Ironbark Karara Australian Small Companies Fund

Monthly Investment Report as at 31 January 2018

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

$656.1m

Exit Price

$3.7140

Number of Holdings

62

Market Review

Global equity markets reached more all-time highs in January, although with a falter in the last few days of the month on concerns over rising global bond yields and excessively bullish sentiment towards stocks. The US market was propelled higher by a positive fourth quarter reporting season and tax-driven upwardly revised earnings estimates. The Australian market underperformed with yield-sensitive areas such as utilities and REITS sold off. The broad-based S&P/ASX 300 Accumulation Index declined 0.39% for the month, while the small company index fell 0.54%.

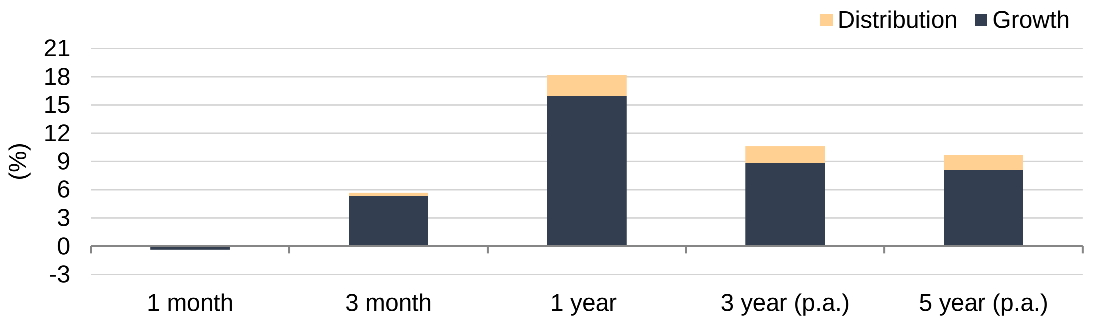
Domestically, retail sales came in stronger than expected, rising 1.2% in November. The Australian Bureau of Statistics noted that the print was influenced by the release of the iPhone X as well as Black Friday promotions (the household goods category rose 4.6% month-on-month). Remaining categories were mixed with food sales flat, department store sales down 1.1% and cafes/restaurants up 0.4%.

Headline Consumer Price Index for the 2017 fourth quarter grew a weaker-than-expected 0.6% over the third quarter (1.9% year-on-year) despite large increases in volatile items such as fresh food, fuel and tobacco. Employment growth surpassed expectations in December with 35,000 jobs created, although gains were skewed to 19,500 part-time positions. The labour market added jobs in every month of 2017 to bring the annual total to 403,000. The participation rate rose to 65.7%, marking a seven-year high for the series.

NAB business confidence jumped from 7 to 11 points in December, the highest level since April 2017. Meanwhile, the Westpac Consumer Confidence Index rose 1.8% to 105.1 in January, the highest level for the index since December 2013.

Oil emerged as the top-performing commodity during January with WTI gaining 7.1%, supported by strong demand, OPEC production cuts and consistent inventory drawdowns. Coking coal tumbled 17.5%, while copper (-1.8%) and aluminium (-1.6%) weighed on base metals. Iron ore rose 4.8% and gold advanced 3.2% to $1,345 per ounce (in US dollar terms).

Performance



	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	-0.37	-0.54	0.17
3 month	5.69	6.65	-0.96
1 year	18.19	22.35	-4.16
3 year (p.a.)	10.61	13.82	-3.21
5 year (p.a.)	9.70	6.39	3.31
7 year (p.a.)	8.69	2.83	5.86
10 year (p.a.)	9.17	1.48	7.69
Since inception[1] (p.a.)	13.63	4.63	9.00

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.

[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 -0.37% (net) for the month, outperforming the benchmark's return of -0.54% by 0.17%.

The strongest contributors to Fund performance at a sector level were overweight positions in information technology as well as underweight positions in property trusts and consumer discretionary. An overweight position in consumer staples detracted.

At a stock level, positive contributors to monthly performance included overweight positions in Altium, AWE, Link Administration and A2 Milk. A nil holding in Pilbara Minerals also contributed. Shares in Altium rose 15% following December's release of the company's step-change product, AD18, which is expected to drive strong medium-term growth in software subscription revenue. AWE gained 11% after the company received an entirely new takeover offer of $0.95 per share from Japanese E&P Mitsui & Co that was subsequently recommended by the AWE board. Link Administration and A2 Milk rose 6% and 12% respectively on little news during a relatively quiet January.

