Ironbark Global Diversified Alternatives Fund

Monthly Investment Report as at 30 June 2017

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

Buy/Sell Spread

Nil

Management Cost

1.1000% p.a.[1]

Distribution Frequency

Annually

Minimum Investment

$20,000

Fund Size

$231.5m

Exit Price

$1.1445

Market Review

Global equity markets edged up slightly during June, dampened by investor concerns near month-end that monetary policy might be tightened sooner than expected in Europe and other major economies. Technology shares pulled back in June following robust performance in previous months, and this also weighed on broad market gauges. Collectively, emerging and developed markets rose, with emerging-market stocks outperforming their developed-market peers. Regionally, Asian equities outperformed global equities as a group, US shares produced modest gains and European markets collectively declined.

In emerging markets, although some concerns arose about China's regulatory policy, many investors focused on mostly encouraging economic data from the major Asian economies. Sentiment was also lifted when MSCI announced plans to include a small portion of Chinese A-shares in its emerging-market equity index. In Latin America, Mexico's inflation continued rising at the fastest pace in eight years, in response, the country's central bank hiked rates in June. Brazil's manufacturing Purchasing Managers' Index (PMI) continued modest expansion in June, while the services PMI contracted.

The Eurozone's monthly unemployment readings remained at the lowest level in several years in May, while inflation retreated in June. US data reports suggested a somewhat mixed economic picture. Although manufacturing and services sector activity continued expanding, inflation unexpectedly cooled and ongoing labour market gains moderated in May. However, the US Federal Reserve viewed the economy as resilient and lifted baseline short-term interest rates by a quarter percentage point in June despite the softer inflation data. Inflation also lagged in Japan, as core consumer prices rose at a pace well below the Bank of Japan's target.

Performance Review & Portfolio Activity

The Fund returned 0.40% net in June.

The Fund generated steady gains in June, as all underlying strategies captured profits. The strongest positive attribution for the month came from long/short equity and global macro managers, followed by specialist credit. Structured credit and event driven managers ended the month flat.

For the Fund's global macro managers, gains were primarily in bonds, driven by gains in long exposure across North America and Europe as risk aversion pervaded the market post-UK referendum result, driving government bonds higher. A short position in Singaporean bonds also contributes positively to returns. Losses for global macro managers were mainly in equity indices, driven by long S&P/500 and short EuroStoxx and VIX positioning.

Long/short equity managers were profitable as a whole on the month as US equity markets hit new highs as the strength in the health care, financials, and technology sectors offset the downward pressure that energy shares continue to put on the indices. The biotech subsector performed well, as the political threats surrounding drug pricing for most of the year began to fade on news that a potential executive order may be industry-friendly, easing regulatory hurdles. The rotation out of energy also proved beneficial to the financial sector, which rallied after the Federal Reserve (Fed) posted positive first round stress test results for over 30 US banks.

Performance

	Net Fund Return (%)
1 month	0.40
3 months	1.29
1 year	3.76
3 years (pa)	3.21
5 years (pa)	3.91
Since inception[2] (pa)	4.01

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.

Retail investors should refer to net returns. If investing through an IDPS Provider, the total after fees performance return of your investment in the Fund may be different from the information in this report.

[1] For full breakdown of management costs, refer to the PDS dated 19 February 2016.

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

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Outlook

As the third quarter approaches, the investment manager's attention is focused on the actions of the US Federal Reserve (Fed). The Fed has now raised rates four times as part of a normalisation of monetary policy that began in December 2015. From an investment perspective the investment manager's view is that the bank's decision to move rates higher is a positive one; particularly as it pertains to a divergence between US policy and that of central banks globally like the European Central Bank and Bank of Japan, which remain loose with their monetary programs. This dispersion should create fertile opportunities for active hedge fund managers to capture alpha. From a macroeconomic view, however, the investment manager sees the Fed's decision in a more circumspect manner. That is not to suggest that the investment manager believes the move was wrong, and does not presume to know better than Janet Yellen and the Fed over the best course of action. From their seat, tasked with the mandate of promoting a healthy economy, it could be said they had little choice than to act.

