Ironbark Global (ex-Australia) Property Securities Fund

Monthly Investment Report as at 30 April 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

$146.0m

Exit Price

$0.9247

Number of Stocks

100

Global Market Review

Global property stocks closed higher with the FTSE EPRA/NAREIT Developed ex-Australia Index returning 2.8%, outperforming the broader equity market (as measured by the MSCI World which returned 1.9%). Most major markets closed positive, in a month where investors balanced geopolitical tensions, higher rates, mixed economic data and a relatively strong start to earnings. In early April, geopolitical uncertainty weighed on markets, including political turmoil surrounding President Donald Trump, potential military activity in Syria and trade tensions between the US and China. However, those fears soon faded and focus increasingly turned to earnings season in the US where the first quarter earnings trend remains solid. Elsewhere, investors had a lot to digest with mixed market data and the 10-Year Treasury yield breaking through 3%, before settling at 2.95%. The Federal Reserve reflected that trade concerns cast a shadow over an otherwise solid outlook for the economy. The European Central Bank revealed a dovish slant in the account of its March meeting, whilst investors expect a Bank of England interest rate hike next month.

On the property front, the asset class outperformed despite the sell-off in bonds and US Treasury yields briefly breaking through the 3% level for the first time since 2014. Japan (up 5.5%) led the way, as both fundamentals and the external climate were supportive on the month. The United Kingdom (up 5.0%) was next, as property stocks followed their local equity counterparts higher. Continental Europe (up 4.4%) outperformed, with gains led by the Nordics and the higher quality mall segment. Asia ex-Japan added 4.0%, with the Hong Kong landlords the standout, as they were boosted by the retail sales recovery. Americas (up 1.2%) was the laggard on the month, with retail the main drag. Industrial (up 4.9%) was the top performer, buoyed by merger and acquisition activity and strong fundamentals whilst the relatively cyclical hotels (up 4.0%) segment also outperformed.

Fund Performance Review

The Ironbark Global (ex-Australia) Property Securities Fund (the ‘Fund’) returned 2.94% (net) for April, outperforming the benchmark’s return of 2.77% by 0.17%.

Overall, regional allocation and stock selection both contributed. From a regional allocation perspective, the overweight position to outperforming United Kingdom had a positive impact, along with the underweight position to underperforming Americas and overweight to outperforming Asia ex-Japan. On the flipside, the exposure to Continental Europe had a minor negative impact. Meanwhile, selection was particularly strong in the Americas. Asia ex-Japan and Japan also contributed, whilst Continental Europe had a negative impact.

Performance

	Net Fund Return (%)	Benchmark[1] Return (%)	Active Return (%)
1 month	2.94	2.77	0.17
3 months	-0.82	-1.42	0.60
1 year	5.22	3.26	1.96
3 years (p.a.)	3.59	3.56	0.03
5 years (p.a.)	6.63	6.62	0.01
7 years (p.a.)	8.65	9.18	-0.53
10 years (p.a.)	4.42	6.08	-1.66
Since inception[2] (p.a.)	7.44	8.01	-0.57

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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Ironbark ASSET MANAGEMENT

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Americas Performance Review

The Americas portion of the Fund returned 1.6%, outperforming the local benchmark return of 1.2% (in local currency terms).

For April, bucket allocation had a positive impact, driven largely by the overweight to the industrial segment which performed well on the back of merger and acquisition activity and a solid earnings season. The underweight positions to retail and health care also contributed. At the stock level, selection was particularly strong amongst the specialty, industrial, self-storage, and data centre segments. A notable holding was the overweight position to DCT Industrial Trust (up 16.4%) which surged after Prologis announced it was acquiring DCT in an all-stock deal valued at approximately $8 billion (in US dollar 'USD' terms). DCT's portfolio is high quality and its assets are located in strong industrial markets (55% of the portfolio located in north and south California, Chicago, Atlanta, and Houston). In the investment manager's view, they expect a smooth integration given the significant overlap to Prologis' existing US asset base. On the flipside, the largest detractor was the Americas Communications segment, as the Tower REITs slipped on speculation of consolidation in the wireless carrier industry in the US.

Europe Performance Review

The UK portion of the Fund returned 5.0%, performing in-line with the local benchmark return (in local currency terms), whilst the Europe ex-UK portion of the Fund returned 3.8%, underperforming the local benchmark return of 4.4% (in local currency terms).

In the UK, selection was particularly strong within the large cap segment. The overweight position to outperforming industrial REIT, Segro (up 7.5%) was a standout as its first quarter trading update confirmed further strong tenant and investment demand. The underweight position to mall REIT, Intu Properties (-2.2%) also contributed. Intu struggled amid a lack of visible catalysts following the termination of the offer period for Hammerson's proposed acquisition of Intu the prior month. On the flipside, selection within the niche segment had a minor negative impact, driven largely by the exposure to PRS REIT (up 1.0%) which failed to keep pace with listed UK real estate peers on the month.

