Ironbark Global (ex-Australia) Property Securities Fund

Monthly Investment Report as at 28 February 2018

Asset Class

Property Securities

Investment Objective

Seeks to outperform its benchmark, after fees, over rolling three year periods

APIR Code

MGL0010AU

ARSN

110 908 793

Fund Inception Date

20 October 2004

Benchmark

FTSE EPRA/NAREIT Developed ex-Australia Index Hedged AUD[1]

Distribution Frequency

Quarterly

Minimum Investment

$20,000

Fund Size

$145.5m

Exit Price

$0.8737

Number of Stocks

110

Global Market Review

Global property stocks closed lower with the FTSE EPRA/NAREIT Developed Ex-Australia Index returning -6.3%, underperforming the broader equity market (as measured by the MSCI World which returned -3.5%). After a strong start to 2018, pressure on equities came from the Treasury market where yields spiked to a four-year high, raising concern the Federal Reserve would accelerate its rate-hike schedule. After a volatile start to the month, US and Emerging Market equity markets finally entered correction territory on the 9th of February. In the investment manager's view, hints of inflation rising faster than anticipated was the primary culprit behind this "rate-normalisation" sell-off. After a period of relative calm, heightened volatility has been a feature over the past month. After hitting lows on the 9th of February, equities managed to claw back half of the rout just as quickly. However, the bounced proved short lived as equities retreated into month end on the back of a generally upbeat assessment of the US economy from Federal Reserve Chairman Jerome Powell. His comments left investors wondering if the central bank planned more interest rate hikes than expected in 2018.

With bond yields moving higher, property stocks underperformed during the month. European property stocks closed down, with the United Kingdom and Continental Europe both returning -5.1%. Asia ex-Japan fell 5.4% with the Hong Kong developers and Singapore REITs particularly weak on the month. Japan (-5.5%) was dragged down by the developers which fell 8.8%. In comparison, the REITs held up well as they were supported by improving fund flows and generally solid fundamentals, particularly in office. Index heavyweight, the Americas fell 7.1%, driven by rising bond yields and not helped by earnings season where positive surprises were limited.

The pro-cyclical trade that pushed broader equities higher in 2017 continued to put the US REIT market out of favour at the start of 2018.

Fund Performance Review

The Ironbark Global (ex-Australia) Property Securities Fund (the 'Fund') returned -6.29% (net) over February, outperforming the benchmark's return of -6.43% by 0.14%.

During February, overall, regional allocation and stock selection both contributed. From a regional allocation perspective, overweight positions to outperforming United Kingdom and Asia ex-Japan had a positive impact, along with the underweight to underperforming Americas. Meanwhile, selection was particularly strong in the Americas. Japan and Continental Europe also contributed, whilst Asia ex-Japan and United Kingdom were minor detractors on the month.

Performance

	Net Fund Return (%)	Benchmark[1] Return (%)	Active Return (%)
1 month	-6.29	-6.43	0.14
3 months	-5.30	-6.55	1.25
1 year	-1.43	-2.68	1.25
3 years (p.a.)	1.02	1.27	-0.25
5 years (p.a.)	7.28	7.47	-0.19
7 years (p.a.)	8.39	9.03	-0.64
10 years (p.a.)	4.47	6.22	-1.75
Since inception[2] (p.a.)	7.08	7.69	-0.61

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

[1] Benchmark FTSE EPRA/NAREIT Developed ex Australia Index (TR, Net of WHT, Hedged to AUD). The Fund changed its benchmark from the UBS Global ex Australia Real Estate Investors Index (TR, Net of WHT Hedged to AUD) to the FTSE EPRA/NAREIT Developed ex Australia Index (TR, Net of WHT, Hedged to AUD) on 1 February 2015.

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

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Americas Performance Review

The Americas portion of the Fund returned -6.7%, outperforming the local benchmark return of -7.1% (in local currency terms).

