Ironbark Global (ex-Australia) Property Securities Fund

Quarterly Investment Report as at 31 March 2017

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]

Buy/Sell Spread

+0.30%/-0.30%

Management Cost

1.1961 p.a.[1]

Distribution Frequency

Quarterly

Minimum Investment

$20,000

Fund Size

$176.3

Exit Price

$0.8707

Number of Stocks

101

Global Market Review

Global property stocks closed up, with the FTSE EPRA/NAREIT Developed (ex- Australia) Index returning 1.1% for the quarter (in local currency terms). Property stocks struggled to keep pace with the broader market, as measured by the MSCI World which returned 6.4%. Global stocks traded higher through the first quarter, and in the process completed a fifth straight monthly gain in a rally driven by the US president's commitment to spur growth by boosting spending and easing regulation.

After some very steep price changes in 2016, the investment manager has seen a general phase of consolidation thus far in 2017, characterised by low implied and realised volatility and fairly limited sector dispersion. This consolidation phase has coincided with the wait for some important catalysts on both sides of the Atlantic, namely the French elections and Trump's actions. On stocks, this has meant a slight rebound of defensives however no major profit taking on risky assets. The exception being the oil sector amid uncertainty over OPEC's willingness to extend its cuts, especially given a sharply rising US rig count.

On the macro front, the positive momentum has carried over from 2016. Global growth is on a strong footing and inflation data is picking up. In the US, data has been positive and this has helped to push major US indices to record highs during the quarter. Meanwhile, the Federal Reserve ('Fed') raised its benchmark lending rate by a quarter point in March, without accelerating the timetable for future hikes. This, combined with a more measured tone from the Fed's Chair, Janet Yellen, actually saw rates fall in the wake of the meeting.

Concerning the political risks, the investment manager did observe some stress on French assets at the end of January, however things have calmed. Meanwhile, investors embraced President Donald Trump's highly anticipated speech to Congress on 28 February that had a decidedly softer tone, but offered few new proposals, nor details on how his broad policy strokes would fit within the federal budget. However, as the quarter wore on gridlock and political play, Washington increasingly came into focus as investors assessed the fallout from a failed healthcare vote that has raised questions on Trump administration's ability to push its pro-growth agenda through Congress.

On the property stock front, performance was mixed. Asia ex-Japan (15.8%) was the standout, led by strong gains from the Hong Kong investors and Singapore developers. The UK (1.7%) was next, with the REITs boosted by a solid start to earnings, whereby asset sales have generally supported book values and London leasing activity has held up better than expected. Continental Europe (1.3%) followed, with the Swiss and German residential property stocks the top performers. The US REITs (0.1%) offered minor gains, with positive returns from data centres and healthcare offset by weakness from the retail segment. The laggard was Japan (-6.5%), with the developers particularly weak.

Performance

	Net Fund Return (%)	Benchmark[2] Return (%)	Active Return (%)
1 month	-2.03	-1.64	-0.39
3 months	0.79	1.34	-0.55
1 year	1.44	3.78	-2.34
3 years (pa)	9.67	10.36	-0.69
5 years (pa)	10.71	11.41	-0.70
7 years (pa)	11.56	12.65	-1.09
10 years (pa)	1.77	3.47	-1.70
Since inception[3] (pa)	7.57	8.37	-0.80

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. 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] As at 31 December 2016. Refer to PDS and website for full breakdown of management costs.

[2] 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.

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

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Fund Performance Review

The Fund returned 0.79% net over the quarter, underperforming the benchmark's return of 1.34% by 0.55%.

Overall, sector allocation and stock selection had a modest negative impact. From a regional allocation perspective, the underweight position to underperforming Americas was the leading contributor. However, this was more than offset by the underweight to outperforming Asia ex-Japan which detracted. Meanwhile, selection was strong in the UK and the Americas, whilst Asia ex-Japan, Continental Europe and Japan were all modest detractors during the quarter.

Americas Performance Review

The Americas portion of the Fund returned 0.3%, outperforming the local benchmark return of 0.1% (in local currency terms).

Overall, sector allocation had a neutral impact, whilst stock selection detracted. From an allocation perspective, the overweight to data centres and apartments contributed along with the underweight to retail. On the flipside, the underweight to the relatively defensive healthcare segment detracted. Meanwhile, selection was strong within data centres and apartments, whilst malls, office and industrial detracted.

