



# Ironbark Global Diversified Alternatives Fund

Monthly Investment Report as at 31 July 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

\$247.3m

## Exit Price

\$1.1351

## Market Review

Global equity markets collectively closed July 2018 with a solid gain in US dollar terms. Though US-China trade relations remained a concern, particularly in Asian markets, in other regions many investors appeared to focus on strong corporate earnings from several sectors, as well as promising trade negotiations, such as the European Union and Japan agreeing to create one of the world's biggest liberalized trade zones. The International Monetary Fund in July maintained its forecast for global growth in both 2018 and 2019. However, it remarked that the rate of expansion appears to have peaked in some countries and that growth has become less synchronized. Developed market stocks, as measured by the MSCI indexes, recorded widespread gains in line with an index of global equities and ahead of the advances of their emerging market peers.

In developed markets, US Federal Reserve chairman Jerome Powell, in July stated the central bank remains on track to gradually raise interest rates. According to an initial estimate, the US economy grew in the second quarter of 2018 at a substantially stronger pace than in the prior quarter. In contrast, Europe's year-on-year gross domestic product ('GDP') growth slowed in the second quarter. The UK's annualized Consumer Price Index growth in June came in lower than consensus expectations. The Bank of Japan kept its target for 10-year government bond yields unchanged and announced it would keep interest rates low for an extended period, but would allow 10-year yields to rise more naturally. Canada's GDP grew ahead of consensus expectations in May, with rises across most industries.

In emerging markets, China's quarter-on-quarter GDP growth for the second quarter beat consensus expectations. The country's economic data for June showed accelerating year-on-year growth in producer, consumer and retail prices, while industrial production and fixed asset investment each grew at a slower pace. China's announcement of stimulus measures was taken as supporting exports from several Latin American countries. Brazil's annual inflation rate rose to the highest level since March 2017, though less than generally expected. Mexico's second-quarter GDP contracted quarter-on-quarter, the first decline since 2015, while expanding year-on-year, according to preliminary estimates.

## Performance Review & Portfolio Activity

The Ironbark Global Diversified Alternatives Fund (the 'Fund') returned 1.03% (net) in July.

During the month, long/short equity, global macro, and specialist credit were all positive while event driven posted a modest decline. The Dow, NASDAQ, and S&P 500 all rallied, pushing the S&P 500 above the 2800 mark for the first time since January. Technology companies were among the largest contributors to all three indices. The US economy grew at the highest rate since the third quarter of 2014, swelling by 4.1% on the back of particularly healthy consumer spending, which accounted for 70% of GDP.

## Performance

	Net Fund Return (%)
1 month	1.03
3 months	-0.10
1 year	-1.12
3 years (p.a.)	0.71
5 years (p.a.)	2.89
Since inception <sup>1</sup> (p.a.)	3.73

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.

<sup>1</sup>This figure represents the annualised performance of the Fund from the first full month of operation.

## Contact Details

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### Performance Review & Portfolio Activity (cont'd)

The top two performers for the Fund were K2 Wellington Liquid Healthcare Fund and K2 Lyrical Liquid Fund, respectively. K2 Wellington Liquid Healthcare's largest contributor of the month was a long position in the Japanese pharmaceutical company, Eisai (up 0.68%). The company's shares rose on the announcement that their experimental Alzheimer's drug met its goals in a mid-stage early study. K2 Lyrical Liquid's largest contributor of the month was a long position in hospital management company, HCA (up 1.20%). Shares rallied 21% during the month after the company beat consensus earnings and utilisation remains high compared to competitors' utilisation which has remained flat. Acadian was also a strong performer in July, up 2.19% driven by gains on long positions in consumer discretionary, healthcare and energy. Acadian's strong performance is continuing in August with the fund up 3.24% month to date, as of 24<sup>th</sup> August.