Bucket allocation had a minor positive impact. This was largely driven by the underweight position to the relatively defensive health care segment which struggled amidst the ongoing long bond selloff. This was partially offset by the overweight position to the hotels segment which reversed course after a strong start to the year. At the stock level, selection was particularly strong amongst the specialty and apartments segments. This includes the overweight to recent IPO, Americold Realty Trust (up 0.1%) which is the world's largest owner/operator of temperature controlled warehouses. Americold held up well amidst the broader selloff. The exposure to manufactured housing REIT Equity LifeStyle Properties (-2.0%) was another leading contributor, as the sector remains largely immune from supply related pressures.

Europe Performance Review

The UK portion of the Fund returned -5.3%, underperforming the local benchmark return of -5.1% (in local currency terms), whilst the Europe ex UK portion of the Fund returned -5.0%, slightly outperforming the local benchmark return of -5.1% (in local currency terms).

Within the UK, selection and allocation had a minor negative impact over the month. At the stock level, the underweight to Intu Properties (-10.9%) was a leading contributor as retail sales remain under pressure. The overweight to industrial REIT, Segro (-1.7%) also had a minor positive impact, as fundamentals remain strong. Elsewhere, selection amongst the smaller-cap property stocks detracted, namely exposure to student accommodation stock Unite Group (-4.5%) and Healthcare focused Assura (-6.2%).

Within Continental Europe, allocation had a minor positive impact via the underweight to underperforming retail. Selection within the retail segment was also positive, namely avoiding Dutch mall stock, Wereldhave (-24.2%) which fell sharply after reporting weak 2017 financial year results and cutting its dividend. The overweight to Spanish listed, Merlin Properties (up 1.5%) also had a positive impact. This was offset by weak stock selection within the office segment, namely the overweight to Paris CBD focused Gecina (-8.3%) which fell after a shareholding placing in late February.

Asia Performance Review

The Asia ex-Japan portion of the Fund returned -6.1%, underperforming the local benchmark return of -5.4% (in local currency terms), while the Japan portion of the Fund returned -4.9%, outperforming the local benchmark of -5.5% (in local currency terms).

Within Asia ex-Japan, bucket allocation had a minor negative impact. This was largely driven by the underweight to outperforming Hong Kong REITs (-3.3%) which held up surprisingly well amidst the ongoing long bond selloff. At the stock level, selection was positive in Singapore developers, however this was more than offset by weak selection in China developers, Hong Kong landlords and Singapore REITs.

Within Japan, selection amongst the REITs was particularly strong. In particular, the overweight positions to Global One REIT (up 1.1%), Japan Logistics Fund (up 3.6%) and Mori Hills REIT (up 1.3%) all had a positive impact. This was partially offset by selection within the developers which was a modest detractor on the month.

Top Active Positions[1]

Largest overweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Camden Property Trust	US	2.20	0.55	1.64
Alexandria Real Estate	US	2.28	0.88	1.40
Global One Real Estate	JPN	1.29	0.00	1.29
Equity LifeStyle	US	1.82	0.53	1.29
Mitsubishi Estate	JPN	2.88	1.59	1.29

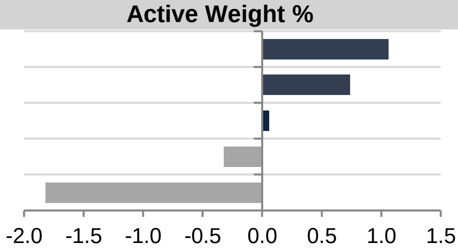
Largest underweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Public Storage	US	0.33	2.20	-1.87
Sun Hung Kai Properties	HK	0.00	1.82	-1.82
AvalonBay Communities	US	0.00	1.64	-1.64
Digital Realty Trust	US	0.00	1.57	-1.57
Ventas	US	0.00	1.31	-1.31

Regional Asset Allocation

Region	Fund %	Index %
Asia ex-Japan	13.50	12.44
United Kingdom	6.27	5.53
Japan	12.08	12.02
Europe ex-UK	13.59	13.91
Americas	54.27	56.10
Cash	0.29	0.00

Active Weight %



Number of Stocks

Region	Fund	Index
Asia ex-Japan	17	27
United Kingdom	11	37
Japan	18	40
Europe ex-UK	14	66
Americas	50	149
Total	**110**	**319**

[1]Regional and Country allocation is based on country of listing.

