quarter results, showing organic growth of 2.5% year-on-year, better than expected by consensus. The company maintained its 2017 full year guidance. (Adjusted earnings before interest, tax, depreciation and amoritsation growth of 16%-19% and adjusted funds from operations growth of 8% to 15% for full year 2017). Further, INM announced the acquisition of FORTRUST data centres for $128 million (in US dollar terms).
Viva Energy	VVR	-4.23	O/W	-0.10	Viva Energy underperformed 6.2% over the September quarter, and delivered a total return of -4.2%. Whilst Viva delivered a better than expected result, it was largely due to lower board and management expenses. The 2017 financial year distribution per unit guidance for 13.2 cents per share was unchanged, the investment manager believes there is upside potential largely due to acquisitions as well as the August rent reviews which should positively impact profit, slightly offset by the cost of revaluations. However, the investment manager expects underperformance has been driven by higher bond rates and a substantial shareholder choosing to sell down their stake during the quarter.
Charter Hall Retail	CQR	-2.95	O/W	-0.06	Charter Hall underperformed -4.9% during the September quarter, delivering a total return of -1.9%. The 2017 financial year result and the 2018 financial year guidance was disappointing, in the investment manager's view, with two years now of flat growth (financial year 2016-2018) despite being a net buyer of assets and having a falling cost of debt. Income at the asset level was 2% below expectations, driven by downtime on ex-Dick Smith/Payless space, flat renewals on specialty leases and poor fundamentals for a few mining exposed assets.
Folkestone Education	FET	-0.43	O/W	-0.04	Folkestone Education ('FET') underperformed 2.4% during the September quarter, and delivered a total return of -0.4%. The investment manager expects part of the underperformance has been driven by an element of price reversion after a strong relative run year-to-date. Further, during the period, FET's pricing period for its underwritten dividend reinvestment plan may have driven some relative underperformance.
Westfield	WFD	-0.27	O/W	-0.04	Westfield underperformed 2.2% over the September quarter, and delivered a total return of -0.3%. The investment manager expects the underperformance was driven by continued caution around the performance of US retailers, together with an appreciation of the Australian dollar relative to the US dollar over the quarter.

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Market Outlook

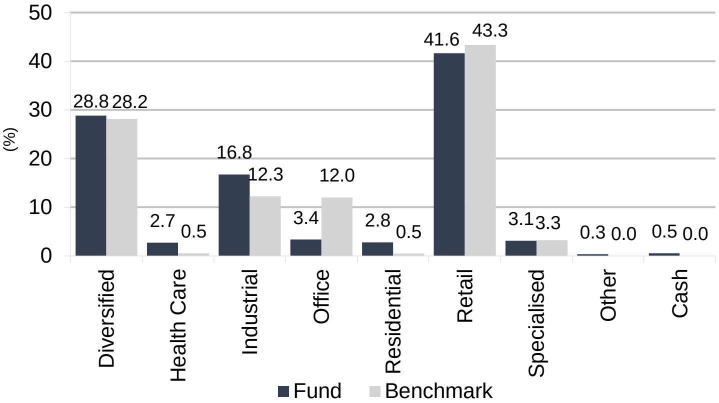
In Australia, the investment manager is forecasting a 10.4% total return over the next twelve months. With record low interest rates, off-shore capital flows and an appetite from companies to grow, the investment manager believes asset values continue to be well supported, despite recent upward movement in the Australian long bond rates.

The investment manager's valuations do not incorporate additional merger activity, which if it were to occur would drive asset values higher and management costs lower. The investment manager expects there is some risk of higher level of corporate activity in the next 1-2 years, as some of the stocks seek growth as the earnings growth tailwinds from lower debt costs in recent years start to slow. Fixed annual escalations embedded into lease terms provide AREIT trust portfolios a defensive earnings profile.

Whilst macro drivers and sector preferences are a part of the Fund's positioning, the investment manager is mainly driven by stock level relative value and upside opportunities. The investment manager expects those REITs with active earnings, including residential development, funds management or asset management to have stronger than sector average earnings growth profiles despite the slowing underlying like-for-like rental growth. However, as the top of the pricing cycle in residential market and other property segments approaches, the investment manager is being selective within this group. Defensive REITs (pure trusts) will show below sector average earnings growth, however remain well supported, until a pick-up in underlying commercial rent growth drivers is observed in Australia.

Portfolio Summary

Asset Allocation



Top 5 Holdings

Security Name	Fund (%)	Benchmark (%)
Scentre Group	18.42	17.92
Westfield Corp.	17.23	12.84
Goodman Group	15.10	11.24
GPT Group	12.46	7.63
Mirvac Group	10.65	7.27
Cash	0.52	0.00
Other	25.62	43.10
Total	**100.00**	**100.00**

Important information

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