Ironbark Karara Investment Funds

Quarterly Investment Report as at 30 September 2017

Market Review

Global equity markets continued the strong performance that we have seen over the last year as incoming global economic data continues to remain reasonably strong. The MSCI World Index produced a total return of 4.0% during the September quarter taking the rolling 12 month gain to 18.5%. This performance has been underpinned by an acceleration in global growth with measures of global activity from Goldman Sachs continuing to suggest robust global growth of approximately 4.5-5% with emerging market growth of approximately 6% and developed market growth of approximately 3%.

Australian equity markets traded relatively sideways in a relatively remarkable band. The S&P/ASX 300 Accumulation Index delivered a total return of 0.8% representing a approximately 3.2% underperformance to the MSCI World Index over the last quarter and taking the underperformance over the last year to approximately 9.5%.

The August reporting season saw results for industrial companies below expectations to an unusually large extent. Prospective margins are being challenged by domestic energy costs, some increases in labour costs and slower realisation of IT investment efficiencies. Overseas exposed companies generally did not see the benefit from the prevailing stronger growth environment due to market share loss, adverse foreign exchange movements and rising selling, general and administrative expenses. Consensus now expects earnings per share growth of 4.5% for the next 12 months. As all sectors are expected to show some growth this year and forecasts for resources are currently below spot, this seems an unusually realistic starting point.

Metals and Mining and energy stocks were the best performing sectors with total returns of 10% and 7% respectively on the back of improved commodity prices.

Iron ore averaged $70 per tonne (62% CFR China) during the September quarter, which was approximately 10% higher than the prior quarter. However, the key feature of the iron ore markets continues to be the apparent structural change that has occurred for low grade iron ore with discounts now materially higher than historical levels. Other commodity prices were also generally strong with aluminium up 10%, copper up 9% and metallurgical coal up 27%.

Oil gained approximately 20% to finish at $58 per barrel (in US dollar terms) for Brent with data during the quarter clearly indicating inventories beginning to normalise and that the production growth from US Shale might disappoint expectations.

Performance

Ironbark Karara Australian Share Fund

Fund size: $77.2 million **Exit Price: $1.5236** **Inception date: 30 June 2005**

	1 month (%)	3 months (%)	1 year (%)	3 years (pa) (%)	5 years (pa) (%)	7 years (pa) (%)	Since inception[3] (pa) (%)
Net Fund Return[1]	0.30	0.30	8.33	4.59	9.12	7.16	6.29
Benchmark[2]	0.04	0.80	9.02	7.12	9.94	7.68	6.99
Excess Return	0.26	-0.50	-0.69	-2.53	-0.82	-0.52	-0.70

Ironbark Karara Australian Small Companies Fund

Fund size: $597.4 million **Exit Price: $3.3516** **Inception date: 30 June 2005**

	1 month (%)	3 months (%)	1 year (%)	3 years (pa) (%)	5 years (pa) (%)	7 years (pa) (%)	Since inception[3] (pa) (%)
Net Fund Return[1]	0.76	0.97	-3.59	6.16	9.32	8.67	13.04
Benchmark	1.31	4.41	2.98	8.15	5.09	2.27	3.72
Excess Return	-0.55	-3.44	-6.57	-1.99	4.23	6.40	9.32

Past performance is not an indicator 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]Karara Capital appointed investment manager on 1 May 2010, Fund performance prior to this date is not attributable to Karara Capital but the prior manager.

[2]The S&P/ASX 300 Accumulation Index was adopted as the Fund's performance benchmark on 1 July 2010. Benchmark calculations prior to this date are based on the S&P/ASX All Ordinaries Index.

[3]This figure represents the annualised performance of the Fund since inception.

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Market Review (cont'd)

The top underperforming sectors were telecommunication services (down 15%) largely due to Telstra, health care (down 5%) driven by hospital and pathology exposed stocks and utilities (down 6%) on increased concern around government intervention and regulatory risk.

Economic data during the quarter continued to paint a picture of an improving domestic economy. Employment data continued to remain very strong with the annual trend growth in full-time employment now at 2.6% year-on-year. This improvement in the official data is echoed in alternative measures of labour market conditions.

The concerns around a stop in lending activity following the recent round of macroprudential measures implemented by APRA failed to materialise. Whilst the property market is cooling with most markets now clearly softening, lending measures continue to indicate modest growth and settlements on new stock seemingly occurring largely to plan. Strong population growth is also assisting in the absorption of the significant new supply of apartments coming online with strong net overseas migration driving population growth particularly in Melbourne and Sydney.

The stronger domestic growth picture has resulted in the market pricing in 35 basis points of interest rate hikes by the end of 2018. Bond yields responded with the 10 year bond rising 24 basis points to 2.84% and the spread to US bond yield widening out by 21 basis points. This also supported the Australian Dollar ('AUD') against the US dollar ('USD') with it rising 2% to 0.78. However, the AUD weakened against both the Euro and British Pound during the quarter by appoximately 1%.

