



Ironbark Gavekal Asian Opportunities Fund

Monthly Investment Report as at 31 December 2018

APIR code

HFL0014AU

ARSN:

143 533 466

Objective:

The Fund aims to access a long-only investment strategy designed to capture the long-term returns of the Asia Pacific equity markets while constraining volatility through tactical exposure to fixed income instruments and cash.

Fund inception date

12 Oct 2010

Benchmark

MSCI Asia-Pacific Index AUD (Unhedged)

Distribution frequency

Annually

Minimum investment

\$5,000

Fund size

\$22.1m

Exit price

\$1.3844

Performance review

The Ironbark Gavekal Asian Opportunities Fund (the 'Fund') returned 1.09% (net) over the month, outperforming the benchmark's return of -0.68% by 1.77%.

This past year has been challenging for global equity markets and, more disappointingly, Asian markets sharply underperformed the US over this period. Rising US interest rates, escalating trade tensions and US policy uncertainty led to the largest de-rating of large-cap growth stocks globally in years. Asian stocks were no exception, even though they were cheaper in both absolute and relative terms. Although growth in Asian economies only moderated due to stronger domestic demand and healthier balance sheets, their weakening currencies were not enough to offset the impact of short-term capital outflows. To break the correlation with developed markets, an easing of monetary policy is required from either the US or China. The investment manager maintains a neutral stance in equities and a high level of cash. The Fund's allocation to bonds remains at the lower end as valuations have not yet reached attractive levels. The investment manager is closely monitoring a number of positive catalysts for increasing allocation to equities. Easing of trade tensions, possibly peaking US interest rates and stronger policy easing by Chinese authorities are the important signals for the turn of momentum.

In China, rising trade tensions with the US and the already-slowing economy have added to concerns of a hard-landing scenario. Policy changes impacting many growth industries such as pharmaceuticals, education, and internet gaming also exerted earnings pressure on these sectors. The investment manager maintains their view that China is unlikely to enter into a recession, however policy easing in certain sectors such as property is needed to counter the global headwinds. The record-low valuation of the H-share market should provide good downside support. It is also noteworthy that there has been a record number of buybacks by corporates. The investment manager has identified good bottom-up opportunities and will remain overweight.

The investment manager's bullish view on India has moderated as election politics begin to play a larger role in 2019. The change of management at the Reserve Bank of India to a governor with a pro-easing stance should provide short-term stimulus to the slowing economy, however the Indian rupee will remain structurally weak. The Indian equity market is of course aided by the lower oil price, although this alone may not be sufficient to counter the slowing momentum. Recent election results at the state level have shown increasing uncertainty ahead of the presidential election in 2019. The Fund remains neutral in India.

The strong Japanese yen and a slowdown in the global economy have kept the investment manager from allocating to Japan. The de-rating of export-related sectors such as robotics, machinery and technology is likely to continue. Unless a reversal of the yen occurs, the Fund will maintain an underweight position.

In December, the Fund was underweight to technology hardware and will remain so in the coming months. Slowing demand from all segments, including smartphones, PC and autos, will continue to put pressure on this sector.

Performance

Net returns (%)	1 month	3 month	1 year	3 years p.a.	5 years p.a.	7 years p.a.	Since inception p.a. ¹
Fund Returns	1.09	-4.15	-7.94	2.20	5.47	8.68	7.06
Benchmark Return	-0.68	-8.44	-3.62	7.59	8.59	12.44	8.72
Active return	1.77	4.29	-4.32	-5.39	-3.12	-3.76	-1.66

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. 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

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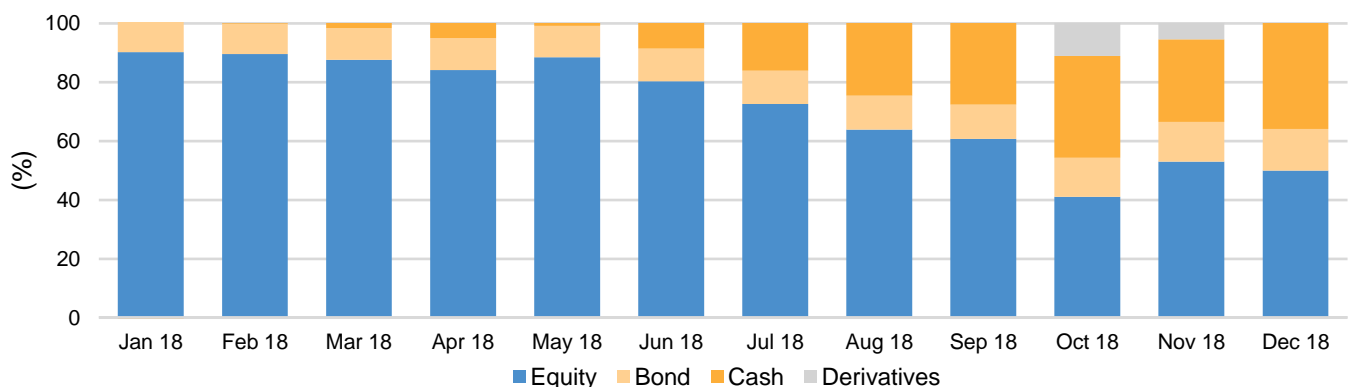
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Top 5 holdings²

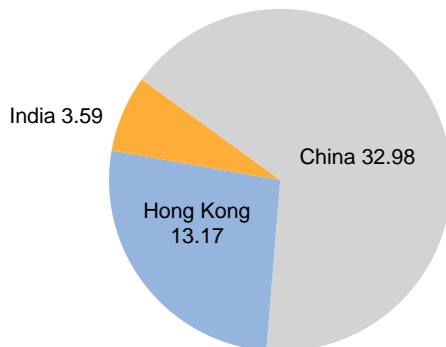
Holding	Asset class	Country	%
Tencent Holdings	Equity	China	6.83
AIA Group	Equity	Hong Kong	4.55
Alibaba Group Holding	Equity	China	4.13
Agricultural Bank of China	Equity	China	3.21
NetEase	Equity	China	3.09

Rolling 12 month asset allocation^{2,3}

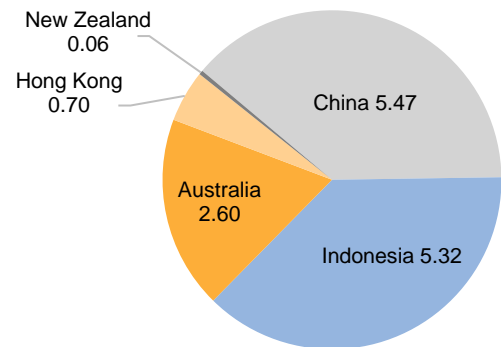


Asset allocation²

Total portfolio equity allocation by country (%)



Total portfolio bond allocation by country (%)



² Holdings and weights are at the Underlying Fund level, including an allocation to cash. The Underlying Fund is the Gavekal Asian Opportunities UCITS Fund.

³ The allocation to derivatives in October and November 2018 is a holding in the Nikkei 225.

Important information

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