Ironbark Gavekal Asian Opportunities Fund

Monthly Investment Report as at 30 June 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

$29.3m

Exit Price

$1.4823

Performance Review

The Ironbark Gavekal Asian Opportunities Fund (the 'Fund') returned -3.18% (net) over the month, underperforming the benchmark's return of -0.91% by 2.27%.

The month of June ended with the most severe sell-off in Chinese equities since the beginning of 2017. The escalation in trade tensions with the US prompted sharp weakness in the renminbi, which led to an indiscriminate sell-off in property, banks and other growth stocks. The renminbi has been a strong anchor currency in the region this year, and the sudden weakness has led to fears of an economic recession and banking stress. The "China discount" has expanded again, however, the investment manager believes that the market has significantly overreacted to the news and that the current weakness represents a great buying opportunity for the next six months.

Consensus earnings growth for the Chinese markets has not changed much since the beginning of the year. Given the recent sell-off, the market is discounting a 15-20% cut in earnings for 2019 and 2020, which implies a hard landing of the economy. The investment manager believes that this scenario is very unlikely because:

1. The contribution from domestic demand sectors to the market is much higher than in previous cycles.
2. The de-leveraging of the economy has been underway for some time and growth has not been driven by excessive credit, as reflected in bank loans and broader monetary aggregates.
3. The state of the banking sector is much healthier than before.
4. The current tariffs imposed by the US will only impact earnings by 1%.
5. There are many policy tools available to deal with a sharp slowdown of the economy. The recent cut in bank reserve requirements (with more to come) is one good example.

From a macro development perspective, it is very unlikely that China will pursue a currency depreciation to deal with short-term economic weakness as it did not employ this tactic in the last cycle while domestic demand remains fairly strong. It is very hard to predict President Donald Trump's trade policy, but the investment manager believes a compromise will emerge eventually. China has been very restrained, politically, and it seems unlikely the country will engage in a full-blown trade war. Two other technical points are worth mentioning. Firstly, China had been outperforming most Emerging Markets until the last two weeks of June. The recent sell-off means the negative fund flows to Emerging Markets have probably reached a peak. Secondly, the daily trading volume during the sell-off in Hong Kong, where most Chinese stocks are listed, was at a six months average $100-120 billion (in Hong Kong dollar terms), which reflects no liquidation of long term holders.

While the investment manager admits that the recent sell-off is disappointing, the behavior of Chinese and other Asian markets against rising US rates and macro policy uncertainty was consistent over the past few years. Short-term fears led to short-term capital outflows, but the impact on economic growth and earnings was muted. Markets were de-rated over the short term on fears and then subsequently recovered on earnings. The strategy is to hold on to large-cap growth stocks with good earnings quality.

Performance

	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	-3.18	-0.91	-2.27
3 months	-4.18	0.44	-4.62
1 year	6.91	14.45	-7.54
3 years (p.a.)	2.82	8.54	-5.72
5 years (p.a.)	8.14	12.48	-4.34
7 years (p.a.)	9.64	11.63	-1.99
Since inception[1] (p.a.)	8.50	10.19	-1.69

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

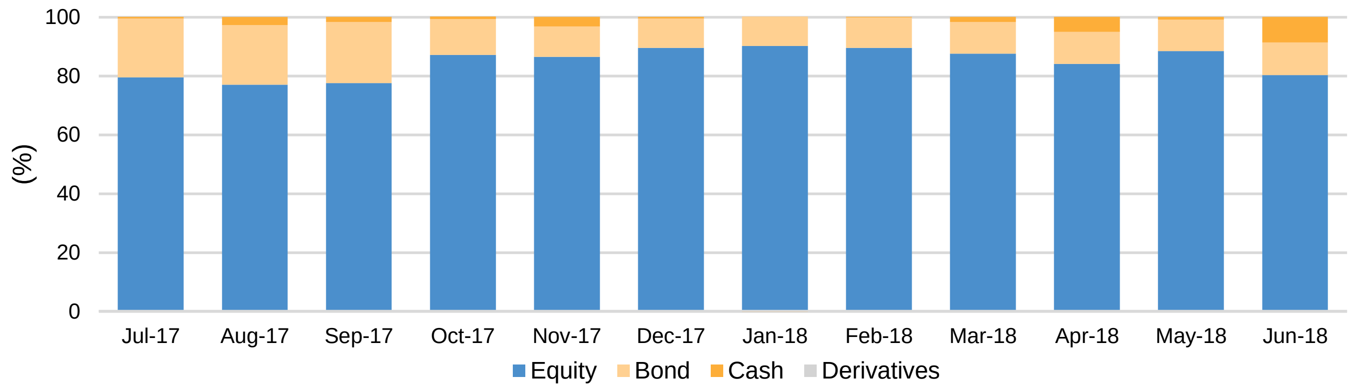
Ironbark Gavekal Asian Opportunities Fund

Monthly Investment Report as at 30 June 2018

Top 5 Holdings

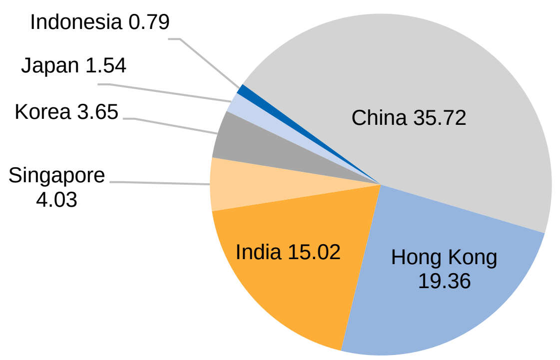
Holding	Asset Class	Country	%
Tencent Holdings	Equity	China	5.48
China Construction Bank Corporation	Equity	China	4.61
IndusInd Bank	Equity	India	4.16
Alibaba Group Holding	Equity	China	3.87
Chow Tai Fook Jewellery Group	Equity	Hong Kong	3.05

Rolling 12 Month Asset Allocation[1]

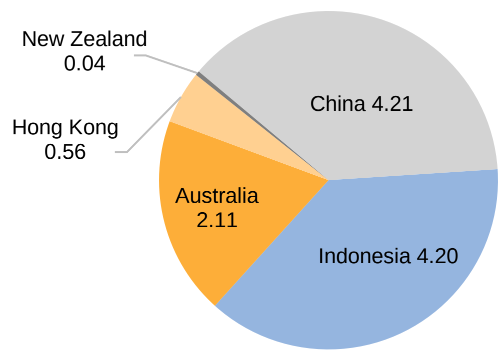


Asset Allocation

Equity allocation by country[1] (%)



Bond allocation by country[1] (%)



[1]Weights at the total Fund level, including an allocation to cash

Important Information

Contact Details

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

Ironbark ASSET MANAGEMENT