US economic data maintained its momentum with employment growth continuing and other survey measures remaining strong. As a result, the US Federal Reserve announced its decision to begin normalisation of its balance sheet from October at initially a very modest pace. Interest rate markets now have approximately 50 basis points of rate hikes price by the end of 2018 versus the median expectation of the members of the Federal Reserve board of 100 basis points.

Portfolio Performance & Portfolio Activity

Ironbark Karara Australian Share Fund

The Ironbark Karara Australian Share Fund (the 'Fund') increased 0.30% (net) during the September quarter. This constituted an underperformance of 0.50% when compared with the S&P/ASX 300 Accumulation Index return of 0.80% (net) for the quarter.

Energy positions were the strongest contributors benefitting from both the improvement in the oil price but also project productivity improvements. Origin (up 9%), Santos (up 33%) and Oil Search (up 3%) all guided to production costs improvement. The extent for Santos was material, with drilling costs for Gladstone LNG ('GLNG') falling from $1.5 million to $0.9 million in (US dollar terms) per well. Origin acknowledged that it is well behind GLNG's (Santos) efficiency and has implemented a program to redress. The free cash flow from both companies implies debt reduction targets should be comfortably exceeded.

Falls in CBA (down 7%) and Telstra (down 15%) benefitted the Fund as management of both ultimately came unstuck. Telstra acknowledged that dividends are not independent of underlying earnings. The company still hopes to hold a 22 cent dividend (lowered from 31 cents) which will require a significant increase in mobile profits. This seems a tall order given Telstra's high starting market share in mobile, declining network advantage and a dynamic new entrant. As a result, the remaining small position in Telstra was exited.

Revelation of CBA's repeated failures to meet AUSTRAC's reporting requirements look to have catalysed a period of significant management turmoil. If prior bank sagas are repeated this change will be protracted and dampen operating effectiveness, even if the organisation will ultimately be better for it.

Downer EDI (up 8%) was one of the stand outs during reporting season with 2018 financial year guidance 3% ahead of expectations however more significantly it expressed confidence in its newly acquired Spotless businesses. Work-in-hand is recovering as mining, rail, infrastructure and utility sector activity lifts. From the 2019 financial year onwards each division will be placed to grow, conditions not seen for a decade.

The largest detractor was James Hardie (down 14%) who lowered the near-term outlook as it fights to recover from recent production issues. The path to fully recover the lost sales momentum that occurred when the product was in short supply is expected to take longer than initially envisaged, however the longer-term outlook remains robust with US housing starts still expected to increase materially and further market share gains against other siding materials anticipated. The position was increased during the quarter.

The politics around power prices reached fever pitch during the quarter impacting upon AGL (down 6%) despite guidance coming in ahead of expectations. AGL provided a robust defence against the Federal Government's push to commit to keeping the Lidell coal fire power station open. Additionally, a review commissioned by the Victorian Government apparently with some material assumption errors recommended for re-regulation of retail prices. Unfortunately, there is no silver bullet for power prices. Efforts by the government to intervene are only likely to result in higher longer-term prices as the regulatory uncertainty substantially increases the cost of capital to the sector.

The underweight to the metals and mining sector (up 10%) detracted with the underweight to South32 (up 25%) the largest driver. The ongoing strength in iron ore prices and prospect that the low-grade discount would persist and aid in the additional adjustment to supply required over the next couple of years underpinned a small increase in both BHP (up 13%) and Rio (up 7%).

Portfolio Performance & Portfolio Activity (cont'd)

Brambles (down 6%) disappointed slightly on 2018 financial year guidance, however, some of the larger downside risks around industry structure and competition versus white wood pallets have seemingly reduced with the re-emergence of net new wins in the US. The position was added to following the result.

Other detractors included Sonic Healthcare (down 12%) impacted by greater than expected funding cuts in the US, QBE (down 14%) as a result of lowering 2017 financial year guidance and the series of large natural disasters in North America, and Suncorp (down 9%) whose result underwhelmed expectations. The Fund reduced its position in Suncorp following the result.

Wesfarmers (up 6%) delivered a reasonable result with Bunnings continuing to perform strongly offset by a weaker outlook for Coles who underwhelmed because of weak sales growth during the fourth quarter and increased investment in price. The Fund reduced its underweight during the quarter with the buying largely funded by an increase in the underweight in Woolworths.

Ironbark Karara Australian Small Companies Fund

The Ironbark Karara Australian Small Companies Fund (the 'Fund') rose 0.97% (net) during the September quarter. This constituted an underperformance of 3.44% when compared with the S&P/ASX Small Ordinaries Accumulation Index return of 4.41% (net) for the quarter.

The only positive contributors to Fund performance at a sector level were underweight positions in materials ex metals and mining, consumer discretionary, and telecommunication services. The main sectors to detract from performance were the Fund's position in energy and consumer staples, plus an underweight to industrials.

At a stock level, positive contributors to quarterly performance included overweight positions in Altium, Costa Group and Updater. A nil position in Sims Metal also contributed. Altium shares rose 27% after reporting a 2017 financial year result that was above consensus expectations, as well as reiterating its aspirational 2020 revenue target of $200 million (in US dollar terms). Costa Group shares rose 16% on confirmation of another very 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. Updater gained 36% after confirming its rapid growth in the US relocation industry, in particular news that the company had achieved its 15% market share target well ahead of schedule and also provided their longer term US market penetration target of people moving from 15% to 35%. The company also made an acquisition in the moving software business, which improves their moving platform and outlined plans to establish a standalone insurance business which brings forward the monetisation opportunity in the insurance sector vertical. Both of these initiatives were funded by way of a $50 million capital raising.

