Ironbark Global Diversified Alternatives Fund

Monthly Investment Report as at 30 September 2018

Asset Class

Alternatives

Investment Objective

Seek to deliver consistent returns with low volatility and low correlation to traditional equity and debt markets by investing in a diversified range of alternative investment funds globally

APIR Code

DEU0109AU

ARSN:

089 896 837

Fund Inception Date

30 November 1999

Manager Appointed

1 September 2011

Benchmark

Benchmark Unaware

Distribution Frequency

Annually

Minimum Investment

$20,000

Fund Size

$241.8m

Exit Price

$1.1297

Market Review

Global equity markets overall closed September 2018 with a small advance in US dollar terms. Trade relations continued to worry many investors, in particular relations surrounding China. However, negotiations that continued through the last day of the month added Canada to a US-Mexico trade deal initially announced in late August. Developed market stocks, as measured by MSCI indices, edged ahead of the global equity index, while the emerging and frontier market groupings retreated. However, performance was widely dispersed on a country level.

In developed markets, the US Federal Reserve continued gradually normalising monetary policy with an interest rate increase in September. The Federal Reserve's projections imply an additional rate hike in 2018, with more in 2019. Japan's economy expanded noticeably above its initial reading for the second quarter. In Europe, encouraging corporate earnings reports and economic data in conjunction with moves by Turkey to rein in its economic turmoil boosted sentiment. However, the Italian government's budget plans sparked apprehension at times and dampened some markets.

Broad-based risk aversion across emerging markets began to diminish during the second half of September, though the China-US trade dispute continued to dominate outlooks in Asia. Some relief came from estimates indicating tariffs would not dent growth to the extent previously believed. Despite ongoing economic troubles in Argentina, Latin American stock markets flourished on strong corporate earnings reports from several countries, local political developments and the trade agreement between the US and Mexico.

Performance Review & Portfolio Activity

The Ironbark Global Diversified Alternatives Fund (the 'Fund') returned -0.09% (net) in September.

The K2 Halcyon Liquid Opportunities Fund and K2 Electron Liquid Global Fund were top contributors for September. K2 Halcyon Liquid Opportunities Fund's largest contributor of the month was Sky, which traded higher on the month after Comcast bested Twenty-First Century Fox in a bidding war for the company. The winning bid was significantly higher than either Comcast or Fox's initial offer. The largest individual detractor for the month was Spectrum Pharmaceuticals, which is an American bio-pharmaceutical company that the manager took a position in after the company was rumored to be for sale. During the month, the company sold off after disappointing new data for a pipeline drug was released. The manager has exited the position. K2 Electron Liquid Global Fund's largest contributor was a long position in the French electricity company, Electricite de France. Shares continued to rise over the company's strategic positioning in France's push for decarbonisation. The second largest contributor of the month was a long futures contract in the commodity, carbon. This derivative instrument, tied to the underlying commodity price changes, benefited from the increase in carbon prices over the month. The largest detractor was a long position in the German electric utilities company, RWE. The company's shares traded lower on the month in anticipation of an important court ruling in early October that could potentially block the expansion of a critical lignite mine. In global macro, K2 GMO and K2 EMSO advanced in September. GMO saw gains driven by long equity positions in the UK and Hong Kong and short equity exposure in South Africa, while EMSO made money on long Argentinian government bonds and short fixed income positions in Turkey.

Performance

	Net Fund Return (%)
1 month	-0.09
3 months	0.55
1 year	-1.28
3 years (p.a.)	1.17
5 years (p.a.)	2.67
Since inception[1] (p.a.)	3.67

Past performance is not an indication of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distributions.

