# Ironbark Karara Australian Small Companies Fund

Monthly Investment Report as at 30 June 2017

**Asset Class**
Australian Equities

**Investment Objective**
To outperform the benchmark (before fees) over rolling 4 year periods

**APIR Code**
PAT0002AU

**ARSN**
114 291 486

**Fund Inception Date**
30 June 2005

**Manager Appointed**
1 May 2010

**Benchmark**
S&P/ASX Small Ordinaries Accumulation Index

**Buy/Sell Spread**
+0.25%/-0.25%

**Management Costs**
1.1975% p.a.[1]

**Distribution Frequency**
Semi-Annually

**Minimum Investment**
$20,000

**Fund Size**
$586.5m

**Exit Price**
$3.3193

**Number of Holdings**
61

## Market Review

June proved a volatile month for global equities however one where key benchmark returns ended largely flat. Although initially positive, stock markets sold-off sharply towards the end of the month in response to statements in concert from the European, England and Canadian central banks that raised expectations for future interest rate rises. The end-of-month sell-down came on top of a weak month for energy which saw crude oil fall 7%, although iron ore entered a new bull market rising 14% for the month. In Australia the broad-based S&P/ASX 300 Accumulation Index rose 0.22% while the Small Company Index gained 1.99%, both aided by iron ore gains.

Bond markets responded with a minor sell-off that saw 10-year yields in the US and Australia jump 10 points, although UK and European 10-year bonds were sold down further, with yields rising 22 and 17 basis points,respectively.

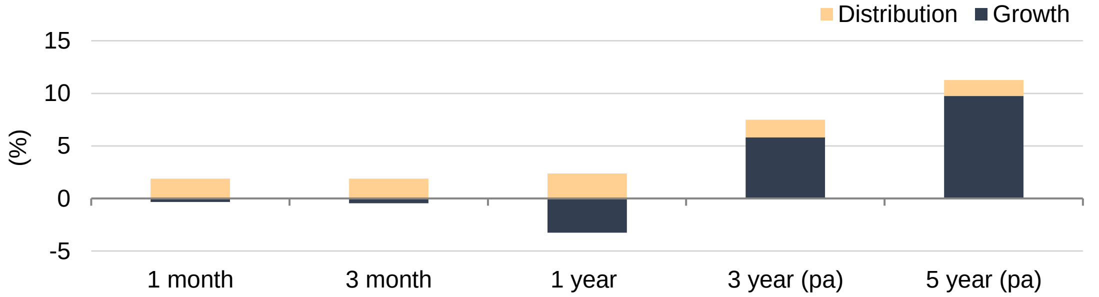
Domestically, June proved a month of consolidation for the broader economy with the majority of data pointing towards further improvement despite rising fears of a consumer crunch on the back of rising mortgage and utility costs.

The major data releases centred on a 42,000 rise in the May jobs report, the third consecutive month of solid gains. The release was well ahead of expectations and pushed the unemployment rate down to 5.5%, the lowest level in four years. Further, all of June's gains were in full-time jobs, which in turn pushed the hours worked rate up 1.9% over May.

The June Reverse Bank of Australia's (RBA) minutes confirmed that the central bank remains comfortable with its prior assessment of the economy, temporary drags in the first quarter should reverse, the labour market is improving, some easing in house prices and evidence that the global growth upswing continues. As well, first quarter of 2017 Australian Bureau of Statistics (ABS) house price data provided some evidence that recent credit rationing and rising mortgage rate rises are starting to take effect, with a 2.2% quarter-on-quarter rise in the ABS measure of house prices in the first quarter, suggesting conditions are moderating rather than collapsing.

June consumer confidence was perhaps the weakest data release over the month with the Westpac survey falling to its lowest level since April 2016. The index dropped from 98.0 in May to 96.2 in June driven largely by the fall in the sub-indices measuring confidence in future conditions. Real gross domestic product (GDP) for quarter one rose 0.3% versus quarter four of 2016 or 1.7% over the prior year which, although the slowest pace since the third quarter of 2009, was in-line with expectations.

