Ironbark Karara Australian Small Companies Fund

Monthly Investment Report as at 30 April 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 Ords Accumulation Index

Buy/Sell Spread

+0.25%/-0.25%

Management Costs

1.1975% p.a.[1]

Distribution Frequency

Half Yearly

Minimum Investment

$20,000

Fund Size

$573.6m

Exit Price

$3.3039

Number of Holdings

65

Market Review

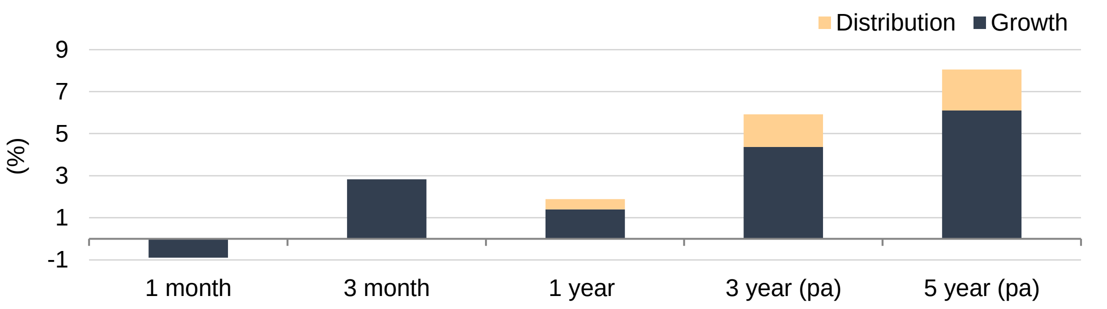
Global equity markets drifted lower during the first half of April, only to rebound in the second half of the month. Initial concerns around fading faith in the US "reflation trade", softer US economic data and geopolitical tensions in North Korea and Syria gave way to improving sentiment, particularly in Europe, as a relatively market-friendly candidate was seen as the front runner in the French Presidential election. Australian markets underperformed their global counterparts, especially European ones, where equities rallied on a belief a near term breakup of the Eurozone may be averted. In Australia, the broadbased S&P/ASX 300 Accumulation Index rose 0.98% while the Small Company Index fell 0.25%.

Domestically, economic data was mixed however still quite strong as March employment figures jumped to a stronger-than-expected 61,000 versus the consensus of 20,000 and February's 3,000. The unemployment rate was unchanged at 5.9%. The NAB Survey of Business Conditions for March rebounded sharply to 14.2,the highest level since the Global Financial Crisis. Retail sales for February fell a worse-than-expected 0.1% from January, indicating conditions remain patchy.

The Reserve Bank of Australia ('RBA') left interest rates unchanged, however commentary turned markedly down as the RBA's Financial Stability Review highlighted vulnerabilities relating to housing debt and the housing market in general. The RBA indicated that it views these risks as largely macroeconomic in nature rather than a risk to the stability of banks. On China, the report noted "…the longer that debt-driven growth and distortionary incentives in the financial sector persist, the more likely it is that China's economic transition will include a financial disruption of some form."

The big commodity story during the month was a sharp fall in the iron ore price, which at one point plunged from US$81 per tonneto as low as US$62 tonne as reports surfaced of over stocking in China. The LME Metals Index slipped 2.7% and Brent oil declined 3.2% as inventories remained elevated. Spot gold rose 1.5% as investors reacted to geopolitical concerns in North Korea and Syria.

Performance



	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	-0.90	-0.25	-0.65
3 months	2.83	3.75	-0.92
1 year	1.88	10.04	-8.16
3 years (pa)	5.91	6.80	-0.89
5 years (pa)	8.05	2.42	5.63
7 years (pa)	8.70	2.12	6.58
10 years (pa)	7.90	-1.35	9.25
Since inception[2] (pa)	13.22	3.48	9.74

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]As at 31 December 2016. Refer to PDS for full breakdown of management costs. A Performance Fee of 15% may be payable. Refer to PDS and website for further details.

[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

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Performance Review

The Fund returned -0.90% (net) during April. This constituted 0.65% of underperformance when compared with the benchmark S&P/ASX Small Ordinaries Accumulation Index return of -0.25% for the month.

The strongest contributors to Fund performance at a sector level were the overweight positions in information technology, Financials ex property trusts and consumer staples, as well as an underweight position in consumer discretionary. The main sectors to detract from performance were an overweight position in metals & mining and an underweight position in materials ex metals & mining.

At a stock level, positive contributors to monthly performance included overweight positions in Altium, Technology One and Steadfast. A nil position in Metcash also contributed. In a quiet month on the news front, the Fund's technology holdings Altium (8%), Technology One (7%) and Iress (6%) found favour inline with the sector's outperformance in US markets. Steadfast shares rose 7% on expectations of firmer insurance policy pricing in the wake of Cyclone Debbie.

