Ironbark Paladin Property Securities Fund

Quarterly Investment Report as at 31 March 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

$281.0m

Exit Price

$0.8989

Number of Stocks

23

Market Review

The S&P/ASX 300 Property Accumulation Index returned -6.2% for the March quarter, underperforming the broader Australian share market (as measured by the S&P/ASX 300 Accumulation Index which posted a return of -3.4%).

Three key themes defining the first quarter of 2018 for the Australian REITs included:

1. Despite bond rates ending marginally down at the end of the quarter, a sharp sell-off within the quarter saw AREITs sold down, with many AREITs now trading at sizeable discounts to their net tangible asset values. The current sector distribution yield of 5.4%, represents a 2.7% spread to the 10-year bond yield, well above the longer-run average of 1.9%. In the investment manager's view, the market is pricing in further increases in long bonds, despite long bonds rallying back down to what they were at the start of the quarter.

2. Ongoing weak anecdotes from retailers during their reporting season saw Australian retail landlords underperform during the quarter. The retail landlord sub-sector ended down 7.1%, with Vicinity Property Group (-11.4%) and GPT Group (-7.2%) dragging the sub-sector down versus peers. Media reports suggest that Specialty Fashion Group has been successful in negotiating rents 10-20% below their current passing rents, giving insight into the structural and cyclical challenges that retailers and their landlords are enduring at the moment. The investment manager expects that this pressure will remain, and is therefore being selective with exposure in the retail landlords, preferring stocks with high quality and strong sales productivity, which the investment manager expects will be in a better position to deal with the headwinds.

3. The weak retail performance is starkly juxtaposed with the performance of the Sydney and Melbourne office markets, which continue to observe very strong rental growth, and remain two of the strongest office markets globally. Sydney's prime net effective rent growth was approximately 26% for the year to December 2017 and whilst lower, Melbourne's approximate of 13.4% was still very strong. Both markets are expected to perform strongly in 2018 as they continue to benefit from low vacancy and positive demand supported by infrastructure investment in both of their respective states. New office supply is on the way that will undoubtedly dampen the effective rent growth, however this will take time, and in Sydney's case, will not hit the market until 2021. Nevertheless, the investment manager is conscious that Sydney's current rent affordability for tenants is stretched, therefore some tenants look to non-CBD markets, such as Parramatta, to grow.

Performance Review

The Ironbark Paladin Property Securities Fund (the 'Fund') returned -5.04% (net) for the March quarter, outperforming the Index return of -6.19% by 1.15%.

For the March quarter, holdings that were major contributors to performance included the average overweight position to outperforming Global One Real Estate Investment Corporation and the underweight to underperforming Vicinity Centres and Stockland. The major detractors from performance were the average underweight to outperforming Cromwell, Dexus and overweight to underperforming Mirvac Group.

Performance

	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	-0.22	0.11	-0.33
3 months	-5.04	-6.19	1.15
1 year	1.81	-0.07	1.88
3 years (p.a.)	6.56	5.78	0.78
5 years (p.a.)	10.85	10.79	0.06
7 years (p.a.)	12.14	12.03	0.11
10 years (p.a.)	3.55	3.29	0.26
Since inception[1] (p.a.)	7.65	8.00	-0.35

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.

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

Ironbark Paladin Property Securities Fund

Quarterly Investment Report as at 31 March 2018

Fund Strategy

The investment manager is attracted to the funds management sector, where there remains good transparency of earnings in the current environment. The investment manager is also attracted to the social infrastructure sub-sector, in particular to the length and structure of the long leases within childcare operators and will retain an overweight position. The investment manager also retains a net overweight to the retail sub-sector, however with selective exposure to the preferred names of GPT, Scentre and Westfield Group. The investment manager retains a net underweight 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
Global One REIT	8958 (TYO)	--	O/W	0.55	Global One outperformed the market by 10.8% over the March quarter, delivering a total return of 4.7%. Global One is a Japanese office REIT, with very high quality assets located in Tokyo. Despite recent outperformance, it continues to trade at an 18% discount to its net asset value. The investment manager believes there are currently interesting options for management to manage capital to drive value for unit holders.
Vicinity Centres	VCX	-11.40	U/W	0.29	Vicinity underperformed the market by -5.3% over the March quarter, delivering a total return of -11.4%. Retailers have been besieged by a weak cyclical retail spending period in combination with strong structural headwinds, from steadily growing online sales penetration. This has seen investment market interest wane for retailers and their retail landlords alike.
Stockland	SGP	-10.04	U/W	0.25	Stockland underperformed the market by -3.9% over the March quarter, delivering a total return of -10.0%. Whilst Stockland continues to deliver quite strong earnings growth, the investment manager expects the market is cautious as to national retail and residential markets, where there has been a weakening rate of change.
Goodman Group	GMG	0.12	O/W	0.21	Goodman Group outperformed the market by 6.3% over the March quarter, delivering a total return of 0.1%. Goodman upgraded its 2018 financial year earnings growth guidance from 6.0% to 8.0% in February, with the resetting of some debt facilities driving stronger and supplemented by good fundamental performance across leasing, development and performance fees.
Ingenia Community Group	INA	2.61	O/W	0.18	Ingenia outperformed the market by 8.8% over the March quarter, delivering a total return of 2.6%. Over the quarter Ingenia successfully sold 5 properties in Tasmania, making more balance sheet room for new acquisitions in time.

