



Ironbark Karara Australian Small Companies Fund

Monthly Investment Report as at 31 March 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

\$652.4m

Exit Price

\$3.7210

Number of Holdings

64

Market Review

Australian equities were caught in a global sell-off during March in the wake of a trade war after US President Trump announced tariffs on imported steel (25%) and aluminium (10%) that were particularly directed at China. China retaliated by placing tariffs of up to 25% on 128 US imports, including pork, fruit and wine, striking at the US' rural, and Trump, heartland. Technology stocks also led indices lower towards month-end in the wake of the Cambridge Analytica Facebook scandal and several negative Trump tweets directed at Amazon. The broad-based S&P/ASX 300 Accumulation Index fell 3.73% for the month, while the small company index lost 2.29%.

Threats by both the US and China to impose tariffs drove fresh financial market volatility during March as investors were forced to guess if the two economies have entered a trade war or are simply posturing. Justifying his position, President Trump tweeted: "when a country (USA) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win".

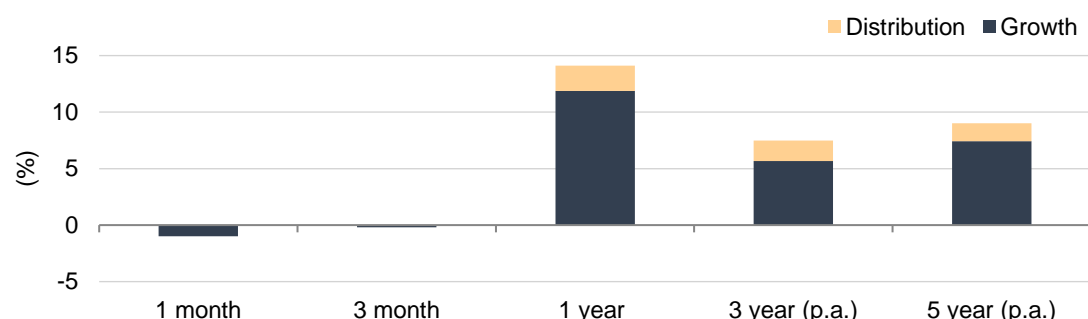
In Australia, the labour market weakened in February with the unemployment rate rising from 5.5% to 5.6%. Fourth quarter 2017 gross domestic product ('GDP') growth came in at an underwhelming 0.4%, although the third quarter was revised up slightly from 0.6% to 0.7%.

The Reserve Bank ('RBA') kept interest rates on hold, however growth commentary is now more vague, with the RBA stating the economy will "grow faster in 2018 than it did in 2017". Governor Lowe's language on wage growth was more positive, stating that it "appears to have troughed".

Retail sales were up only 0.1% in January, further unwinding the spike seen in November 2017. Food spending, household goods and cafes/restaurant sales were flat, while clothing/ footwear sales were weak for a second consecutive month.

Metals fell again in March with the LME Metals Index declining 4.0%. Aluminium recorded the largest loss, down 7.7%, followed by Zinc, -5.6%, Lead, -4.1%, Nickel -3.6% and Copper. Iron ore fell 18% over the month amid falling Chinese steel prices. Oil bounced with Brent and WTI gaining 7.6% and 5.6% respectively. Gold rose 0.5% to \$1,325 per ounce (in US dollar terms).

Performance



	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	-0.99	-2.29	1.30
3 month	-0.18	-2.79	2.61
1 year	14.12	14.99	-0.87
3 year (p.a.)	7.48	10.67	-3.19
5 year (p.a.)	9.02	6.45	2.57
7 year (p.a.)	7.83	2.35	5.48
10 year (p.a.)	10.51	1.36	9.15
Since inception ¹ (p.a.)	13.46	4.38	9.08

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.

¹This 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





Ironbark Karara Australian Small Companies Fund

Monthly Investment Report as at 31 March 2018

Performance Review

The Ironbark Karara Australian Small Companies Fund (the 'Fund') returned -0.99% (net) for the month, outperforming the benchmark's return of -2.29% by 1.30%.

