

# Ironbark Global Diversified Alternatives Fund

## Monthly Investment Report as at 31 January 2017

**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.<sup>2</sup>**Minimum Investment**

\$20,000

**Fund Size**

\$232.4m

**Exit Price**

\$1.1555

**Market Review**

Global stock markets rose in January, supported by generally upbeat economic data across regions, rising commodity prices, encouraging corporate earnings reports and US investor optimism about President Donald Trump's pro-growth policy plans. However, worries surrounding the terms of Britain's exit from the European Union and an executive order for a 90-day ban on nationals of seven Muslim majority countries from entering the US contributed to investor unease. Broadly, emerging and developed equity markets advanced, with emerging market equities generally outperforming their developed market peers.

Among emerging markets, China's economy grew at a faster than expected pace in 2016's fourth quarter, driven by higher consumer and government spending, along with robust bank lending. China's Purchasing Managers' Index remained in expansionary territory in January, though it was slightly lower compared to the previous month. In Latin America, Brazil's unemployment rate for the three month period ended December reached a five year high, while headline inflation increased in December from November. The country's central bank cut its benchmark interest rate sharply in January to spur economic growth.

The US economy continued to grow in 2016's fourth quarter, though at a notably slower pace compared to the third quarter. Headline US inflation in December had its largest rise since 2014. US household consumption indicators were generally resilient in the same month, led by growth in retail sales due to strong demand for automobiles. The Eurozone's quarter-on-quarter gross domestic product growth edged up from the third quarter to the fourth quarter, with particularly robust growth in Germany. The bloc's unemployment rate fell in December to its lowest level since May 2009, while its annual inflation rate increased sharply in January to a four-year high. In Asia, Japan's year-on-year inflation increased in December, while its unemployment rate declined compared to a year earlier.

**Performance Review & Portfolio Activity**

The Fund returned 0.62% net in January.

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

For the Fund's global macro managers, gains were primarily in equity indices, driven by gains in long exposures, especially in the US, as markets continued to rally throughout the month. Outside the US, gains in equities were driven by long exposure in MSCI Emerging Markets and Hong Kong, and short positions in Japan. Also contributing to gains were base metals, a strong contributor due to the long positioning in copper, zinc, and aluminium. Losses were primarily in currencies, as momentum for the long US dollar and long deflation theme receded. Losses were driven mainly by the long positioning in the US dollar versus short positioning in the Canadian dollar, British pound, Euro, Swiss franc, and Korean won.

Long/short equity managers were profitable as a whole on the month and were able to benefit from sector and stock specific dispersion as equity markets rallied a week after President Donald Trump said that his "big-league" tax reform plans were moving ahead of schedule. Small cap stocks outperformed following the news as they are expected to be the biggest beneficiaries of the tax reforms given that their revenues tend to be more domestically focused.

**Performance**

	Net Fund Return (%)
1 month	0.62
3 months	0.68
1 year	3.39
3 years (pa)	3.41
5 years (pa)	3.21
Since inception <sup>1</sup> (pa)	3.99

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.

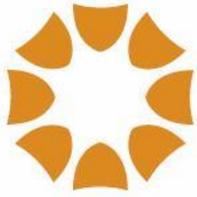
<sup>1</sup>This figure represents the annualised performance of the Fund from the first full month of operation.

<sup>2</sup>As at 31 December 2016. Refer to PDS and website for full breakdown of management costs.

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### Outlook

The investment manager was optimistic about long/short equity last quarter, and their conviction in the strategy has been strengthened going forward. The change in the markets observed by the investment manager following the Trump victory has provided an added tailwind to the strategy, as has the expectation for a normalisation of interest rates. The investment manager expects that long/short equity managers will be able to capitalise on idiosyncratic opportunities that may develop as a result of these changes. For example, fundamentally weak companies may face increased pressures on their financials in a rising rate environment, allowing managers to profit if they can correctly pick winners and losers. Cyclically sensitive companies and sectors may do well against a backdrop of increased infrastructure spending, while defensive sectors may lag as investors shift out of yield oriented names. Hedge strategies have historically outperformed when the performance spread, or dispersion, between best and worst S&P/500 sectors has widened. The investment manager anticipates dispersion may rise going forward.