Contact Details

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

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Global Market Outlook & Fund Strategy

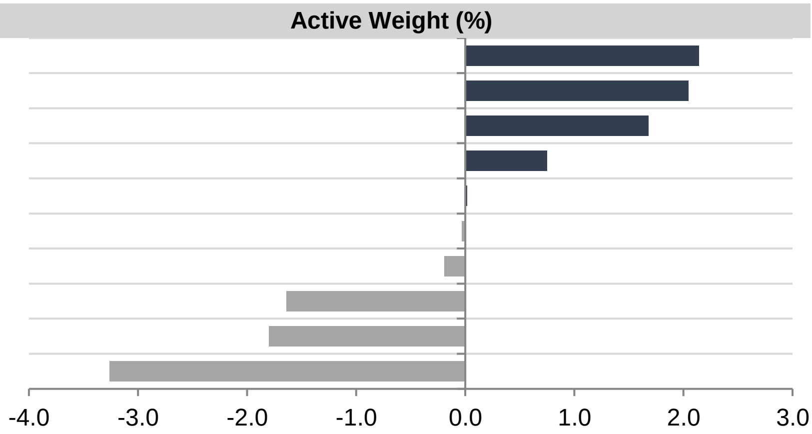
In the investment manager's view, hints of inflation rising faster than anticipated is the primary culprit behind the recent "rate-normalisation" sell-off. Over the coming months, the investment manager will be carefully monitoring inflation and look to identify any clearer signs of inflation accelerating. From a broader perspective, a notable change in the macro data to completely take risk off the table has been absent. Furthermore, credit markets remain relatively stable and healthy despite the equity market sell-off in early February. Additionally, the rise in 10-year yields has received significant press since the start of the year, however other areas of the credit market have seen far less volatility. Regarding interest rates, the investment manager does not have explicit rate expectations, but the base case scenario would call for a gradual increase in the US 10-year bond yield driven by continued gradual acceleration of the US economy. However, rates have risen much faster than expected due to market optimism for increased growth driven by US tax reform. Although rates have risen faster than expected, the market has experienced this recently in 2013 with the Taper Tantrum and in 2016 after Trump's election win and these spikes were followed by periods of interest rate reversion lower, so it is very early in the year to assume this upward trend in rates continues for the duration of 2018. Consensus currently calls for 3 rate hikes in 2018 and the investment manager would agree with consensus. The investment manager believes that the Federal Reserve will remain data dependent and gradually raise short term rates in a well-telegraphed manner.

On the property front, supply remains subdued providing limited downside to rental rates. In place, rents in most sectors and regions are below market, providing highly visible cash flow growth. Meanwhile, private real estate pricing should be stable as a sizable backlog of allocated capital remains to be invested. US values have plateaued while select ex-US valuations continue to rise.

Overall, the investment manager has a bias towards global property stocks with high-quality assets or business models that operate in market segments with favourable supply/demand dynamics and, importantly, solid management teams with a solid track record of adding value for shareholders. Valuations remain at historically attractive levels relative to private real estate, equities, and fixed income, which sets REITs up well from an asset allocation standpoint for 2018. A strong fundamental backdrop for property stocks combined with favourable supply/demand dynamics should continue to drive ample cash flow growth going forward. There are likely broader sector level themes that may impact each sector, however the investment manager believes stock selection will be the key driver going forward in this market. Growing cash flow growth coupled with increased external growth suggest listed real estate can deliver mid to high single digit returns over the next 12 months.

Sector Asset Allocation

Sector	Fund (%)	Index (%)
Specialty	4.72	2.58
Industrial	8.58	6.54
Residential	22.42	20.74
Office	18.29	17.54
Storage	3.97	3.96
Other	1.66	1.69
Hotels & Resorts	4.63	4.82
Health Care	5.00	6.63
Diversified	13.88	15.68
Retail	16.56	19.82
Cash	0.29	0.00



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Contact Details

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

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