## Performance




| | Net Fund Return (%) | Benchmark Return (%) | Active Return (%) |
|---|---|---|---|
| 1 month | 1.55 | 1.99 | -0.44 |
| 3 months | 1.43 | -0.35 | 1.78 |
| 1 year | -0.91 | 7.01 | -7.92 |
| 3 years (pa) | 7.50 | 7.13 | 0.37 |
| 5 years (pa) | 11.26 | 5.66 | 5.60 |
| 7 years (pa) | 10.43 | 3.92 | 6.51 |
| 10 years (pa) | 6.84 | -1.88 | 8.72 |
| Since inception[2] (pa) | 13.24 | 3.42 | 9.82 |

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 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]For a full breakdown of management costs, refer to the PDS dated 30 November 2015.

[2]This figure represents the annualised performance of the Fund since inception.


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


Ironbark ASSET MANAGEMENT

# Ironbark Karara Australian Small Companies Fund

Monthly Investment Report as at 30 June 2017

## Market Review (cont'd)

Amongst commodities, Brent crude oil finished 5% lower for the month as doubts over adherence to the Organisation of the Petroleum Exporting Countries' (OPEC) production cuts persisted. An increase in US shale drilling on the back of higher prices further contributed to downward pressures. In comparison, iron ore entered a bull market after rising 14% for the month as Chinese steel-makers ramped up demand. Base metals rebounded in June, with the LME Metals Index up 3.4%, lead registered the steepest gain followed by Zinc, Copper, then Nickel. Gold finished the month lower as expectations of further rate hikes undermined safe haven demand. Gold was down -1.9% for the month, however remains up 7% in 2017 in US dollar terms.

## Performance Review

The Fund returned 1.55% (net) for the month, underperforming the benchmark's return of 1.99% by -0.44%.

The strongest contributors to Fund performance at a sector level were overweight positions in information technology and consumer staples, as well as underweight position in energy. The main sector to detract from performance was the Fund's position in metals & mining. At a stock level, positive contributors to monthly performance included overweight positions in Saracen Minerals, Bega Cheese, Costa Group and Updater. A nil position in Worley Parsons also contributed. Saracen rose 12% for the second consecutive month on growing recognition the company's heavy investment spend over the past 18 months will soon yield a significant lift in resource, reserve and cash generation. Shares in Bega Cheese gained 10% after the company raised $160 million to help fund the acquisition of Modelez. Costa Group rose 7% on little news.

The largest detractors to monthly performance included overweight positions in Aveo Group, Galaxy Resources and Metals X. Aveo shares fell 12% following a series of media reports alleging it had charged excessive fees and used complex contracts to increase profits, leading to increased focus on the retirement village sector. The company has announced a share buyback and directors have increased their holdings in a sign that management are confident the concerns are not warranted. Galaxy Resources lost 27% on fears of over-supply in the lithium market which the investment manager believes are unfounded, particularly in light of Volvo's announcement that every model from 2019 onwards will have an electric motor, making it the first traditional car maker to call time on vehicles powered solely by an internal combustion engine. Metals fell 14% on little news.

## Top 5 Active Weights

| Security Name | Sector | Active Weight (%) |
|---|---|---|
| Bega Cheese | Consumer Staples | 3.34 |
| Technology One | Information Technology | 3.28 |
| Link Administration Holdings | Information Technology | 3.19 |
| Costa Group Holdings | Consumer Staples | 3.05 |
| Altium | Information Technology | 3.03 |

## Key Contributors & Detractors over the month

| Top 5 Contributors | Active Position |
|---|---|
| Saracen Mineral Holdings | Overweight |
| Bega Cheese | Overweight |
| Worleyparsons | Underweight |
| Costa Group Holdings | Overweight |
| Updater Inc. | Overweight |

| Top 5 Detractors | Active Position |
|---|---|
| Aveo Group | Overweight |
| Metcash | Underweight |
| Sims Metal Management | Underweight |
| Sirtex Medical | Underweight |
| Regis Resources | Underweight |

## Market Outlook

The broad-based pickup in global growth indicators and inflationary expectations is moderating somewhat, albeit above-trend growth is occurring and this is expected to continue. Large pools of global capital remain sidelined in low yielding assets and will take time to re-position as confidence over the durability of recovery builds.

Slack in the US economy is now relatively low and the investment manager expects that the Fed will slowly raise rates given overall financial conditions have eased materially over the last 12 months. Structural limits on US growth mean that they will likely have some tolerance around inflation exceeding their targets as wage inflation picks up.

With the earnings outlook improving and a decent gap between earnings and bonds yields, there is scope for the stock market to weather somewhat higher interest rates. However, bond markets remain inflated and yields trending higher will generally be a headwind for equity markets unless accompanied by an acceleration in earnings.