The investment manager remains very positive on the event driven space as well, specifically in the area of mergers and acquisitions ('M&A') activity. There are a host of elements driving the investment manager's conviction in this strategy. Deal levels have remained high over the last several years as the result of extremely low interest rates, accommodative credit markets, and high corporate cash balances. This quarter, however, the investment manager anticipates another potential tailwind to the strategy. Following the surprise Trump victory a new narrative has emerged regarding the possibility of repatriation of trillions of dollars in cash held by US corporations overseas. This outcome is only speculative of course, and the timeframe of any such transfer as well as the precise amounts of capital remaining overseas is still largely unknown. Nonetheless, the prevailing sentiment is that potential regulatory and tax code changes implemented by the new Trump administration could incentivise corporations to bring some or all of this liquidity back onshore.

Naturally this would serve as a significant catalyst to the event driven strategy, as the investment manager could see this cash being used for a variety of corporate transactions including special stock dividends, increased dividends, potential share buybacks, corporate restructurings, and potential increased research and development ('R&D') expenditures. The bottom line is that chief financial officers will be flush with cash, and this will likely create a very rich opportunity set for corporate activity and growth and potentially M&A activity.

### 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	2.96	12.18	2.90	2.44	2.66
Standard deviation pa	3.44	10.89	0.25	2.83	3.67
Correlation (Fund vs Index)	-	46.58	-8.97	27.33	58.47
Maximum drawdown <sup>1</sup>	-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	0.14	-2.37	-2.79
Positive % months	64.62	67.69	100.00	63.08	64.62

Source: K2 Advisors. 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.

### Top 5 Holdings by Size

Investment Manager	Strategy	Sub-Strategy	The top 5 managers represent 27.60% of Ironbark Global Diversified Alternatives Fund assets in January 2017.
K2 Liquid Alpha Bond	Specialist Credit	Credit - Long/Short	
K2 Apollo Liquid Credit	Specialist Credit	Credit - Long/Short	
K2 Fortress Liquid Long/Short Credit	Specialist Credit	Credit - Long/Short	
K2 PHCM Liquid Opportunities	Long/Short Equity	Long/Short Equity Europe	
K2 PWP Diversified Equity	Long/Short Equity	Equity Market Neutral US	

Source: K2 Advisors

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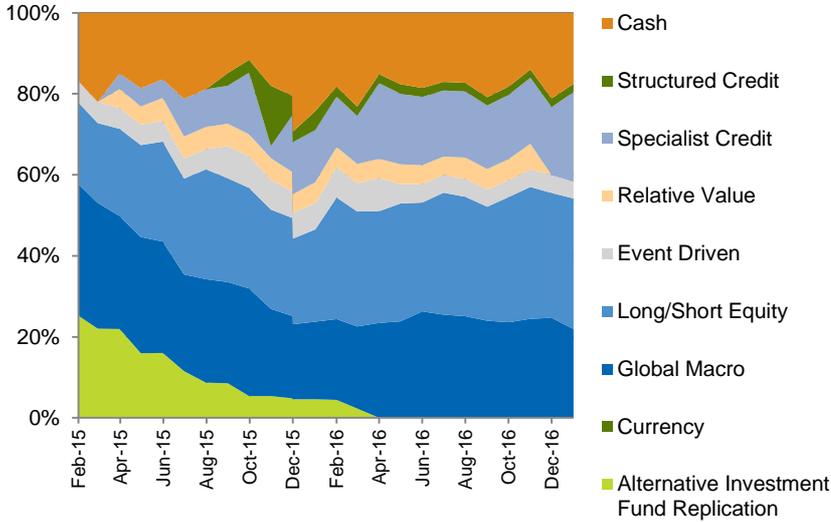




