



Ironbark Paladin Property Securities Fund

Quarterly Investment Report as at 30 September 2018

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

Buy/Sell Spread

+0.25%/-0.25%

Distribution Frequency

Quarterly

Minimum Investment

\$20,000

Fund Size

\$311.4m

Exit Price

\$0.9854

Number of Stocks

24

Market Review

The S&P/ASX 300 Property Accumulation Index returned 2.0% for the quarter, which was in line with the broader equity market (as measured by the S&P ASX 300 Accumulation Index which returned 1.5%).

The A-REIT sector was dominated by a few key themes during the quarter, including:

- **Sydney and Melbourne office markets remain tight.** Withdrawals of stock and tenant demand ensured the office landlords a higher comparable asset income growth, up from 2.1% annual growth in December 2017 to 3.7% in June 2018. Despite strong rent growth to date, landlords still expect a further 5-10% effective rent growth over the next 12 months, but this does represent a slowing rate of change from the prior 12 months.
- **Continued merger and acquisition activity,** with Oxford Properties currently in a due diligence room for a cash bid on Investa Office Fund. Propertylink also received a cash bid from ESR Real Estate at a price over 10% above book value. Propertylink also made a conditional bid for Centuria Industrial Property, after building a 17.7% stake in the company following a register raid.
- **Increased bifurcation of sub-sector returns.** Over the quarter, the investment manager observed continued pressure on retail landlords (-2.8% total return), with lease spreads now averaging -4.5% and capital expenditure requirements picking up. As a result, comparable net operating income from assets is moderating. This is in contrast to fund managers (Goodman and Charter Hall) who averaged an 8.8% total return, with the outlook for stronger performance fees and continued growth in assets under management. Despite a weakening price and volume environment, the diversified residential developer companies were a stand out during the quarter, delivering a total return of 7.1%.

Performance Review

The Ironbark Paladin Property Securities Fund (the 'Fund') returned 1.37% (net) for the September quarter, underperforming the benchmark's return of 1.98% by 0.61%.

For the September quarter, holdings that were major contributors to performance included average overweights to outperforming Mirvac Group, Australian Unity Office Property Fund, and Arena REIT. The major detractors from performance were the average overweights to underperforming Scentre Group, Unibail-Rodamco-Westfield and the underweight to outperforming Dexu.

Fund Strategy

The investment manager is selectively overweight in several retail companies. Whilst significant structural headwinds remain for the retail sub-sector, the investment manager believes this has been factored into their current price. They are also attracted to the social infrastructure sub-sector. Specifically, they are attracted to the length and structure of the long leases within child care operators, and retains an overweight position. The investment manager has a net underweight position to the diversified residential developer sub-sector, with Mirvac being the Fund's preferred exposure. The Fund also moved underweight to fund managers after significant outperformance over the past few years.

Performance

	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	-1.55	-1.55	0.00
3 months	1.37	1.98	-0.61
1 year	14.72	13.25	1.47
3 years (p.a.)	11.09	10.30	0.79
5 years (p.a.)	12.72	12.59	0.13
7 years (p.a.)	15.32	15.33	-0.01
10 years (p.a.)	7.02	6.46	0.56
Since inception ¹ (p.a.)	7.98	8.34	-0.36

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. Returns are rounded to two decimal places. Slight variations to actual calculations may occur.

¹This figure represents the annualised performance of the Fund from the first full month of operation.

Contact Details

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





Ironbark Paladin Property Securities Fund

Quarterly Investment Report as at 30 September 2018

Key Contributors over the Quarter

Stock	Code	Stock Return %	Average Fund position	Attribution impact %	Explanation
Mirvac Group	MGR	11.06	10.66	0.36	After lagging earlier in the year due to market concerns on the residential outlook, Mirvac Group improved in the third quarter delivering an 11.1% total return. Despite the weaker outlook in residential, Mirvac Group is confident they can continue to grow earnings into the medium term.
Australian Unity Office Property Fund	AOF	0.00	4.15	0.24	Australian Unity Office Property Fund outperformed over the quarter, delivering a total return of 7.6%. In August, Australian Unity Office Property Fund reported strong asset revaluations to June 30, driving their book value per share up 15.5%, since December 2017, well above market expectation.
Arena REIT	ARF	11.35	1.81	0.13	Arena REIT outperformed over the quarter, delivering a total return of 11.4%. In August, Arena REIT guided to an expected 5.5% operating earnings growth in the 2019 financial year, which remains well above the average for the A-REIT sector.
Abacus Property Group	ABP	-9.55	0.00	0.11	Abacus Property Group underperformed over the quarter, delivering a total return of -9.5%. Abacus Property announced a change in strategy for the long-term benefit, but in the short-term will see earnings re-based materially lower as they divest a number of assets.
Rural Funds Group	RFF	5.46	1.32	0.11	Rural Funds Group outperformed over the quarter, delivering a total return of 5.5%. The investment manager expects that Rural Funds Group bounced after a weaker June quarter. In their August results, Rural Funds Group guided to the 2019 financial year operating earnings per unit of 13.2 cents and a dividend-per-unit ('DPU') of 10.43 cents. DPU forecast for the 2019 financial year is consistent with 4% p.a. growth target.