The largest detractors to monthly performance included overweight positions in Vocus Telecommunications, Dacian Gold and Blackham Resources and underweight positions in Metcash and OZ Minerals. Shares in gold stocks Dacian and Blackham fell 15% and 31% respectively, as wet weather on the West coast of Australia hampered production efforts during the first quarter. Further, an anticipated material re-balancing of the GDXJ Junior Gold Miners Exchange-Traded Fund ('ETF'), ironically due to the success of the ETF and large resultant inflows, played havoc with global precious metals stocks with investors and speculators seeking to position themselves ahead of the implementation of the expected stock holding up-weightings and de-weightings. Vocus shares fell 21% as competition concerns in the telecommunication space intensified following TPG's announced entry as a fourth player in Australia's mobile market. Subsequent to month end, the company announced a material downgrade to its earnings guidance for the 2017 financial year, approximately 2 months after re-iterating such guidance. The Fund exited its small remaining position in Vocus given the loss of confidence in management's ability to reasonably forecast the business' earnings, particularly in light of the number of recent acquisitions and overall gearing level.

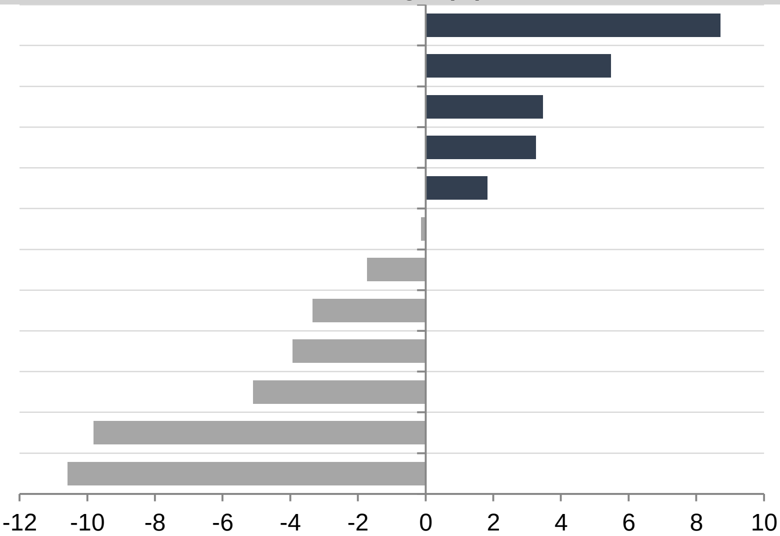
Top 5 Active Weights

Security Name	Sector	Active Weight (%)
Technology One	Information Technology	3.22
Link Administration Holdings	Information Technology	3.20
Altium	Information Technology	3.01
Costa Group Holdings	Consumer Staples	2.92
Bega Cheese	Consumer Staples	2.62

Asset Allocation

Sector Weights	Fund (%)	Bench (%)
Information Technology	13.60	4.88
Utilities	6.22	0.74
Metals & Mining	16.68	13.20
Consumer Staples	11.81	8.54
Financial ex Property Trusts	11.83	10.00
Telecommunications Services	1.77	1.89
Health Care	6.18	7.91
Energy	2.54	5.88
Materials ex Metals & Mining	0.00	3.94
Industrials	3.79	8.89
Consumer Discretionary	9.85	19.68
Property Trusts	3.87	14.45
Cash	11.86	0.00

Active Weight (%)



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Market Outlook

Leading indicators of global and inflation are moderating slightly, however economic activity looks to be supported by the prospect of looser fiscal policy in developed markets. This should be broadly supportive of demand and an upward trend in corporate earnings is evident in many markets, including Australia.

Investors have responded to this, however concerns around global economic activity and financial stability remain deep seated and will be quick to re-surface on any setback. Large pools of global capital remain sidelined in low or negative yielding assets and will take time to re-position as confidence over the durability of the recovery builds.

The slack in the US economy is steadily reducing and the investment manager expects that the Federal Reserve will slowly raise rates. However, structural limits on growth mean that they will have some tolerance around inflation targets.

With the earnings outlook improving, and still 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 by monetary policy in Europe and Japan. As this moderates the expected upward trend in yields will make it harder for equity benchmarks to make significant new highs.

The keys macro risks remain twofold:

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

While global growth improvement is more synchronised, Australia is lagging. The investment manager anticipates that Australian gross domestic product growth will remain modest by historic standards at a sub-trend rate of around 2% to 3%. Population growth is assisting headline growth numbers with growth on a per capita basis remaining low.

The Fund 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 many sectors. Within this, the emphasis is on attractive quality companies whose prospects are unappreciated by the market.

Key Contributors & Detractors over the month

Top 5 Contributors	Active Position
Altium	Overweight
Technology One	Overweight
Metcash	Underweight
Steadfast Group	Overweight
OZ Minerals	Underweight

Top 5 Detractors	Active Position
Vocus Group	Overweight
Dacian Gold	Overweight
BT Investment Management	Underweight
Blackham Resources	Overweight
Mesoblast	Underweight

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