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

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Performance Review & Portfolio Activity (cont'd)

The K2 PHCM Liquid Opportunities Fund and K2 Wellington Liquid Healthcare Fund were the major detractors during September. K2 PHCM Liquid Opportunities Fund's largest detractor was a long position in the British retailing group, Sports Direct. The share price was mired by the continuation of an accounting investigation into the company's 2016 financial statements in which the auditor allegedly failed to disclose a business relationship between Sports Direct CEO Mike Ashley and his brother. The second largest detractor was a long position in the social media company, Facebook. The company's stock fell after the congressional hearings at the beginning of the month triggered a small technology sell-off. Additionally, Facebook disclosed a security breach that compromised the data of approximately 50 million users. K2 Wellington Liquid Healthcare Fund's largest detractor was a long position in the biotechnology company, Global Blood Therapeutics. The company's shares dropped after a bearish article came out on the company's FDA submission strategy which stated that the company lagged the proper data to have their sickle cell drug approved. The second largest detractor was a long position in the therapeutics company, G1 Therapeutics. The stock fell after the company announced that they were pricing a common stock offering at a discount to market value.

Outlook

The investment manager expects managers to continue to benefit from a positive though somewhat choppy market environment, despite the decoupling of global growth between the US, Europe, and Asia. Weakness in emerging markets, particularly China, Turkey, and Argentina, and worries about contagion have led to investors' growing appetite for more defensive, risk-off assets. Worries have been exacerbated by a variety of factors, including the anticipation of the end of the nine-year bull run, ongoing trade wars, and upcoming political elections. This has overshadowed the strength in US corporate fundamentals. While the capital flight to US assets for better economic stability may raise concerns of overvaluation relative to the rest of the world, the current environment does not indicate a recession in the short-term. Rather, managers have sought to capitalise on the dispersion created by this uncertainty.

Market instability caused by ongoing trade disputes stemming from President Trump's trade policies lingers. Furthermore, the Federal Reserve has reiterated its commitment to raising rates in a steady, rational manner, which should have an asymmetrical impact on businesses. This should be particularly advantageous for managers' short books, specifically those who have identified companies that have been taking advantage of the persisting "Goldilocks environment" in which accommodative monetary policy has allowed them to grow their businesses with low rate debt.

With interest rates starting to rise, duration risk is coming into focus for fixed income investors, such as in the high yield market. Relative value fixed income strategies such as long/short credit are well positioned, given their shorter duration portfolios, and should be able to capture alpha from rising sector dispersion.

Corporate activity is expected to remain strong in 2019. The successful completion of the AT&T/Time Warner transaction is expected to lead to an increase in deal activity in the media industry, as well as a broadly more favorable outlook on vertical mergers. Tailwinds for corporate activity also persist, including corporate tax cuts, cash repatriation, high CEO confidence and strong credit markets. The most significant headwind is the trade war between the US and China.

Lastly, there are many potentially attractive trade opportunities for discretionary managers stemming from macro divergence between countries and their resulting policy responses, important political elections, and international trade negotiations. The recent weakness in emerging markets may also present an attractive entry point, but volatility and potential risks remain elevated.

Top 5 Holdings by Size

Investment Manager	Strategy	Sub-Strategy
K2 Wellington Liquid Healthcare Fund	Long/Short Equity	Long/Short Equity Sector
Legg Mason Western Asset Macro Opportunities	Global Macro	Macro – Discretionary
K2 Chatham Liquid High Yield Fund	Specialist Credit	Credit – Long/Short
K2 GMO SGM Liquid Major Markets Fund	Global Macro	Macro – Systematic
K2 Logan Circle Liquid Credit Fund	Specialist Credit	Credit – Long/Short

The top 5 managers represent 45.60% of Ironbark Global Diversified Alternatives Fund assets.