Top 5 Holdings by Size

Investment Manager	Strategy	Sub-Strategy
K2 Chatham Liquid High Yield Fund	Specialist Credit	Credit – Long/Short
K2 Apollo Liquid Credit Fund	Specialist Credit	Credit – Long/Short
K2 Acadian Diversified Liquid Alpha Fund	Long Short Equity	Long/Short Equity Global
K2 PHCM Liquid Opportunities Fund	Long Short Equity	Long/Short Equity Europe
Legg Mason Western Asset Macro Opportunities Bond Fund	Global Macro	Macro - Discretionary

The top 5 managers represent 43.99% of Ironbark Global Diversified Alternatives Fund assets in June 2017.

Source: K2 Advisors

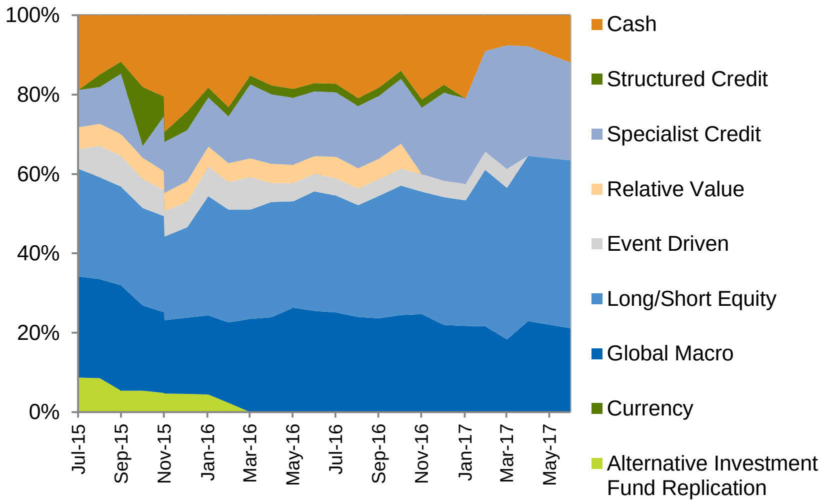
Fund versus market indices since daily pricing and daily liquidity

Risk performance since September 2011:

	Ironbark Global Diversified Alternatives Fund (net) in AUD (%)	MSCI World Index Hedged in AUD (%)	Bloomberg Ausbond Bank Bill Index in AUD (%)	Barclays US Aggr. Bond Index in USD (%)	HFRI Fund of Funds Composite Index in USD (%)
Net return pa	3.10	12.43	2.82	2.63	2.79
Standard deviation pa	3.32	10.53	0.25	2.76	3.57
Correlation (Fund vs Index)	-	46.78	-10.67	27.78	58.26
Maximum drawdown[1]	-2.33	-11.56	0.00	-3.67	-7.58
Best month	2.90	8.47	0.42	2.10	2.13
Worst month	-1.77	-7.19	0.13	-2.37	-2.79
Positive % months	67.14	68.57	100.00	62.86	65.71

Source: K2 Advisors. 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)



Asset Allocation for June 2017	(%)
Long/Short Equity	42.31
Global Macro	21.12
Event Driven	0.00
Relative Value	0.00
Specialist Credit	24.66
Structured Credit	0.00
Cash	11.91
Total	**100.00**

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Ironbark ASSET MANAGEMENT

Ironbark Global Diversified Alternatives Fund

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Outlook (cont'd)

Still, there are those that believe the Fed should not be raising rates when core inflation is so low. In fact Minneapolis Fed President Neel Kashkari disagreed with the decision. Kashkari observed that the market has been sending mixed signals of late, and that is tightening labor data but weakening inflation. In his blog, in June 2016, Kashkari explained his dissent as follows:

"On one hand, intuitively, I am inclined to believe in the logic…a tight labor market should lead to competition for workers, which should lead to higher wages. Eventually, firms will have to pass some of those costs on to their customers, which should lead to higher inflation. On the other hand, the data are not supporting this story…core inflation is actually falling even as the labor market is tightening."[1]

So the data does not entirely support the Fed's thesis. In some ways it could be said the decision to raise rates reflects a leap of faith. That is faith in economic theory versus reality because despite labor market tightening since March, the economy does not appear to be moving much closer to the Fed's inflation target.