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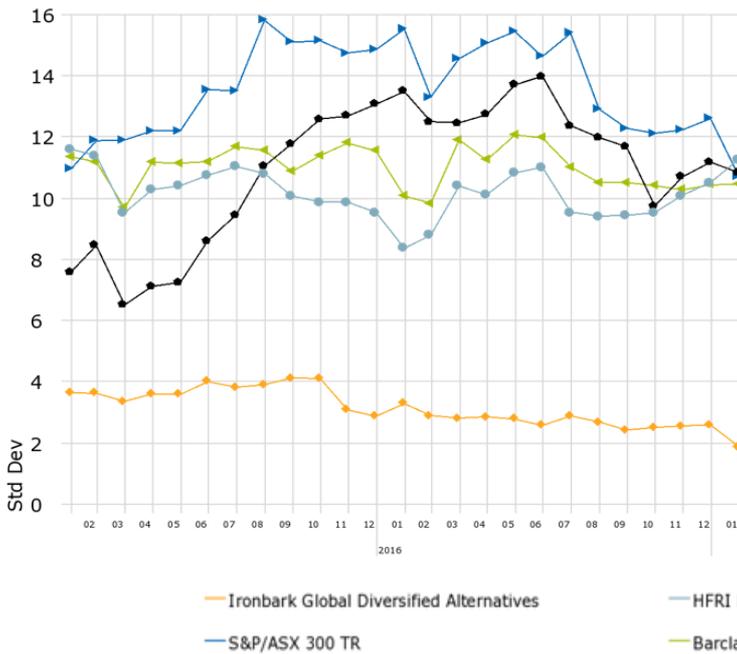
## Underlying Strategy Exposure (AUD)



Asset Allocation for January 2017	(%)
Long/Short Equity	32.19
Global Macro	21.96
Event Driven	4.17
Relative Value	0.00
Specialist Credit	22.15
Structured Credit	2.03
Cash	17.50
<b>Total</b>	<b>100.00</b>

