Ironbark Karara Australian Small Companies Fund

Monthly Investment Report as at 31 August 2017

Asset Class

Australian Equities

Investment Objective

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

APIR Code

IPAT0002AU

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

$601.4m

Exit Price

$3.3262

Number of Holdings

61

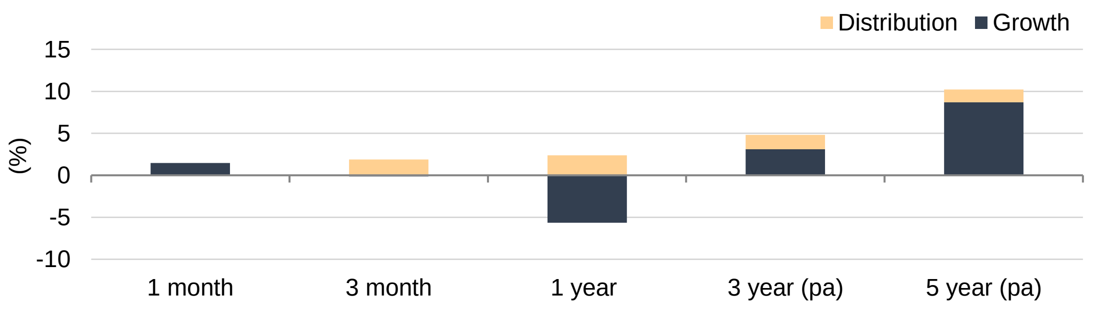
Market Review

Global equity markets managed to make small gains during August, in spite of rising geopolitical tensions in the Korean Peninsula, US President Trump's continuing political battles and Hurricane Harvey in the US. The domestic equity market absorbed a volatile earnings reporting season to trade remarkably flat, the ASX/200 Index bounced off an intra-month low 5,680 five times during the month however also failed to break through 5,800 on the upside. Sector-wise, mining and energy stocks were major supports on the back of stronger commodity prices, while telcommunication services and financials were significant drags. In Australia the broad-based S&P/ASX 300 Accumulation Index rose 0.75% while the Small Company Index added 2.71%.

Domestically, economic statistics spoke to disparate business confidence versus weak consumer confidence. The NAB Survey of Business Conditions for July rose again to a strong 15, the highest level since January 2008. In contrast, the Westpac-Melbourne Institute's ('WMI') measure of consumer sentiment for August fell to 95.5, the lowest level since April 2016. Similarly, July's jobs report showed a stronger-than-expected 27,900 gain and the unemployment rate fell to 5.6%. The wage price index for the second quarter, however, rose by an insipid 0.5% quarter-on-quarter,this marks the fourth consecutive quarter of record low results.

Elsewhere, positive data releases during August included retail trade data for June which showed discretionary spending continues to be resilient to the weak wage growth environment. A 0.3% rise in the month was ahead of expectations, with household goods, clothing & footwear and cafes & restaurants key areas of strength. The 1.5% quartrer-on-quarter increase in real spending provided a boost to the second quarter GDP growth of 0.8%, which also benefitted from a ramp-up in coal production following Cyclone Debbie in in the first quarter.

Performance



	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	1.46	2.71	-1.25
3 months	1.75	5.12	-3.37
1 year	-3.28	3.20	-6.48
3 years (pa)	4.81	5.68	-0.87
5 years (pa)	10.22	5.72	4.50
7 years (pa)	9.95	3.35	6.60
10 years (pa)	7.29	-1.09	8.38
Since inception[2] (pa)	13.06	3.63	9.43

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

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Performance Review

The Ironbark Karara Australian Small Companies Fund (the 'Fund') returned 1.46% (net) for the month, underperforming the benchmark's return of 2.71% by 1.25%.

The strongest contributors to Fund performance at a sector level were overweight positions in information technology and metals & mining, as well as an underweight position in consumer discretionary. The main sector to detract from performance was the Fund's position in energy.

At a stock level, positive contributors to monthly performance included overweight positions in Altium, Updater, Costa Group and Northern Star Resources. A nil position in Trade Me also contributed. Altium shares rose 14% after reporting a 2017 financial year result that was above consensus expectations, as well as re-iterating its aspirational 2020 revenue target of $200 million (in US dollar terms). Updater gained 47% after confirming its rapid growth in the US re-location industry, in particular news that the company had achieved its 15% market share target well ahead of schedule. Costa Group shares rose 11% on confirmation of another strong result across most of its produce categories, and guidance for a further 10% growth in the 2018 financial year, which the investment manager believes is reasonably conservative given the company's numerous growth projects.