The strongest contributors to Fund performance at a sector level were overweight positions in metals & mining, information technology and utilities, as well as an underweight position in health care. An underweight position in property trusts detracted.

At a stock level, positive contributors to monthly performance included overweight positions in Saracen, Technology One, Dacian Gold and Meridian Energy. A nil holding in Sims Metal Management also contributed. Shares in Saracen and Dacian rose 10% and 12% respectively on gold price strength and general risk-off sentiment that also benefitted Meridian Energy (up 4%). Technology One shares rose 8% on little news.

The largest detractors to monthly performance included overweight positions in Qube Holdings (-12%), Metals X (-19%) and Costa Group (-6%). Qube continued to sell-off in the wake of the company's interim result that highlighted margin weakness in logistics and competitive pressures facing the Patrick stevedoring business. Metals X shares have been weak in recent months on commodity price weakness and mining-related issues at the company's Nifty copper mine in Western Australia. The investment manager remains confident that the production recovery at the mine remains on-track following a site visit by the team during the month. Costa Group shares were subject to some profit-taking after their recent strong run.

Top 5 Active Weights

Security Name	Sector	Active Weight (%)
Altium	Information Technology	5.74
Costa Group Holdings	Consumer Staples	3.61
Bega Cheese	Consumer Staples	3.36
Saracen Mineral Holdings	Materials	2.58
Technology One	Information Technology	2.46

Key Contributors & Detractors over the month

Top 5 Contributors	Active Position	Top 5 Detractors	Active Position
Saracen Mineral Holdings	Overweight	Qube Holdings	Overweight
Technology One	Overweight	Premier Investments	Underweight
Sims Metal Management	Underweight	Metals X	Overweight
Dacian Gold	Overweight	Regis Resources	Underweight
Meridian Energy	Overweight	Costa Group Holdings	Overweight

Market Outlook

The global economy entered 2018 with strong momentum. Global growth indicators remain robust albeit 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 still doubted by many market participants, large pools of global capital remain defensively positioned in assets with negative real yields.

Slack in the US economy and labour market is now relatively low and rapidly decreasing in Europe and Japan. Given this, the highly 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 ultimately be required. However, the investment manager anticipates that the key central banks will tolerate inflation modestly 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 willingness of the market to fund the growing Twin Deficits of the US following the implementation of their significant tax cuts.
- The structural challenges in Europe remain unresolved. Better growth and recent electoral outcomes are encouraging but adverse political risks remain.
- A material escalation of trade tariffs. The tariffs imposed today are likely to have minimal real economic impact, however, an unlikely widespread escalation would have both inflationary and long-term growth implications.

Contact Details

T: 1800 034 402 | E: client.services@ironbarkam.com | W: www.ironbarkam.com





Ironbark Karara Australian Small Companies Fund

Monthly Investment Report as at 31 March 2018

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 modest uptrend in domestic economic data is encouraging, particularly the employment growth. Overall, the investment manager expects aggregate consumer spending to be broadly in line with household income growth (approximately 4%), which is still low in a historical context. Further strength in the Australian dollar could jeopardise this.

