Ironbark Karara Australian Small Companies Fund

Monthly Investment Report as at 31 October 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

Distribution Frequency

Semi-Annually

Minimum Investment

$20,000

Fund Size

$626.9m

Exit Price

$3.5269

Number of Holdings

60

Market Review

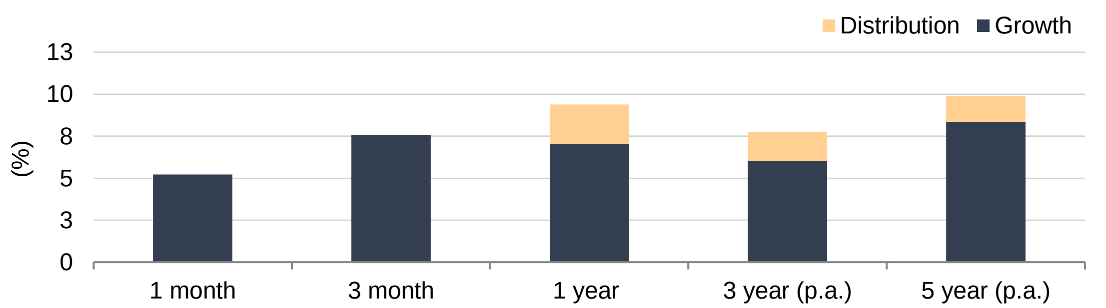
Global equities were caught in an upswing through October, the key driver of which was a positive scenario of synchronised global economic growth combined with tame inflation. As has been the case in recent months, isolated political risk, such as the Spanish Government's move to reassert control over the breakaway Catalonian region, did little to upset the positiveness surrounding global equities, which also benefitted from the revival of US President Trump's tax plan. Australian equities performed strongly with the exception of the Retail sector, the only sub-sector to decline. The broad-based S&P/ASX 300 Accumulation Index rose 4.02% while the Small Company Index gained 6.02%.

The flow of Australian economic data generally remained positive in October. Labour market indicators (both actual jobs growth and hiring indicators) were the standout and supportive of economic growth in the second half of 2017. Employment rose solidly in September to be 3.1% higher over the year, the fastest rate of growth since early 2008. The unemployment rate dipped slightly to 5.5%, the lowest level since early 2013. However despite business surveys showing a sharp increase in the share of firms finding it difficult to get suitable labour, wage growth remains elusive and annualised wage inflation in the second quarter was the weakest on record. This in turn has kept a lid on Consumer Price Index ('CPI') inflation, which printed 1.8% in the year to September.

The retail and housing parts of the domestic economy were similarly soft as retail sales slowed to 1.4% in the year to September, the slowest quarter since the financial crisis. Retailers are facing significant price competition which shows few signs of ending as the the retail components of the CPI declined 0.3% over the year to the third quarter. Housing activity and price growth has also moderated on the eastern seaboard, particularly in Sydney, where dwelling prices at the end of October had shown no net growth since May.

Global commodity markets benefitted from the pro-cyclical upswing through October with the majority of industrial commodities recording another strong month. Three key themes played their way through commodity markets: electric vehicles and battery demand, commodity-side reform in China and oil price strength as expectations firm around further OPEC production cuts in 2018. Cobalt was flat in October however is up 87% year-to-date while the other key battery input, lithium, has gained 23%. Base metals were also strong; Copper up 6%, Aluminium up 3% and Nickel up 18%. Nickel is also a beneficiary of the electric vehicle-thematic but part of the monthly gain was catch-up after an 11% decline in September. Brent oil and WTI rose 6.7% and 4.7% respectively, through October to be one-third higher than their mid-year lows.

Performance



	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	5.23	6.02	-0.79
3 month	7.59	10.32	-2.73
1 year	9.39	14.58	-5.19
3 year (p.a.)	7.74	10.48	-2.74
5 year (p.a.)	9.88	6.05	3.83
7 year (p.a.)	8.98	2.65	6.33
10 year (p.a.)	6.79	-1.35	8.14
Since inception[1] (p.a.)	13.41	4.18	9.23

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]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 5.23% (net) for the month, underperforming the benchmark's return of 6.02% by 0.79%.

The strongest contributors to the Fund's performance at a sector level were overweight positions in metals & mining and underweight positions in consumer discretionary and property trusts. An overweight position in utilities detracted.

At a stock level, positive contributors to monthly performance included overweight positions in Altium, Costa Group, Metals X and Galaxy Resources. A nil position in Reliance Worldwide also contributed. Altium rose 11% on little news. Shares in Costa also added 11% following an investor tour of the company's citrus assets. Metals X shares gained 26% and Galaxy finished up 33% following copper and lithium prices that climbed higher.