# Ironbark Karara Australian Small Companies Fund

## Monthly Investment Report as at 30 June 2017

### Market Outlook (cont'd)

The key macro risks remain twofold:

- The sustainability of debt driven Chinese growth. Given the success of 2016's stimulatory efforts, the Chinese Government's focus has moved judiciously towards containing risks, controlling credit growth and advancing reform. The investment manager expects policy to be more modulated going forward and overall less supportive for steel making materials.
- Europe - the structural challenges in Europe remain unresolved. Better growth and recent electoral outcomes are encouraging but adverse political risks remain omnipresent.

Whilst the global growth improvement is relatively synchronised, Australia is lagging. The investment manager anticipates that Australian GDP growth will remain modest at around 2-3%. Strong population growth is assisting headline growth numbers with per-capita growth quite low in a historical context.

The recent pickup in domestic economic data is encouraging, particularly the recent employment data. Overall, the investment manager expects aggregate consumer spending to be broadly in line with household income growth (3-4%), which is still low in a historical context.

House prices are high by any measure and conditions in the housing market vary considerably outside of Melbourne and Sydney. The recent tightening of credit to the investor segment of the market will have some impact on the housing market with a reasonable likelihood of small real price declines over the next couple of years. As a small open economy, the key risk to house prices remains external macro shocks.

Moderate global growth and the return of pricing power in some sectors suggest a reasonable backdrop for many stocks. But, after recent expansion in valuations, sustained gains will require continuing profit delivery.

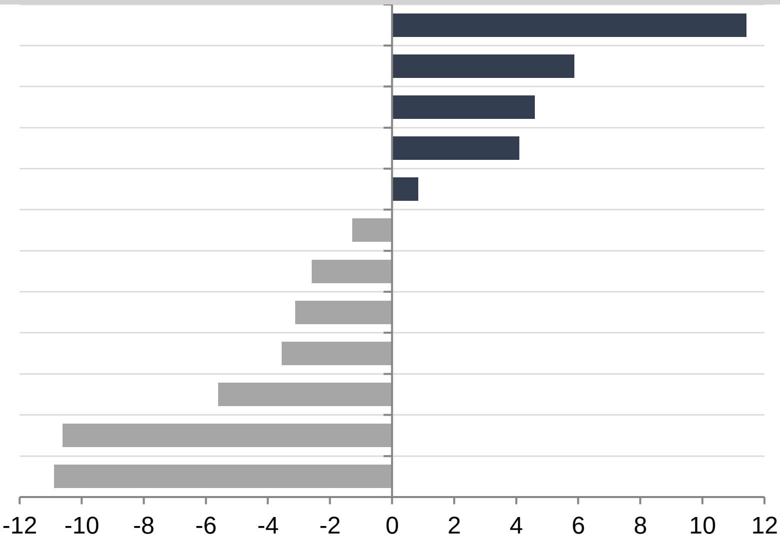
The high-levels of valuation dispersion that were observed last year have returned. Stocks that have defensive growth characteristics have been highly sought after and now trade at historically high valuation levels. The Fund remains underweight to this area.

The Strategy remains generally positioned for a more reflationary environment than is currently priced by the market and the investment manager continues to believe there are good risk adjusted returns available in a number of sectors. Within this, the emphasis is on attractive quality companies whose prospects are unappreciated by the market.

### Asset Allocation

| Sector Weights | Fund (%) | Bench (%) |
|---|---|---|
| Information Technology | 17.94 | 6.52 |
| Utilities | 6.48 | 0.61 |
| Metals & Mining | 17.36 | 12.77 |
| Consumer Staples | 13.44 | 9.34 |
| Financial ex Property Trusts | 8.34 | 7.49 |
| Telecommunications Services | 0.72 | 2.00 |
| Health Care | 4.64 | 7.23 |
| Energy | 2.49 | 5.62 |
| Materials ex Metals & Mining | 0.00 | 3.56 |
| Industrials | 3.99 | 9.59 |
| Consumer Discretionary | 10.27 | 20.89 |
| Property Trusts | 3.50 | 14.38 |
| Cash | 10.83 | 0.00 |

Active Weight (%)




### Important Information



**Contact Details**

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

Ironbark ASSET MANAGEMENT