Contact Details

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

Ironbark ASSET MANAGEMENT

Ironbark Paladin Property Securities Fund

Quarterly Investment Report as at 31 March 2018

Key Detractors over the Quarter

Stock	Code	Index Return %	Fund Position	Attribution Impact %	Explanation
Cromwell Property Group	CMW	7.51	U/W	-0.15	Cromwell outperformed the market by 13.7% over the March quarter, delivering a total return of 7.5%. Over the quarter, substantial shareholder in Cromwell, Redefine, sold its 19.5% stake in Cromwell to ARA. A Singapore investor with private equity backing, it is considered the ARA will help Cromwell to grow its funds management business in Europe with stronger relationships throughout Asia.
Dexus	DXS	-4.41	U/W	-0.14	Dexus outperformed the market by 1.7% over the March quarter, delivering a total return of -4.4%. Dexus continues to be the proxy for the office sector continues to have strong fundamentals. Withdrawals of stock and new demand in recent years has seen Sydney and Melbourne vacancy rates fall below historical averages and drive rents up strongly over the past 3-4 years. Whilst supply delivery is now on its way, it is expected that office rents will continue to rise through calendar year 2018.
Mirvac Group	MGR	-8.51	O/W	-0.09	Mirvac underperformed the market by -2.4% over the March quarter, delivering a total return of -8.5%. Whilst earnings transparency continues to improve for Mirvac, the investment manager expects the market has shown caution to weaker rate of change in residential markets since September 2017.
Shopping Centres Australasia	SCP	0.00	U/W	-0.09	Shopping Centres Australasia outperformed the market by 6.1% over the March quarter, delivering a total return of 0%. In the investment manager's view, Shopping Centres Australia has benefitted from better recent performance from Woolworths, and its lower relative weighting to apparel retailers than its retail sub-sector peers.
Vici Properties	VICI (NYSE)	--	O/W	-0.07	Vici Properties underperformed the market by -3.7% over the March quarter, delivering a total return of -9.9%. Vici's large and visible growth pipeline is a key differentiator, with three call option properties and two large rights of first refusal representing good growth opportunities for the vehicle.

Ironbark Paladin Property Securities Fund

Quarterly Investment Report as at 31 March 2018

Market Outlook

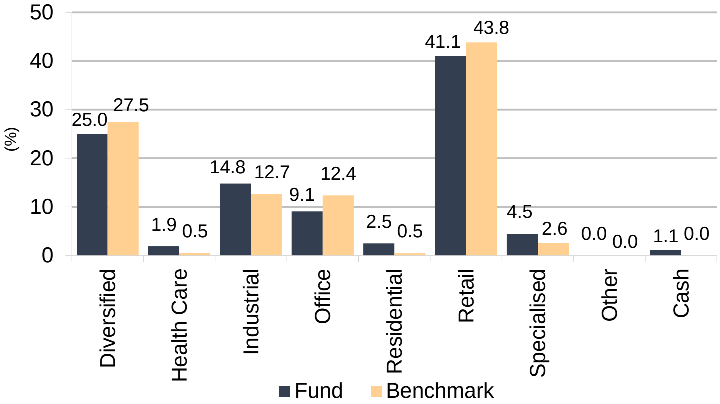
In Australia, the investment manager is estimating a 14% total return over the next twelve months. With record low interest rates, off-shore capital flows and an appetite from companies to grow, the investment manager believes asset values continue to be well supported, despite recent upward movement 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	21.10	17.74
Westfield Corporation	14.50	14.17
Goodman Group	13.12	11.76
GPT Group	11.31	7.40
Mirvac Group	10.76	6.93
Cash	1.14	0.00
Other	28.07	42.00
Total	**100.00**	**100.00**

Important information

Contact Details

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

Ironbark ASSET MANAGEMENT