At the stock level, the select exposure to the data centre segment contributed, namely positions in Interxion (12.8%), CoreSite Realty (14.2%) and DuPont Fabros Technology (14.0%). Data Centre REITs performed well aided by a strong demand and pricing environment, whilst fourth quarter results also lent support. Selection within the apartment segments were also strong, led by the underweight to underperforming apartment REIT Equity Residential (-2.6%). Equity Residential came under pressure as weakness in key markets, San Francisco and New York persisted. New supply in those markets is impacting Equity Residential's revenue and lifting expenses, and management expects to the slowdown to extend into 2017. On the flipside, the exposure to mall REIT, General Growth (-7.2%) had a negative impact, as sentiment toward the retail segment remained negative.

Europe Performance Review

The UK portion of the Fund returned 2.8%, outperforming the local benchmark return of 1.7% (in local currency terms), whilst the Europe ex-UK portion of the Fund returned 0.5%, underperforming the local benchmark return of 1.3% (in local currency terms).

Within the UK, selection was particularly strong amongst the niche operators. This includes the exposure to St Modwen which rose 7.8% and self storage REIT, Safestore Holdings (10.6%). Amongst the large caps, the exposure to industrial REIT, Segro PLC (6.7%) also contributed. Segro, again outperformed, as fundamentals for the logistics segment remain strong. Meanwhile, the exposure to large caps Great Portland Estates (-2.5%) and British Land Company (-0.8%) detracted.

Within Continental Europe, the underweight to underperforming retail had a modest positive impact. The French listed, large cap retail REITs were impacted by the uncertain political backdrop, whilst sharp falls amongst their Americas counterparts also weighed on sentiment. On the flipside, the overweight to office detracted. This was driven by the exposure to Paris CBD focused, Gecina (-1.1%) which closed lower, in part due to uncertainty over the upcoming elections, however also due to a surprise CEO change. The exposure to Spanish focused, Hispanisa Activos Inmobiliarios (20.3%) also had a negative impact. The stock surged after Hispania's investment manager confirmed a proposal to sell-off the company's assets and distribute the proceeds to investors by March 2020.

Top Active Positions

Largest overweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Essex Property Trust	US	3.18	1.17	2.00
GGP	US	2.67	0.90	1.77
Alexandria Real Estate	US	2.45	0.76	1.69
Welltower	US	3.65	1.98	1.67
Vornado Realty Trust	US	2.88	1.31	1.57

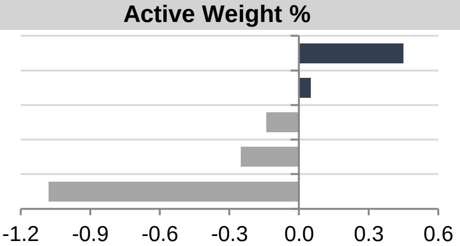
Largest underweight stocks

Stock	Country	Fund %	Index %	Active Weight %
Ventas	US	0.00	1.78	-1.78
Equity Residential	US	0.00	1.73	-1.73
Boston Prop.	US	0.00	1.57	-1.57
Digital Realty	US	0.00	1.31	-1.31
Realty Income	US	0.00	1.18	-1.18

Regional Asset Allocation

Region	Fund %	Index%
United Kingdom	5.62	5.17
Japan	11.36	11.31
Americas	60.62	60.76
Europe ex UK	11.38	11.63
Asia ex Japan	10.05	11.13
Cash	0.97	0.00

Active Weight %



Number of Stocks

Country	Fund	Index
United Kingdom	11	37
Japan	15	40
Americas	44	153
Europe ex UK	16	68
Asia ex Japan	15	27
Total	**101**	**325**

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Asia Performance Review

The Asia ex-Japan portion of the Fund returned 14.2%, underperforming the local benchmark return of 15.8% (in local currency terms), while the Japan portion of the Fund returned -6.7%, underperforming the local benchmark of -6.5% (in local currency terms).

