Ironbark Karara Australian Small Companies Fund

Monthly Investment Report as at 31 March 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

$578.8m

Exit Price

$3.3340

Number of Holdings

65

Market Review

European markets led global equities higher during March, as better-than-expected economic data offset the UK's triggering of Brexit-related Article 50 as well as continued political risk in France. The market showed significant resilience, absorbing a six-day losing streak in the US following President Trump's failure to gain sufficient support for healthcare reform, which in turn called into question his ability to push through tax cuts. In Australia, the broadbased S&P/ASX 300 Accumulation Index rose 3.28% while the small company index gained 2.66%. The worst performing sub-sector was retail, hit by fears over the possible entry of Amazon into the domestic market as a competitor.

Australian economic data was patchy with the release of disappointing February labour market figures, as 6,400 jobs were lost versus the consensus forecasts for a 16,500 increase. This was the first drop since September 2016 and pushed the unemployment rate to a 14 month high of 5.9%.

The fourth quarter of 2016 house price inflation accelerated to 4.1%, well above the consensus forecast of a 2.5% gain. There was also a strong uptick in investor lending to 6.7%, year-on-year, with data showing annual price rises for Sydney and Melbourne of 19% and 14% respectively. The banking regulator responded with a limit on the flow of new interest-only lending to 30% of total new residential loans, among other measures. The Reserve Bank left the cash rate on hold at 1.5% and signalled no further changes this year.

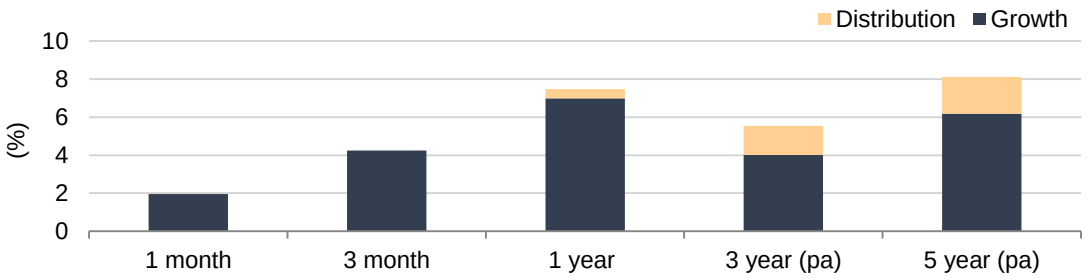
Amongst commodities, Brent Crude slipped 5.8% over the month amid rising US inventories. Despite OPEC complying with production cuts, a consistent rise in US rig counts continued to place downward pressure on prices. Iron ore fell 11.9% to US$80 per tonne. Copper prices declined 2.5% as supply fears subsided as workers called off the 43 day strike in Escondida. Metallurgical coal fell 5.6% to close at $152 per tonne. Spot gold was flat for the month, recovering from an earlier 4% loss immediately following the Federal Reserve's interest rate hike.

Performance Review

The Fund rose 1.95% (net) during March. This constituted 0.71% of underperformance when compared with the benchmark S&P/ASX Small Ordinaries Accumulation Index return of 2.66% for the month.

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

Performance



	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	1.95	2.66	-0.71
3 months	4.24	1.46	2.78
1 year	7.48	13.67	-6.19
3 years (pa)	5.55	6.44	-0.89
5 years (pa)	8.13	2.28	5.85
7 years (pa)	8.97	2.16	6.81
Since inception[2] (pa)	13.40	3.53	9.87

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.

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Performance Review (cont'd)

At a stock level, positive contributors to monthly performance included overweight positions in Australian Agricultural Company ('AAC'), Updater, Qube Holdings and Costa Group. A nil position in Oz Minerals also contributed. AAC shares rose 17% in March after the Brazilian beef industry export was threatened following quality control and bribery claims. Shares in Updater rose 70% after the company announced material positive results from its insurance pilot program. Shares in Oz Minerals (not held in the Fund) declined 16% following general commodity price malaise over the month.

The largest detractors to monthly performance included overweight positions in Saracen Minerals, Austal, Evolution Mining and Blackham Resources. Shares in gold miners Saracen, Evolution and Blackham fell 10%, 3% and 16% respectively in and around the US Federal Reserve's interest rate hike. Evolution also moved up into the S&P/ASX 100 Index and its largest shareholder conducted a significant sell-down. Austal fell 8% on little news after reporting an in line interim 2017 result.