The largest detractors to monthly performance included overweight positions in Technology One, Healthscope and Cooper Energy. Technology One shares fell 7% largely in the wake of the company's disputed contract with the Brisbane City Council which has now been terminated. Healthscope reported a full-year 2017 financial year result that was below consensus expectations, as was its 2018 financial year guidance, with the company's shares falling 16% for the month. Finally, Cooper Energy lost 13% following a large equity raising as the company moved to declare Final Investment Decision on its Sole gas project.

Top 5 Active Weights

Security Name	Sector	Active Weight (%)
Link Administration Holdings	Information Technology	3.63
Altium	Information Technology	3.55
Bega Cheese	Consumer Staples	3.46
Costa Group Holdings	Consumer Staples	3.35
Technology One	Information Technology	2.86

Key Contributors & Detractors over the month

Top 5 Contributors	Active Position
Altium	Overweight
Updater	Overweight
Costa Group Holdings	Overweight
Northern Star Resources	Overweight
Trade Me Group	Underweight

Top 5 Detractors	Active Position
Technology One	Overweight
Cooper Energy	Overweight
Healthscope	Overweight
Whitehaven Coal	Underweight
Elders	Overweight

Market Outlook

The broad-based pickup in global growth indicators and inflationary expectations are 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 continues to build.

Slack in the US economy, and its labour market in particular, is now relatively low and the investment manager expects that the Federal Reserve will slowly raise rates given overall financial conditions are easing further through a weaker currency and strong equity market. 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.

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

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Market Outlook (cont'd).

- The structural challenges in Europe remain unresolved. Better growth and recent electoral outcomes are encouraging however 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 pick-up 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. Sustained strength in the Australian dollar could jeopardise this.

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 which have, if anything, diminished in recent months.

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

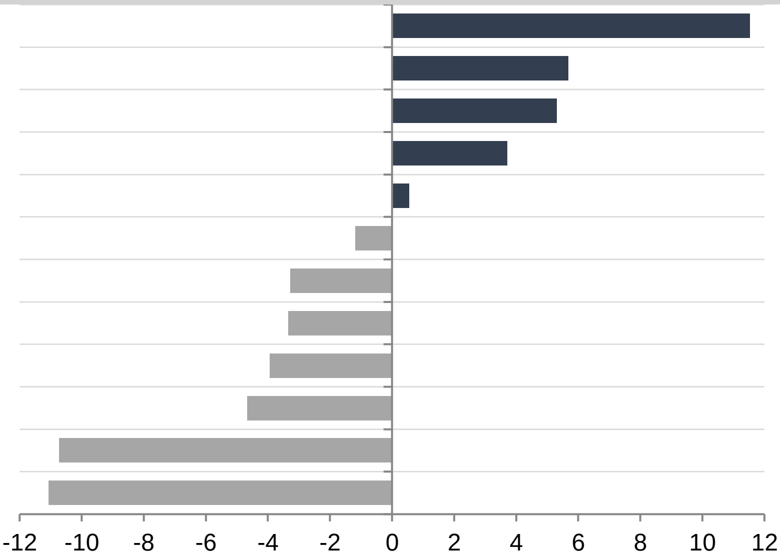
The high-levels of valuation dispersion that were observed last year have returned. Stocks that have defensive growth characteristics have been highly sought after and now trade at historically high valuation levels. The Fund remains underweight to this area.

The 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 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	17.76	6.24
Utilities	6.32	0.64
Metals & Mining	18.95	13.64
Consumer Staples	13.93	10.22
Financial ex Property Trusts	8.38	7.83
Telecommunications Services	0.69	1.88
Materials ex Metals & Mining	0.00	3.29
Health Care	2.98	6.33
Energy	2.19	6.13
Industrials	4.58	9.25
Consumer Discretionary	9.43	20.15
Property Trusts	3.32	14.40
Cash	11.47	0.00

Active Weight (%)



Important Information

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Ironbark ASSET MANAGEMENT