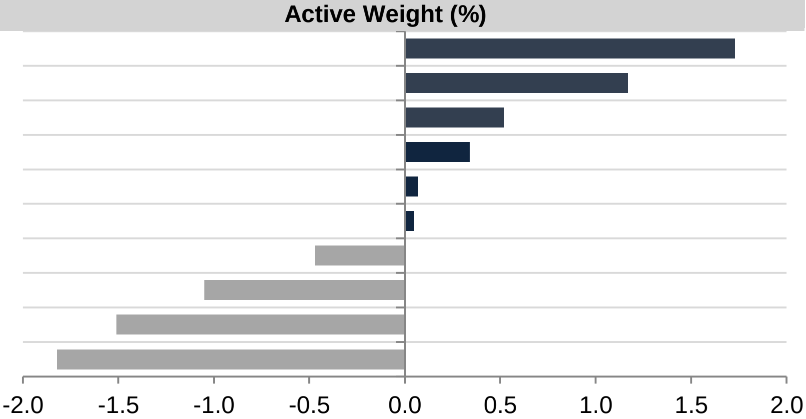
Within Asia ex-Japan, the select exposure to Singapore developers was the leading contributor. News of policy easing drove developer share prices higher, with the Fund's exposure to pure Singapore developer, City Developments (23.2%) a standout. The exposure to Global Logistics Properties (26.3%) was also positive. Global Logistics Properties surged after confirming it has received various non-binding proposals from a number of parties in connection with its strategic review.

Within Japan, the bias toward developers over REITs had a negative impact. The developers were particularly weak into quarter end as the US dollar and Japanese yen retreated from recent highs. At the stock level, selection was positive amongst the REITs, led by the exposure to the retail REIT, Frontier which added 1.3%. Although, the exposure to developers detracted. In particular, the underweight to outperforming Hulic Co. (0.8%) detracted as it performed well on the back of a well received results announcement.

Sector Asset Allocation

Sector	Fund (%)	Index (%)
Industrial	7.35	5.62
Hotels & Resorts	5.94	4.77
Healthcare	8.79	8.27
Office	19.22	18.88
Storage	4.08	4.03
Specialty	0.35	0.28
Retail	20.77	21.24
Diversified	13.85	14.90
Other	0.64	2.15
Residential	18.04	19.86
Cash	0.97	0.00

Active Weight (%)



Global Market Outlook & Fund Strategy

Over the past quarter, incremental signs suggest some continuity from 2016 fourth quarter trends. Global growth is on a strong footing and inflation data is picking up. The reflation thesis that has been driving markets higher is anchored on the expectations of looser fiscal policy in the US, against an improving global cyclical backdrop which is undoubtedly influenced by China's own reflationary efforts. However, there has been a slight shift in tone in recent weeks with the gridlock and political play in Washington a contributing factor as investors raised questions on Trump administration's ability to push its pro-growth agenda through Congress.

In Europe, political uncertainty following the UK referendum has not yet had a material impact upon economic activity. However UK growth is expected to slow this year as business and consumer spending feels the effect of the referendum vote. Meanwhile, upcoming elections in France and Germany could create periods of uncertainty in 2017. If the investment manager were to see heightened financial market volatility then they believe the defensive characteristics of the asset class such as stable cash flows, high dividend yields, will come to the fore.

On the property front, the sell-off the investment manager saw in the second half of 2016 was largely a by-product of higher interest rates, which has historically spurred short-lived sell-offs in the asset class. Importantly, the investment manager has not seen the fundamental picture deteriorate for real estate. Supply remains subdued providing limited downside to rental rates. Private real estate pricing should for the most part be stable as a sizable backlog of allocated capital remains to be invested. Although the investment manager expects some deterioration in secondary markets and assets, and in London office values will likely be under pressure following the UK referendum result. Prime A-quality assets will continue to attract capital.

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Global Market Outlook & Fund Strategy (cont'd)

Global dividend yields are well covered overall and currently stand at roughly 3.5%. The investment manager expects dividend growth to remain positive in 2017 due to strong cash flow growth and low payouts. The investment manager agrees that higher interest rates pose the most immediate risk to the global real estate market, however they currently believe the market has already largely priced this factor into share prices. Furthermore, since the Federal Reserve has officially entered a tightening phase, the investment manager expects global real estate performance to be primarily dictated by underlying fundamentals instead of uncertainty around future monetary policy and swinging Treasury yields. Overall, the expected returns over the coming year fall in mid-high single digits, stemming from stable earnings growth coupled with a healthy dividend yield.

Important Information

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Ironbark ASSET MANAGEMENT