## Rolling 3 Year Standard Deviation

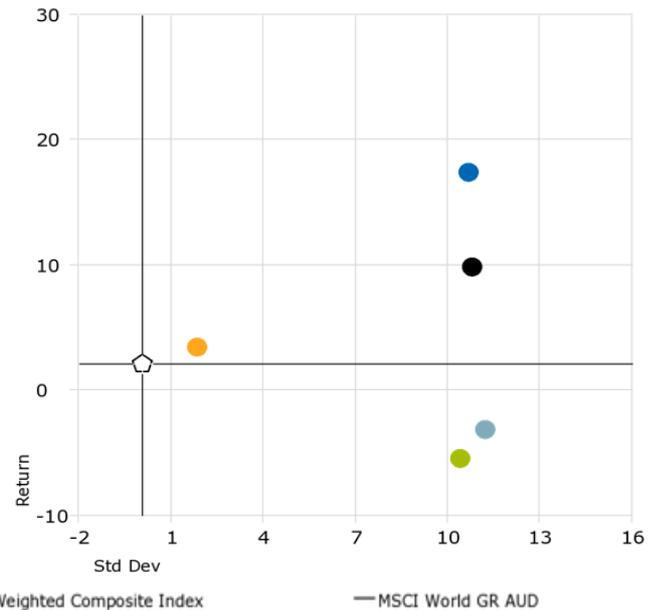
Time period: 01/02/2014 to 31/01/2017



Source: Morningstar Direct. Data in AUD

## Risk Return over 1 Year

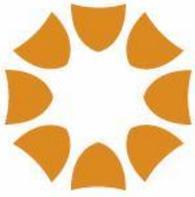
Time period: 01/02/2016 to 31/01/2017



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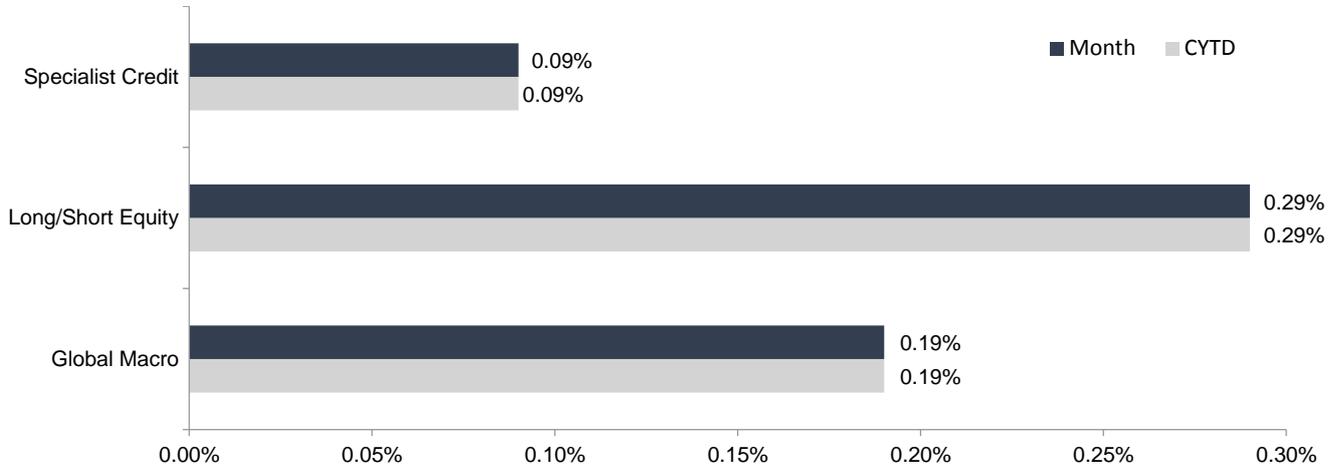




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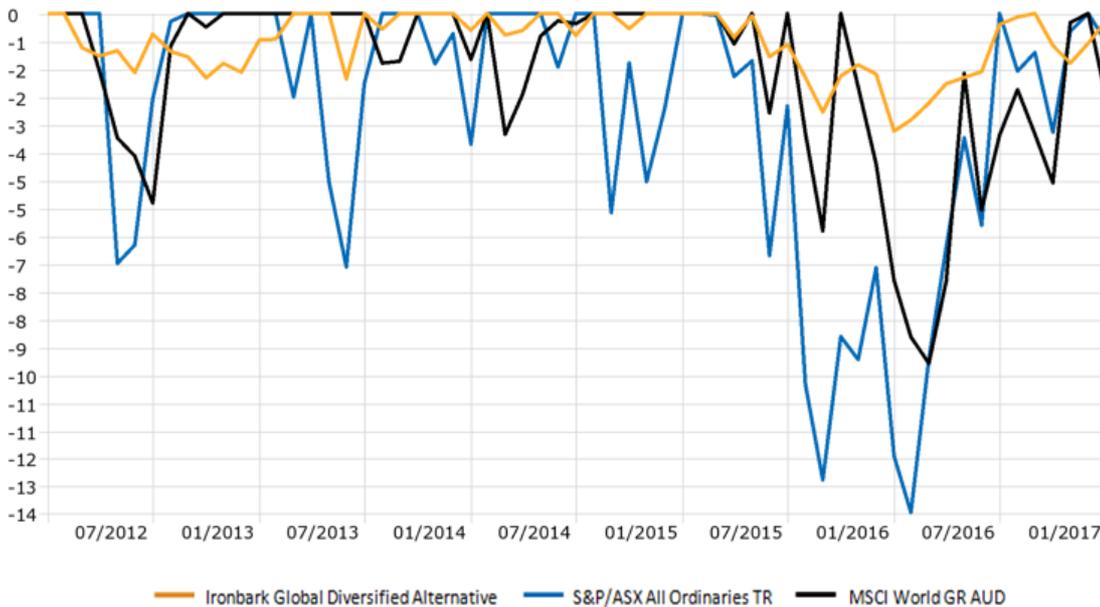
## Fund Performance Attribution



(Data in USD)

## Drawdowns over 5 Years

Time period: 01/02/2012 to 31/01/2017



Source: Morningstar Direct. Data in AUD.

## Important Information

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