The largest detractors to monthly performance included overweight positions in Mercury NZ, Meridian Energy and Updater. Mercury and Meridian shares both fell 5% in Australian dollar terms with the New Zealand dollar weakening post the New Zealand election result and as investors chased higher growth segments of the market. Updater fell 10% as the share base continues to digest September's $50 million placement to fund the roll-out of the company's insurance division and the acquisition of Move HQ.

Top 5 Active Weights

Security Name	Sector	Active Weight (%)
Altium	Information Technology	4.07
Costa Group Holdings	Consumer Staples	3.59
Bega Cheese	Consumer Staples	3.46
Saracen Mineral Holdings	Materials	2.82
Technology One	Information Technology	2.75

Key Contributors & Detractors over the month

Top 5 Contributors	Active Position
Altium	Overweight
Costa Group Holdings	Overweight
Metals X	Overweight
Galaxy Resources	Overweight
Reliance Worldwide	Underweight

Top 5 Detractors	Active Position
Mercury NZ	Overweight
Blackmores	Underweight
Meridian Energy	Overweight
Updater	Overweight
Steadfast Group	Overweight

Market Outlook

Global growth leading indicators remain robust and above-trend global growth is expected to continue. This remains at odds with the market's modest expectations for relation. 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 growth continues to build.

Slack in the US labour market is now relatively low and the investment manager expects that the Federal Reserve will slowly raise rates given overall financial conditions are still 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.

Commodity prices and bond yields are responding, however yields still seem overly depressed given the underlying economic momentum that is currently being observed. Strengthening earnings and a decent gap between earnings and bonds yields means there is scope for the stock markets to weather somewhat higher interest rates.

The key macro risks remain twofold:

- The sustainability of debt driven Chinese growth. However the investment manager is encouraged that the Government's recent focus has moved towards controlling credit growth and advancing reform, including capacity reductions in many heavy industries. This is reversing a powerful deflationary force, lifting corporate profitability and reducing non-performing loans.
- The structural challenges in Europe remain unresolved. Better growth and recent electoral outcomes are encouraging, despite adverse political risks remaining omnipresent.

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Market Outlook (cont'd)

Whilst the global growth is now quite synchronised, Australia is still lagging. The investment manager anticipates that Australian GDP growth will remain modest at around 2-3%. While strong population growth is assisting headline numbers the implied per-capita level is quite low.

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 soft in a historical context. Further 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 appears to be having a cooling impact with a reasonable likelihood of small real price declines over the next couple of years. However, as a small open economy, the key risk to house prices remains external macro shocks which have, if anything, diminished of late.

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

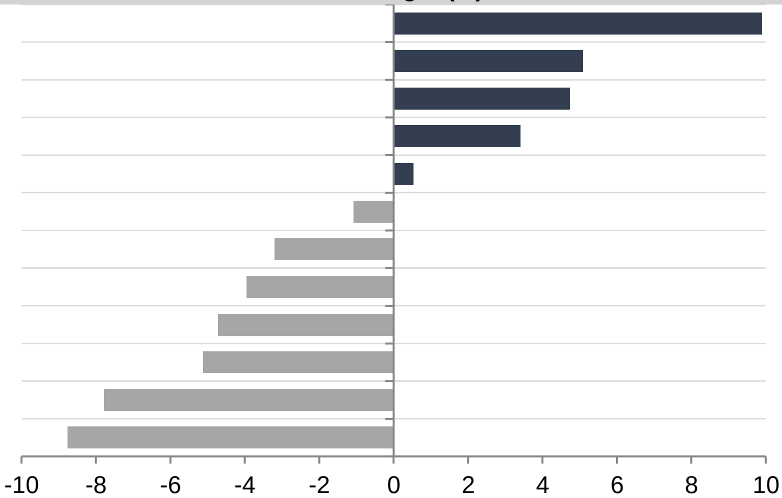
The high-levels of valuation dispersion that were observed last year have returned driven by expanding valuations of stocks with defensive growth characteristics. This group of stocks is now back to historically levels and the Fund remains underweight to this area.

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 as 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	16.98	7.08
Utilities	5.65	0.57
Metals & Mining	19.02	14.28
Consumer Staples	14.94	11.53
Financial ex Property Trusts	8.54	8.02
Telecommunications Services	0.68	1.75
Materials ex Metals & Mining	0.00	3.20
Energy	2.68	6.64
Industrials	4.66	9.38
Health Care	1.38	6.50
Consumer Discretionary	11.35	19.13
Property Trusts	3.17	11.92
Cash	10.95	0.00

Active Weight (%)



Important Information

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