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Ironbark Global Diversified Alternatives Fund

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Fund versus market indices since daily pricing and daily liquidity

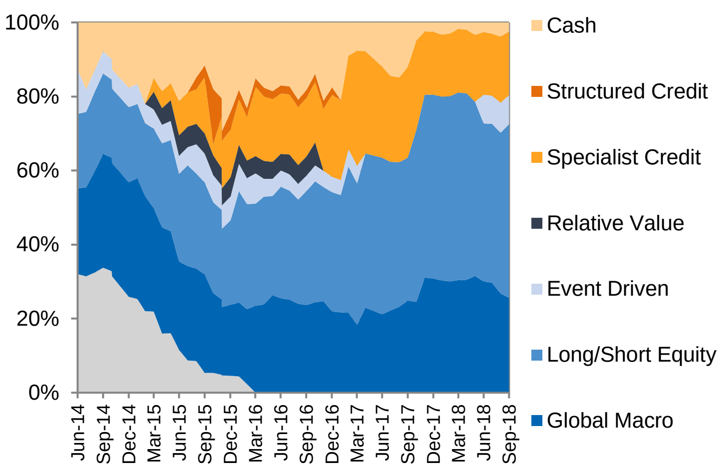
Risk performance since September 2011:

	Ironbark Global Diversified Alternatives Fund (net) in AUD (%)	Bloomberg Ausbond Bank Bill Index in AUD (%)	Barclays US Aggr. Bond Index in USD (%)
Net return (p.a.)	2.36	2.65	2.10
Standard deviation (p.a.)	2.87	0.25	2.69
Maximum drawdown[1]	-3.75	0.00	-3.67
Best month	2.90	0.42	2.10
Worst month	-1.77	0.13	-2.37
Positive % months	63.53	100.00	61.18

Source: Morningstar Direct. Past performance is not an indication of future results.
[1]Maximum drawdown refers to the largest overall drop in the Fund or Index value which occurred in a given period before it returned to its previous high.

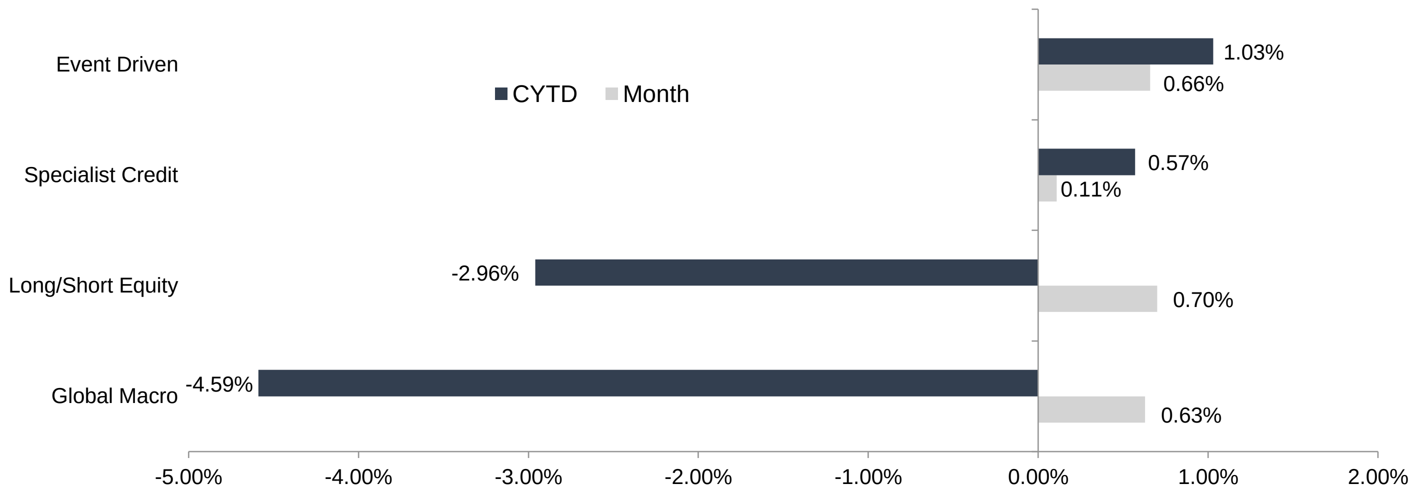
Underlying Strategy Exposure (AUD)