Contact Details

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



Ironbark Paladin Property Securities Fund

Quarterly Investment Report as at 30 September 2018

Key Detractors over the Quarter

Stock	Code	Stock Return %	Average Fund Position	Attribution Impact %	Explanation
Scentre Group	SCG	-7.22	21.64	-0.47	Scentre Group underperformed over the quarter, delivering a total return of -7.2%. The investment manager expects the underperformance was driven by weaker fundamentals for retail landlords, with negative lease spreads now as much as -4.5%.
Unibail-Rodamco-Westfield	URW	0.00	2.62	-0.24	Unibail-Rodamco-Westfield underperformed over the quarter, delivering a total return of -3.7%. The investment manager believes that the market was disappointed there was no upgrade to their earnings guidance, despite taking on the former Westfield assets during the quarter. The investment manager expects this will happen around the end of October 2018.
Dexus	DXS	8.75	4.50	-0.18	Dexus outperformed over the quarter, delivering a total return of 5.5%. Dexus' 2019 financial year earnings guidance of 3% was above market expectations due to Dexus capitalising the land value at Woodside Plaza (deemed to be a development). The office market remains strong, with Dexus forecasting vacancy to remain flat from 2018-2021 financial years at approximately 4.5%. Dexus indicated 2019 financial year like-for-like comparable rent growth expectations of 4-5% would have been higher if it had more near term expiries in Sydney, with the benefits to be realised in later years.
Charter Hall Group	CHC	9.82	0.00	-0.18	Charter Hall Group outperformed over the quarter, delivering a total return of 9.8%. 2018 and 2019 financial year earnings guidance was ahead of market expectation, driven by the funds management business. Charter Hall Group announced the acquisition of Folkestone for \$205 million. The transaction increases Charter Hall Group's funds under management by approximately \$1.6 billion or 7%. Folkestone has exposure to social infrastructure and the early learning sector (child care), which features long WALE leases.
Investa Office Fund	IOF	5.54	2.35	-0.12	Investa Office Fund outperformed over the quarter, delivering a total return of 5.5%. During the quarter, Investa Office Fund received a higher cash bid for the equity from OMERS-backed Oxford Properties, at \$5.60 per share.

Contact Details

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



Ironbark Paladin Property Securities Fund

Quarterly Investment Report as at 30 September 2018

Market Outlook

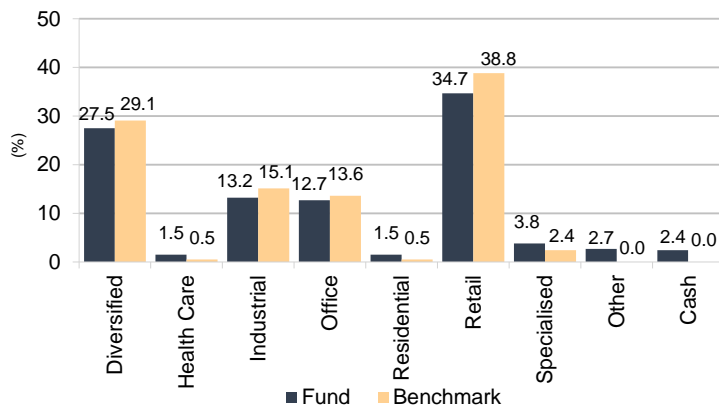
With record low interest rates, off-shore capital flows and an appetite from companies to grow, the investment manager believes asset values continue to be well supported, despite recent upward movement in the Australian long bond rates.

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 A-REIT 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	20.40	17.86
GPT Group	11.91	7.90
Goodman Group	11.72	14.03
Mirvac Group	11.18	7.54
Unibail-Rodamco Westfield	6.55	8.41
Cash	2.41	0.00
Other	35.83	44.26
Total	100.00	100.00

Important information

Issued by Ironbark Asset Management Pty Limited ABN 53 136 679 420 AFSL 341020 ("Ironbark"). 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 Ironbark Paladin Property Securities Fund is issued by Ironbark Asset Management (Fund Services) Limited 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 units in 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. 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. This document may contain forecasts or forward looking statements which are subject to known and unknown risks, uncertainties and other important factors that could cause the actual results, events, performance or achievements of the Fund to be materially different from those expressed or implied in such statements. Past performance is not an indicator of future results. All dollars are Australian dollars unless otherwise specified.

Contact Details

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