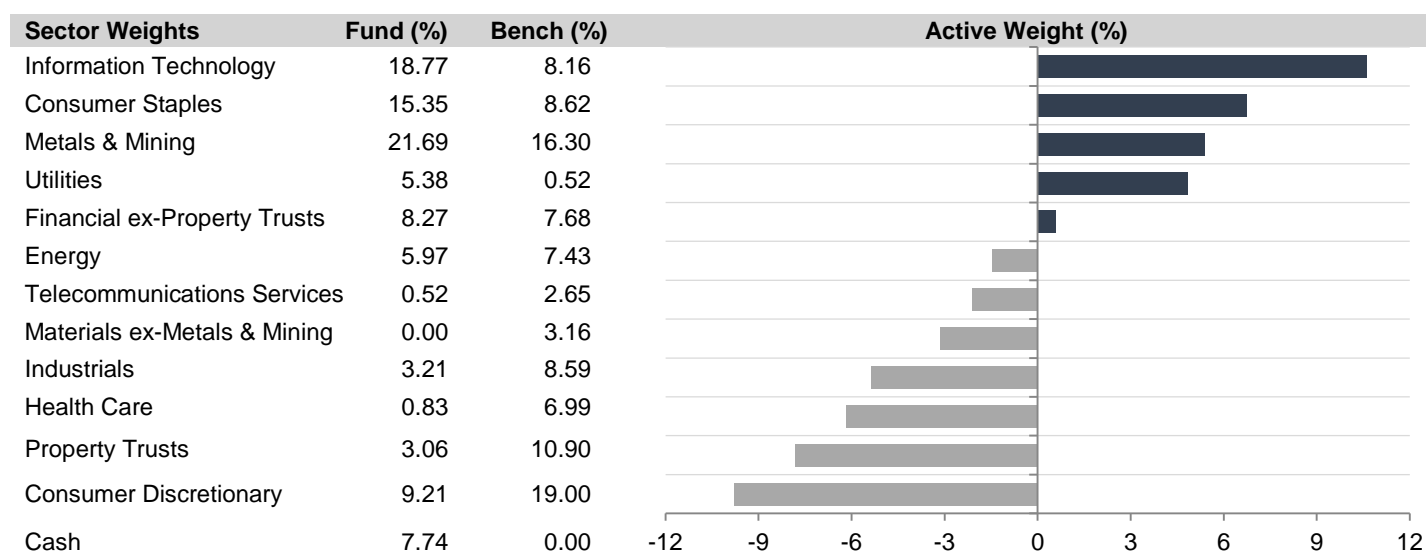
House prices are high by any measure and conditions in the housing market vary considerably outside of Melbourne and Sydney. The tightening of credit to the investor segment of the market has had a cooling impact on the housing market with a reasonable likelihood of small real price declines over the 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.

Overall valuation metrics now appear reasonable in a historical context, however high valuation dispersion exists with valuations stretched for stocks with defensive growth characteristics. The investment manager expects this starting point, along with the prospect of higher nominal and real bond yields and broadening growth, is increasing the opportunity cost of holding these stocks. Failure by individual companies to meet or exceed expectations, which is quite common and possibly likely to become more so in an environment of tighter input markets, can be expected to have bigger consequences than has been the case over the past couple of years. 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 many sectors. Within this, the emphasis is on attractive quality companies whose prospects are unappreciated by the market.

Asset Allocation



Important Information

Issued by Ironbark Asset Management Pty Limited ABN 53 136 679 420 AFSL 341020 ('Ironbark'). Data as at 31 March 2018. This document is not an offer of securities or financial products, nor is it financial product advice. As this document has been prepared without taking account of any investors' particular objectives, financial situation and needs, you should consider its appropriateness having regard to your objectives, financial situation and needs. The Fund referred to is issued by Ironbark Asset Management (Fund Services) Ltd ABN 63 116 232 154 AFSL 298626. To acquire units in the Fund, complete the application form that accompanies the current PDS, which you can obtain from www.ironbarkam.com or by calling client services on 1800 034 402. You should consider the PDS in deciding to acquire or to continue to hold the Fund. Although specific information has been prepared from sources believed to be reliable, we offer no guarantees as to its accuracy or completeness. The information stated, opinions expressed and estimates given constitute best judgement at the time of publication and are subject to change without notice to you. This document describes some current internal investment guidelines and processes. These are constantly under review, and may change over time. Consequently, although this document is provided in good faith, it is not intended to create any legal liability on the part of Ironbark or any other entity and does not vary the terms of a relevant disclosure statement. Past performance is not an indicator of future results. All dollars are Australian dollars unless otherwise specified. All indices are copyrighted by and proprietary to the issuer of the index.

Contact Details

T: 1800 034 402 | E: client.services@ironbarkam.com | W: www.ironbarkam.com