Strategy allocation



Asset Allocation	(%)
Long/Short Equity	46.87
Global Macro	25.65
Event Driven	7.90
Relative Value	0.00
Specialist Credit	17.13
Structured Credit	0.00
Cash	2.45
Total	**100.00**

Fund Performance Attribution



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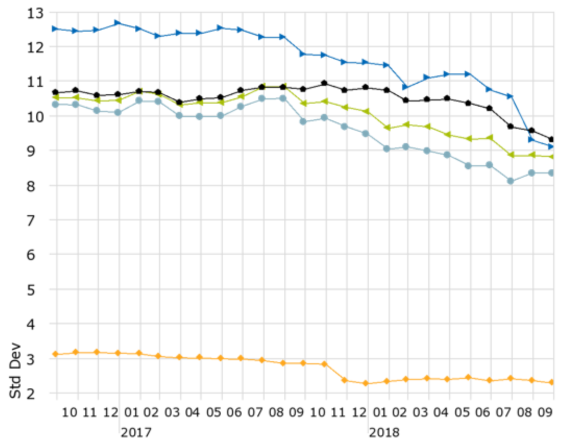
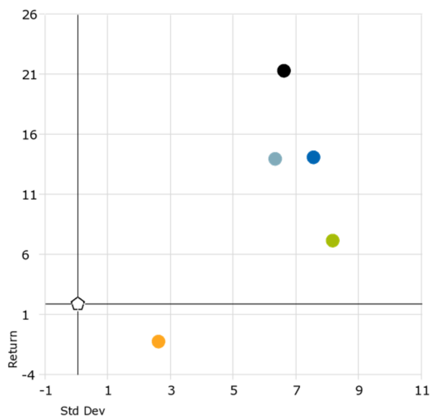
Rolling 3 Year Standard Deviation

Time period: 01/10/2015 to 30/09/2018



Risk Return over 1 Year

Time period: 01/10/2017 to 30/09/2018



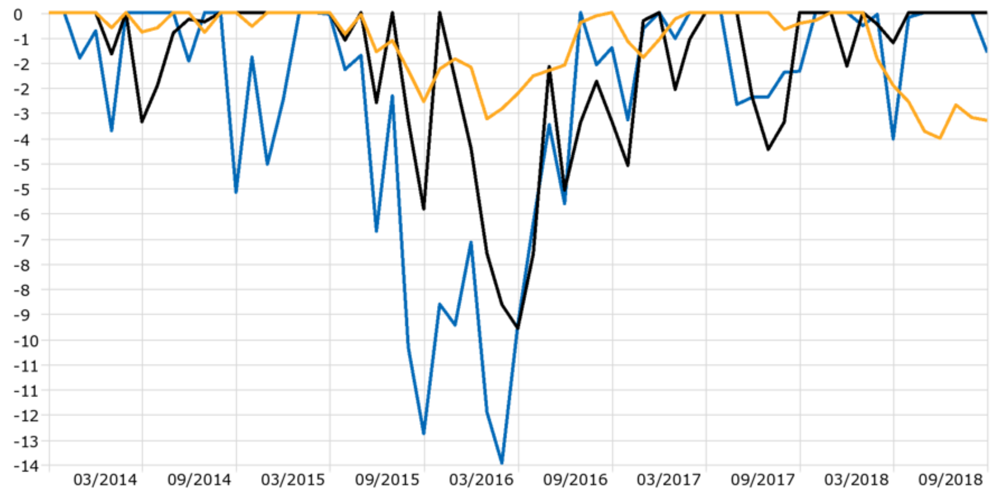
Ironbark Global Diversified Alternatives — HFRI FoF Weighted Composite Index — MSCI World GR AUD

S&P/ASX 300 TR — BBgBarc US Agg Bond TR USD

Source: Morningstar Direct. Data in AUD.

Drawdowns over 5 Years

Time period: 01/10/2013 to 30/09/2018



Ironbark Global Diversified Alternatives — MSCI World GR AUD — S&P/ASX 300 TR

Source: Morningstar Direct. Data in AUD.

Important Information

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