K2 Halcyon Liquid Opportunities Fund and K2 Nomura Liquid Macro Fund were the major detractors during July. K2 Halcyon Liquid Opportunities' detractor for the month was Twenty-First Century Fox (down 0.86%), which traded lower on the month after Comcast withdrew its bid for the company's assets, choosing instead to focus on Sky Plc. This cleared the way for Disney to acquire Fox's assets without a continued bidding war. The second largest detractor for the month was NXP Semiconductors (down 0.36%), which traded lower after Qualcomm officially withdrew its acquisition offer after Chinese regulators did not approve the deal before the merger deadline. K2 Nomura Liquid Macro's largest detractors were fixed income and credit. Fixed income losses resulted from a long duration bias in the US as heavier Treasury issuance at the back-end of the curve weighed on prices in combination with a generally risk-on month. A short bias to grade credit detracted during the month, although gains were partially offset by a long position in CMBS. Minor currency losses resulted from a long Australian dollar position (down 0.11% gross) and short euro position (down 0.11% gross) initiated near month end, offset by tactical trading in the Japanese yen (up 0.13%) from both the long and short side, as well as tactical longs in the Brazilian real and South African rand.

### Outlook

While earnings expectations in the US have accelerated, they have moderated in Europe and Asia Pacific. This has led to a growing disparity between the US and the rest of the world in both economic and equity market strength. This gap is pulling capital into the US and driving the US dollar and equities higher. The flows are reinforced by populist politics in Europe and emerging markets. We expect these dynamics, combined with increasing threats of trade wars, to lead to greater dispersion and volatility in global equity returns, creating a favorable backdrop for hedge fund investing.

As the US economy continues to grow above trend, we believe the probability of higher-than-expected rate hikes by the Federal Reserve will continue to increase. Rising rates have a non-uniform impact on the equity prices of various companies, creating a spread that managers may exploit. Moreover, after receiving no rebate on short sales for nearly a decade due to low rates, managers are starting to earn material rebates on their short portfolios, rebates that will increase if rates continue to increase. In addition, higher rate environments tend to help short portfolios, as easy access to capital might have allowed poor companies to operate inefficiently and mask their flaws. Finally, managers are poised to generate incremental alpha from the volatility created by Trump's ongoing trade policies. Newly announced tariffs by either the US or China have already caused increased volatility.

### Top 5 Holdings by Size

Investment Manager	Strategy	Sub-Strategy	The top 5 managers represent 47.42% of Ironbark Global Diversified Alternatives Fund assets.
K2 Wellington Liquid Health care Fund	Long/Short Equity	Long/Short Equity Sector	
K2 Wellington Liquid Technology Fund	Long/Short Equity	Long/Short Equity Sector	
Legg Mason Western Asset Macro Opportunities	Global Macro	Macro - Discretionary	
K2 Chatham Liquid High Yield Fund Ltd	Specialist Credit	Credit – Long/Short	
K2 Lyrical Liquid Equity Fund Ltd	Long/Short Equity	Long/Short Equity US	

### 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.)	2.49	2.66	2.16
Standard deviation (p.a.)	2.89	0.26	2.69
Maximum drawdown <sup>1</sup>	-3.75	0.00	-3.67
Best month	2.90	0.42	2.10
Worst month	-1.77	0.13	-2.37
Positive % months	65.06	100.00	61.45

Source: Morningstar Direct. Past performance is not an indication of future results.

<sup>1</sup>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.

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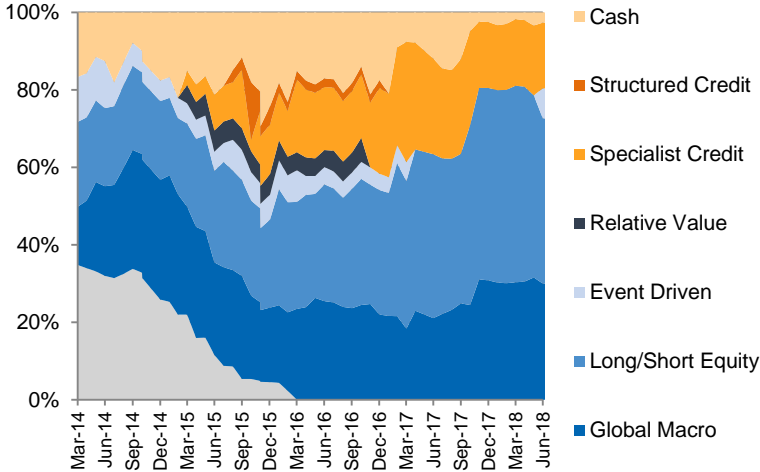


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## Underlying Strategy Exposure (AUD)