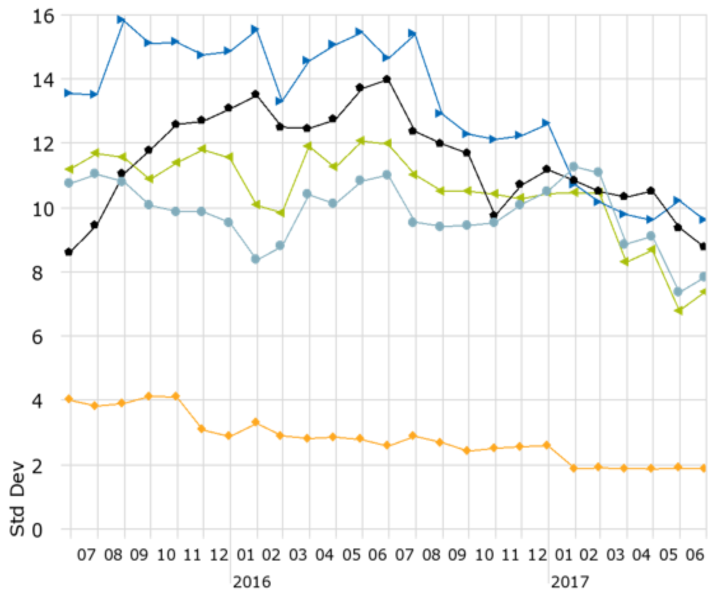
In the investment manager's view there is a certain level of 'let's see what sticks' mentality involved. The investment manager suggests this because frankly no one really knows what to expect. The business of economics is decidedly complex. Irrespective of the sophistication or depth of intellect applied to the various models used by modern academics, their analysis will generally fall far short of providing sound insight into real world behaviour. In the same way that meteorology has made little progress over the last several decades in improving its probability for weather prediction, despite an exponential spike in computing power over the same period. The business of modeling economies remains, for all intents and purposes, speculative at best. With an infinite number of factors at play against a dynamic backdrop of ever evolving markets, predicting cause and effect outcomes is virtually impossible. In the immortal words of Albert Einstein, "as far as the laws of mathematics refer to reality, they are not certain; and as far as they are certain, they do not refer to reality."

Inflation expectations appear flat and may even be drifting lower. The investment manager believes it would have been prudent to have waited for more data to see if the recent drop in inflation is indeed "transitory" as Yellen's statements seem to suggest.

[1]Source: https://medium.com/@neelkashkari/why-i-dissented-again-b8579ab664b7

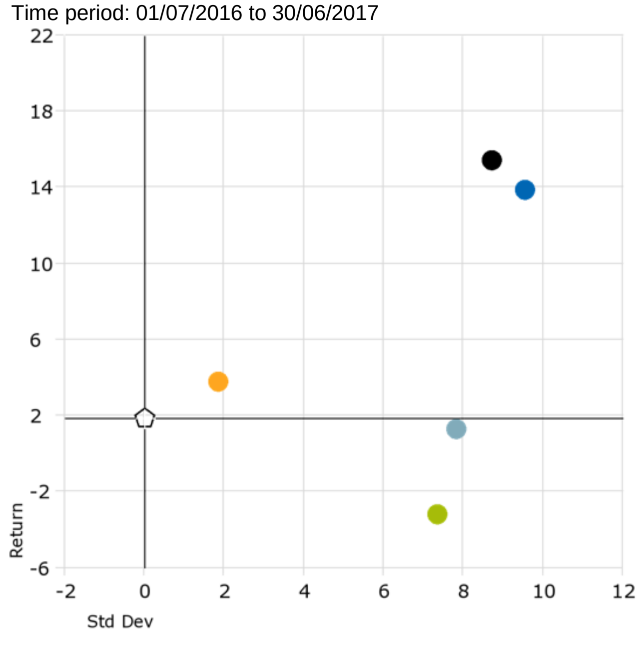
Rolling 3 Year Standard Deviation

Time period: 01/07/2014 to 30/06/2017



Risk Return over 1 Year

Time period: 01/07/2016 to 30/06/2017



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

S&P/ASX 300 TR | Barclays US Agg Bond TR USD

Source: Morningstar Direct. Data in AUD.