In Continental Europe, bucket allocation and stock selection had a negative impact on the month. At the bucket level, the bias toward office over retail detracted, along with the overweight to the diversified segment. Selection was particularly weak within the office segment, namely the overweight to Paris CBD focused Gecina (up 1.8%) and underweight to Italian office stock, Beni Stabili (up 16.1%). Beni Stabili surged after reports Fonciere des Regions was in talks to buy the part of Beni Stabili it does not already own. French diversified real estate company Fonciere des Regions holds approximately 52.4% of the Italian investment trust.

Top Active Positions[1]

Largest overweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Camden Property Trust	US	2.15	0.57	1.58
Mitsubishi Estate	JPN	3.11	1.59	1.52
Alexandria Real Estate	US	2.39	0.92	1.47
CubeSmart	US	1.85	0.39	1.46
Douglas Emmett	US	1.88	0.44	1.44

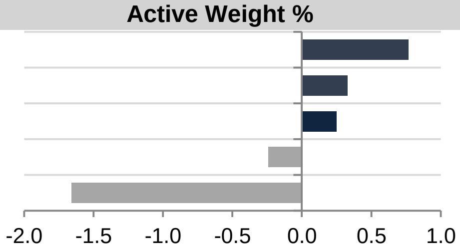
Largest underweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Public Storage	US	0.00	2.20	-2.20
Sun Hung Kai Properties	HK	0.00	1.69	-1.69
AvalonBay Communities	US	0.00	1.65	-1.65
Digital Realty Trust	US	0.00	1.59	-1.59
Ventas	US	0.00	1.34	-1.34

Regional Asset Allocation

Region	Fund %	Index %
United Kingdom	6.56	5.79
Asia ex-Japan	12.39	12.06
Japan	12.09	11.85
Europe ex-UK	13.97	14.21
Americas	54.42	56.09
Cash	0.57	0.00

Active Weight %



Number of Stocks

Region	Fund	Index
United Kingdom	11	38
Asia ex-Japan	15	27
Japan	15	39
Europe ex-UK	14	66
Americas	45	148
Total	**100**	**318**

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

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Asia Performance Review

The Asia ex-Japan portion of the Fund returned 4.0%, marginally outperforming the local benchmark (in local currency terms), while the Japan portion of the Fund returned 5.6%, outperforming the local benchmark of 5.5% (in local currency terms).

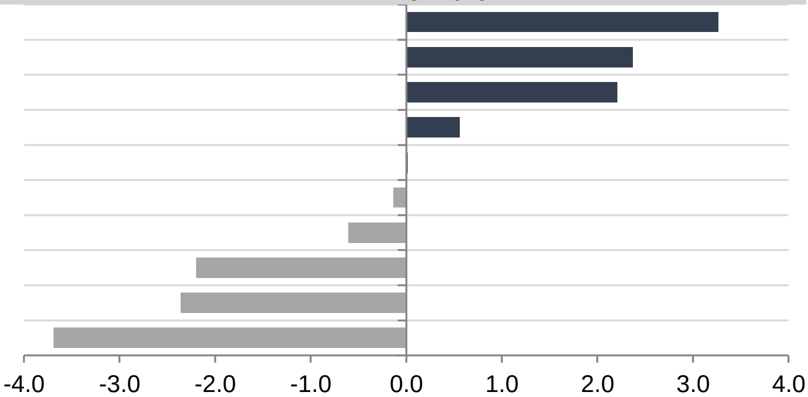
In Asia ex-Japan, selection was strong amongst the Hong Kong landlords, largely due to the overweight position to outperforming retail landlord Wharf Real Estate Investment (up 17.5%). Wharf surged as the retail sales recovery in Hong Kong accelerated. Wharf has high exposure (approximately 64% of gross asset value) to the Hong Kong high-end retail segment. Elsewhere, selection within the Singapore REITs also contributed, however this was offset by weak selection within the Singapore developers.

In Japan, the bias toward the developers over the REITs was a modest contributor on the month. Meanwhile, selection was mixed. Amongst the REITs, the overweight to Global One Real Estate Investment (up 6.9%) was a standout along with the overweight to large cap developer, Mitsubishi Estate (up 11.3%) which caught a bid following recent underperformance. On the flipside, the exposure to REIT Premier Investment Corporation (-2.0%) and developer, NTT Urban (-0.7%) detracted.

Sector Asset Allocation

Sector	Fund (%)	Index (%)
Residential	24.04	20.77
Industrial	9.14	6.77
Specialty	4.72	2.51
Storage	4.59	4.03
Data Center	1.73	1.72
Office	17.24	17.38
Hotels & Resorts	4.39	4.99
Healthcare	4.60	6.80
Diversified	13.52	15.88
Retail	15.46	19.15
Cash	0.57	0.00

Active Weight (%)



Global Market Outlook & Fund Strategy

On the macro front, the investment manager's 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, in early 2018 rates rose much faster than expected due to market optimism for increased growth driven by US tax reform. 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.

Important Information

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