The largest detractors to monthly performance included overweight positions in Saracen Minerals (-12%) and Costa Group (-8%) which declined despite little news. Underweight holdings in Bellamy's, Whitehaven Coal and Sirtex also detracted, the latter receiving a takeover bid from Varian Medical Systems at a 49% premium.

Top 5 Active Weights

Security Name	Sector	Active Weight (%)
Altium	Information Technology	4.84
Costa Group Holdings	Consumer Staples	3.21
Bega Cheese	Consumer Staples	3.05
Technology One	Information Technology	2.52
Link Administration Holdings	Information Technology	2.52

Key Contributors & Detractors over the month

Top 5 Contributors	Active Position
Altium	Overweight
AWE	Overweight
Link Administration Holdings	Overweight
Pilbara Minerals	Underweight
a2 Milk Company	Overweight

Top 5 Detractors	Active Position
Sirtex Medical	Underweight
Saracen Mineral Holdings	Overweight
Costa Group Holdings	Overweight
Bellamy's Australia	Underweight
Whitehaven Coal	Underweight

Market Outlook

The global economy entered 2018 with strong momentum. Global growth indicators remain robust, although inflationary expectations currently remain modest. The investment manager anticipates above-trend global growth to continue for some time and for slack in the global economy to decline resulting in higher rates of inflation in due course. With the durability of this period of growth doubted by many market participants, large pools of global capital remain defensively positioned.

Slack in the US economy and labour market is now relatively low and rapidly decreasing in Europe and Japan. Given this, the significant expansionary monetary policy pursued by the three key central banks is increasingly less appropriate and risks are rising that the market is underestimating the pace of tightening that may be required. However, the investment manager anticipates that the key central banks will have some tolerance around inflation exceeding their targets as wage inflation picks up

With the global 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. 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.

- The structural challenges in Europe remain unresolved. Better growth and recent electoral outcomes are encouraging however adverse political risks remain.

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Ironbark ASSET MANAGEMENT

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Market Outlook (cont'd)

Whilst the global growth improvement is relatively synchronised, Australia is lagging. The investment manager anticipates that Australian gross domestic product ('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. 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 tightening of credit to the investor segment of the market has had a cooling 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 of late.

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

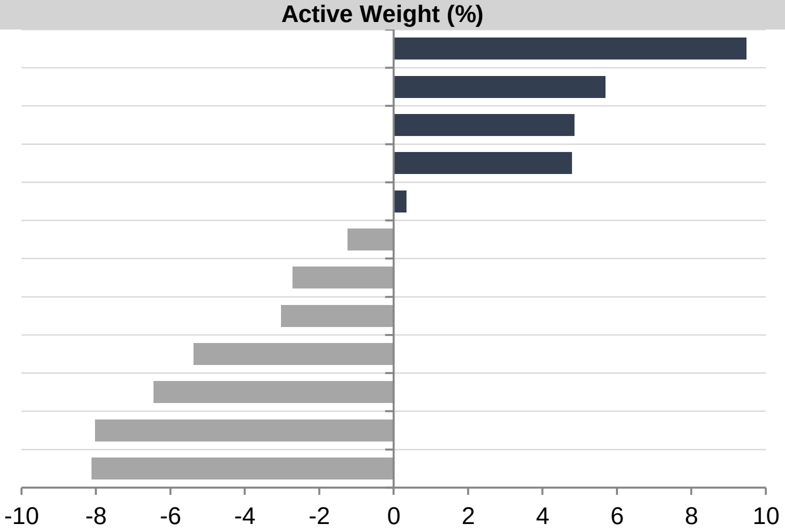
The high-levels of valuation dispersion that were observed last year have returned, and exceeded, driven by ongoing increases in the valuations of stocks with defensive growth characteristics. This group of stocks now trades at historically high valuation levels and the Fund remains underweight to this 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 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	18.14	8.66
Consumer Staples	14.26	8.57
Utilities	5.37	0.52
Metals & Mining	20.45	15.65
Financial ex Property Trusts	8.62	8.28
Telecommunications Services	0.61	1.85
Energy	4.95	7.67
Materials ex Metals & Mining	0.00	3.03
Health Care	1.45	6.83
Industrials	3.50	9.94
Property Trusts	3.03	11.05
Consumer Discretionary	9.84	17.95
Cash	9.78	0.00

Active Weight (%)



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