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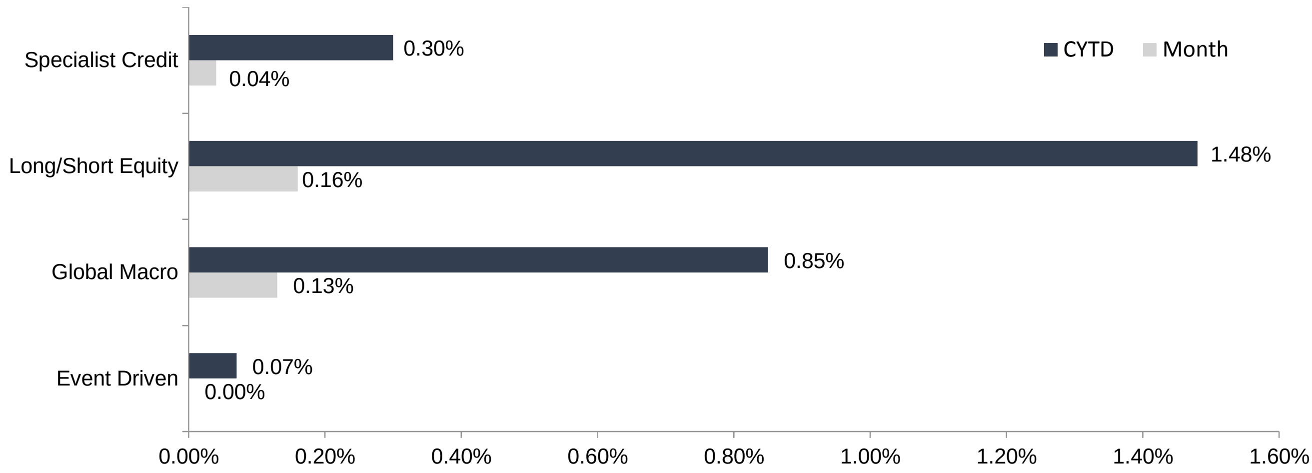
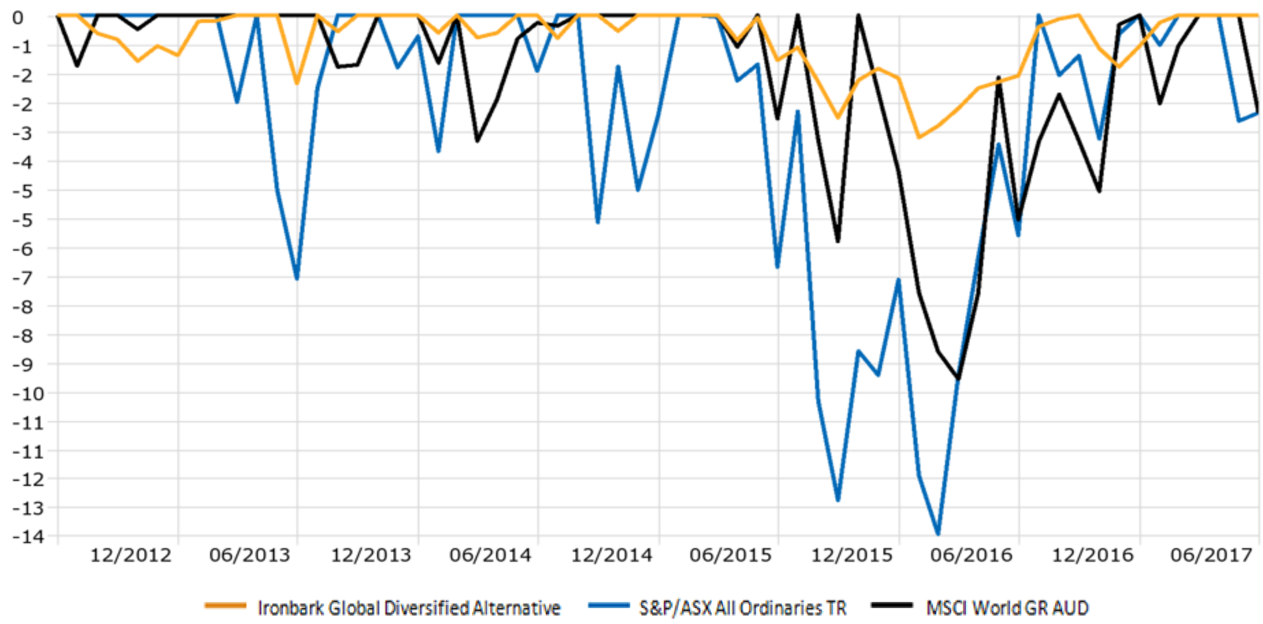
Fund Performance Attribution



Source: K2 Advisors. Data in USD.

Drawdowns over 5 Years

Time period: 01/07/2012 to 30/06/2017



Source: Morningstar Direct. Data in AUD.

Important Information

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