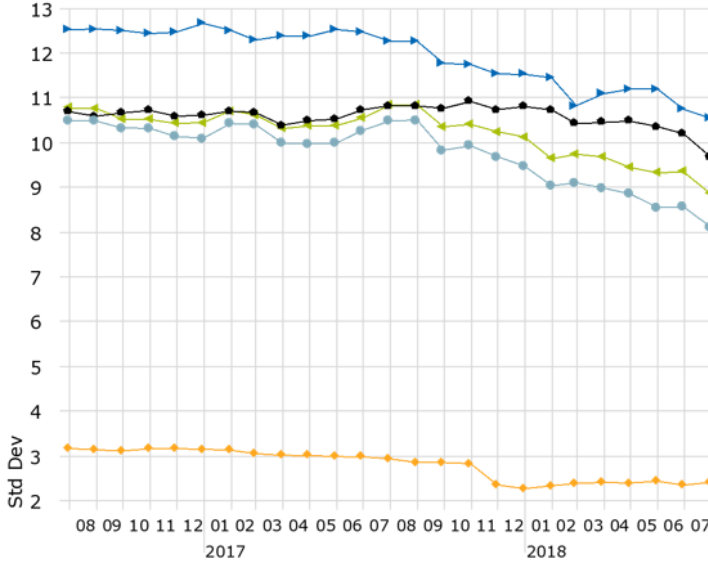
### Strategy allocation



Asset Allocation	(%)
Long/Short Equity	42.92
Global Macro	29.70
Event Driven	7.58
Relative Value	0.00
Specialist Credit	16.79
Structured Credit	0.00
Cash	3.01
<b>Total</b>	<b>100.00</b>

### Rolling 3 Year Standard Deviation

Time period: 01/08/2015 to 31/07/2018

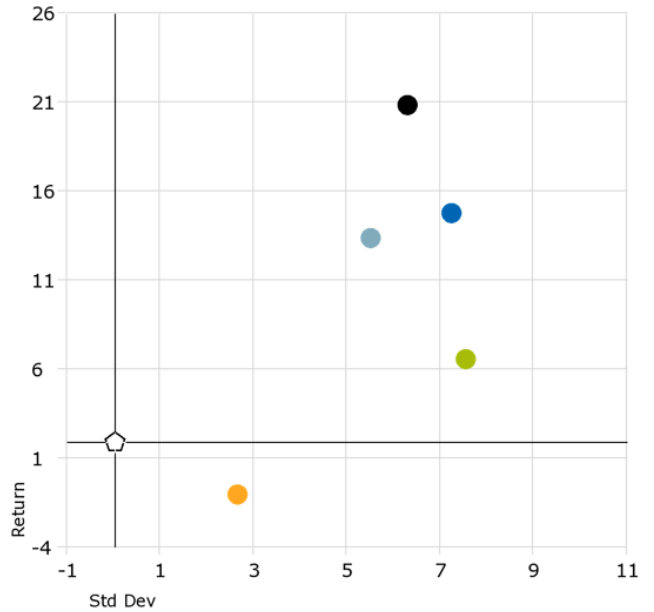


— Ironbark Global Diversified Alternatives   
 — HFRI FoF Weighted Composite Index   
 — MSCI World GR AUD  
— S&P/ASX 300 TR   
 — BBgBarc US Agg Bond TR USD

Source: Morningstar Direct. Data in AUD.