Top 5 Active Weights

Security Name	Sector	% of Fund
Link Administration Holdings	Information Technology	3.15
Costa Group Holdings	Consumer Staples	3.03
Technology One	Information Technology	2.97
Altium	Information Technology	2.73
Bega Cheese	Consumer Staples	2.72

Key Contributors & Detractors over the month

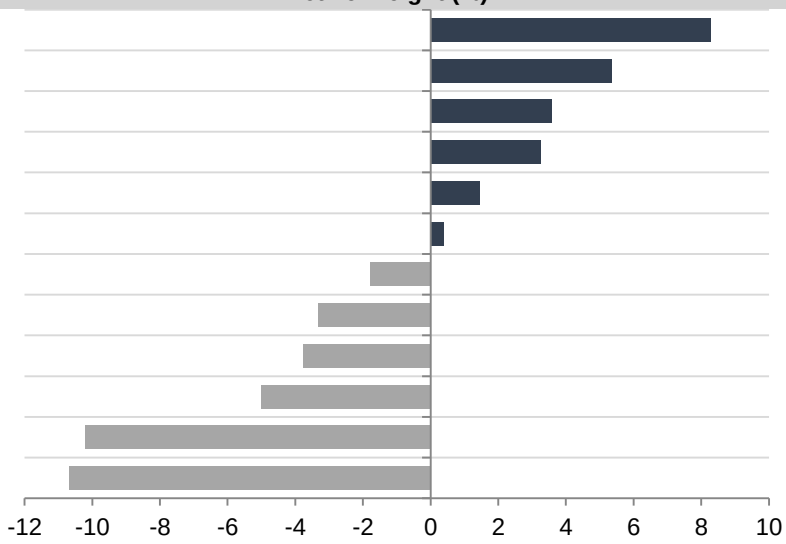
Top 5 Contributors	Active Position
OZ Minerals	Underweight
Australian Agricultural Company	Overweight
Updater Inc.	Overweight
Qube Holdings	Overweight
Fletcher Building	Underweight

Top 5 Detractors	Active Position
Saracen Mineral Holdings	Overweight
Spotless Group Holdings	Underweight
Metcash	Underweight
Austal	Overweight
Evolution Mining	Overweight

Asset Allocation

Sector Weights	Fund (%)	Bench (%)
Information Technology	12.98	4.70
Utilities	6.03	0.67
Metals & Mining	17.28	13.71
Consumer Staples	11.78	8.54
Financial ex Property Trusts	11.50	10.05
Telecommunications Services	2.06	1.68
Health Care	5.97	7.76
Energy	2.73	6.05
Materials ex Metals & Mining	0.00	3.77
Industrials	3.70	8.71
Property Trusts	3.89	14.09
Consumer Discretionary	9.59	20.27
Cash	12.49	0.00

Active Weight (%)



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Market Outlook

The recent surge in global growth indicators and inflationary expectations looks to be supported by the prospect of looser fiscal policy in developed markets. This should be supportive of demand and an upward trend in corporate earnings is already emerging in many countries, including Australia.

Investors have responded to this, although concerns around global economic activity and financial stability remain deep seated. 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 recovery builds. After strong gains, some cyclical sectors are vulnerable to any sign of moderation.

Slack in the US economy is steadily reducing and the investment manager expects that the Federal Reserve ('Fed') will slowly raise rates. However, their recognition of the structural pressures mean that they will have some tolerance for allowing inflation to exceed their target. The risk of the US implementing a suite of damaging tariffs seems to have reduced with the ineffectiveness of the new US administration.

With the earnings outlook improving, and a decent gap between yields on bonds versus equities, there is scope for the stock market to weather somewhat higher interest rates. The prolonged bull market in bonds has inflated valuations and this will make it harder for developed market benchmarks to reach significant new highs. However, good opportunities should be available to stock pickers who remain conscious of value.

Two macro risks include:

1. The sustainability of debt driven growth in China. Given the success of their stimulatory efforts, the investment manager expects the Chinese Government's focus will be to judiciously move towards controlling credit growth and advancing structural reform (which will be less supportive for steel making materials). However, the leadership transition in 2017 means economic stability remains a high priority.
2. The structural challenges in Europe remain unresolved. Although growth is improving, adverse political risks remain real.

While global growth improvement appears to be more synchronised, Australia has lagged. Rising terms of trade and now rising house prices suggest that the domestic outlook is improving. The investment manager anticipates that Australian real gross domestic product ('GDP') growth will remain modest by historic standards at a sub-trend rate of around 2-3%, but national income may receive a boost from higher terms of trade and strong population growth.

Moderate but improving growth and signs of increasing pricing power suggest a reasonable backdrop for stocks. After recent gains, further sustainable gains require better profit delivery.

The extremes in valuation dispersion seen through 2016 have largely dissipated, however there remains some pockets of the market at quite high valuation levels. The Fund remains 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 and mispriced by the market.

Important Information

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