### Risk Return over 1 Year

Time period: 01/08/2017 to 31/07/2018



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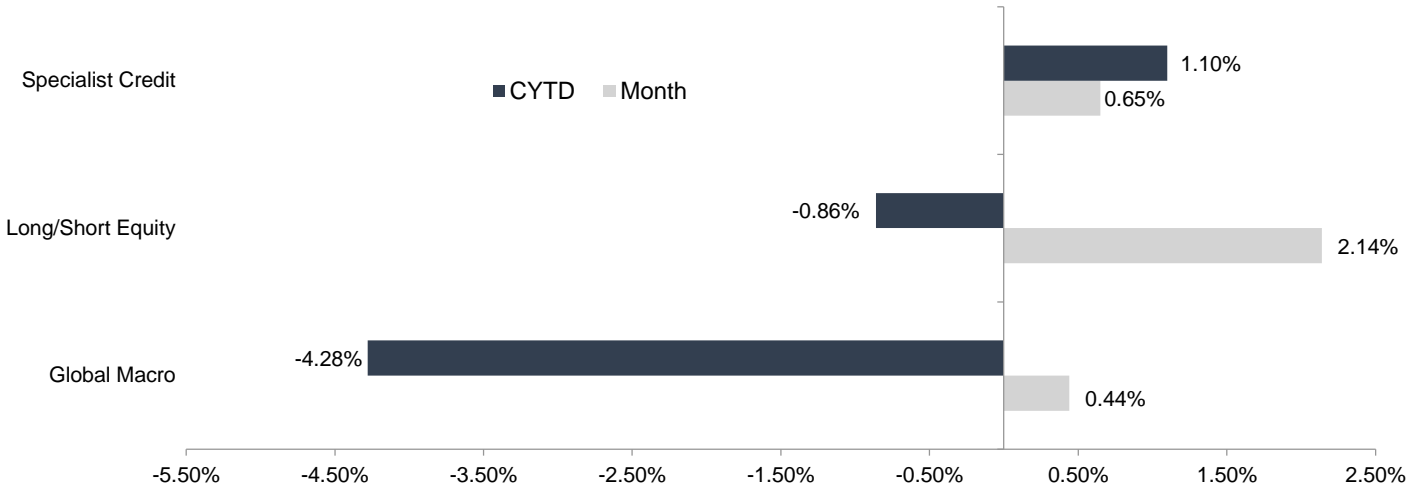




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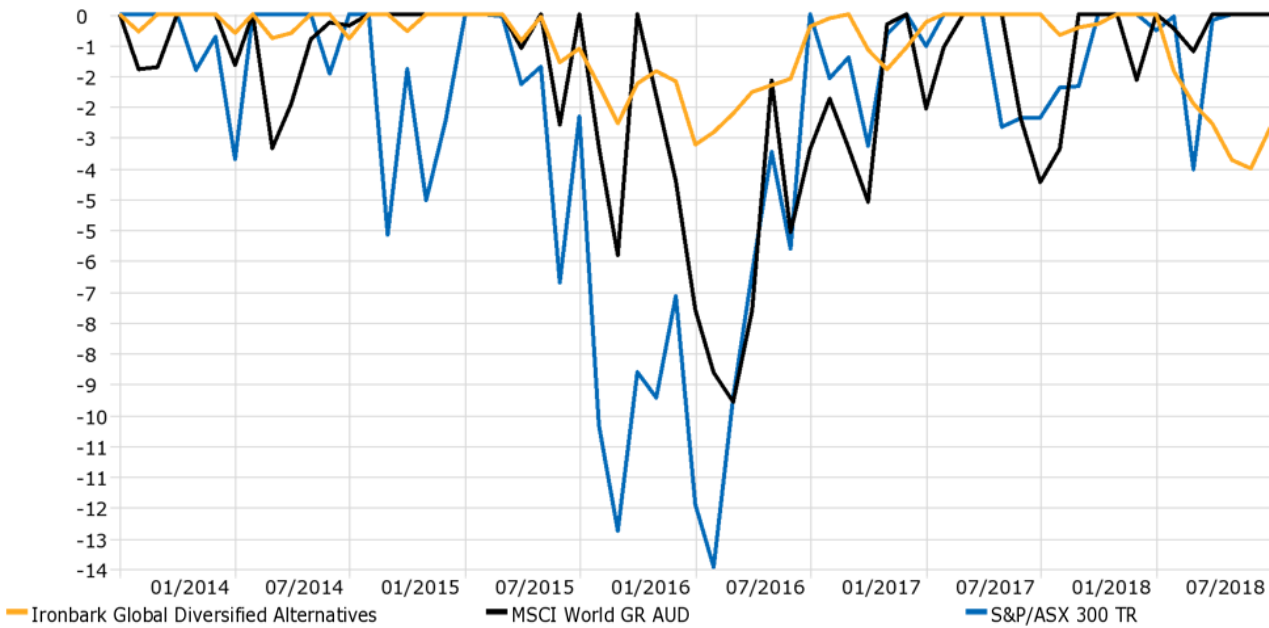
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### Fund Performance Attribution



### Drawdowns over 5 Years

Time period: 01/08/2013 to 31/07/2018



Source: Morningstar Direct. Data in AUD.

### Important Information

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