The largest detractors to performance included overweight positions in Technology One, Cooper Energy, Healthscope and Australian Agricultural Company. Technology One shares fell 12% largely in the wake of the company's disputed contract with Brisbane City Council which has now been terminated. Cooper Energy fell 17% after a large equity raising as the company moved to declare a final investment decision on its Sole gas project. Healthscope shares were down 23% after it reported a full year 2017 result that was below consensus expectations, as was its 2018 financial year guidance. Australian Agricultural Company shares fell after it was confirmed that CEO Jason Strong would be leaving the business.

Top 5 Active Weights

Ironbark Karara Australian Share Fund

Security Name	Sector	% of Fund
CSL	Health Care	-3.93
AGL Energy	Utilities	3.21
Telstra	Telecommunication Services	-2.69
Origin Energy	Energy	2.53
Brambles	Industrials	2.35

Ironbark Karara Australian Small Companies Fund

Security Name	Sector	% of Fund
Altium	Information Technology	3.89
Costa Group Holdings	Consumer Staples	3.42
Bega Cheese	Consumer Staples	3.40
Technology One	Information Technology	2.90
Link Administration	Information Technology	2.82

Market Outlook

Global growth leading indicators remain robust and above-trend global growth is expected to continue. This is at odds with the market's inflationary expectations which still remains quite modest. 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.

Market Outlook (cont'd)

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. Given the success of 2016's stimulatory efforts, the Chinese Government's focus has moved towards containing risks, controlling credit growth and advancing reform. The investment manager expects Chinese policy to become less supportive for steel making materials.
- The structural challenges in Europe remain unresolved. Better growth and recent electoral outcomes are encouraging, despite adverse political risks remaining omnipresent.

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%. As 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.

Moderate 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 many sectors. Within this, the emphasis is on attractive quality companies whose prospects are unappreciated by the market.

Key Contributors & Detractors over the Quarter

Ironbark Karara Australian Share Fund

Top 5 Contributors	Active Position
Santos	Overweight
Telstra Corporation	Underweight
Origin Energy	Overweight
Commonwealth Bank of Australia	Underweight
Downer EDI	Overweight

Top 5 Detractors	Active Position
James Hardie Industries	Overweight
AGL Energy	Overweight
South32	Underweight
Sonic Healthcare	Overweight
BHP Billiton	Underweight

Ironbark Karara Australian Small Companies Fund

Top 5 Contributors	Active Position
Altium	Overweight
Costa Group Holdings	Overweight
Sims Metal Management	Underweight
Updater	Overweight
Nufarm	Underweight

Top 5 Detractors	Active Position
Technology One	Overweight
Cooper Energy	Overweight
Australian Agricultural Company	Overweight
Healthscope	Overweight
Whitehaven Coal	Underweight

Ironbark Karara Investment Funds

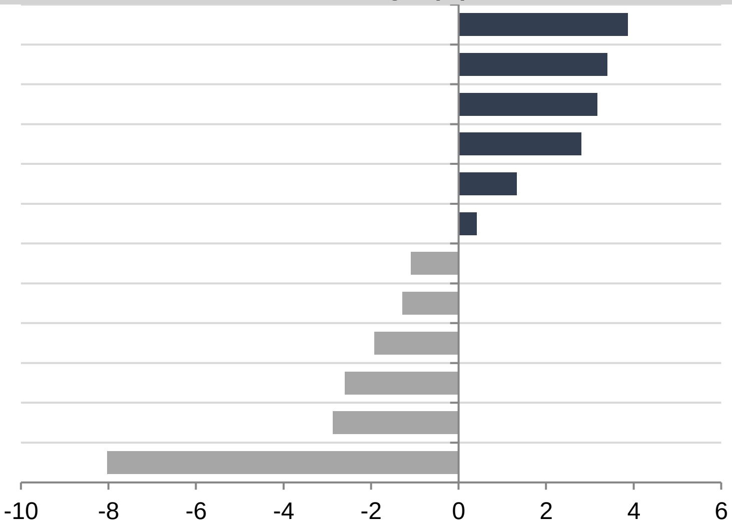
Quarterly Investment Report as at 30 September 2017

Asset Allocation

Ironbark Karara Australian Share Fund

Sector Weights	Fund (%)	Bench (%)
Materials ex Metals & Mining	7.95	4.08
Energy	7.79	4.40
Consumer Discretionary	8.16	4.98
Utilities	4.93	2.13
Industrials	8.82	7.49
Information Technology	2.03	1.61
Health Care	5.99	7.08
Consumer Staples	5.96	7.25
Financial ex Property Trusts	34.73	36.65
Telecommunications Services	0.48	3.08
Metals & Mining	9.96	12.84
Property Trusts	0.38	8.41
Cash	2.82	0.00

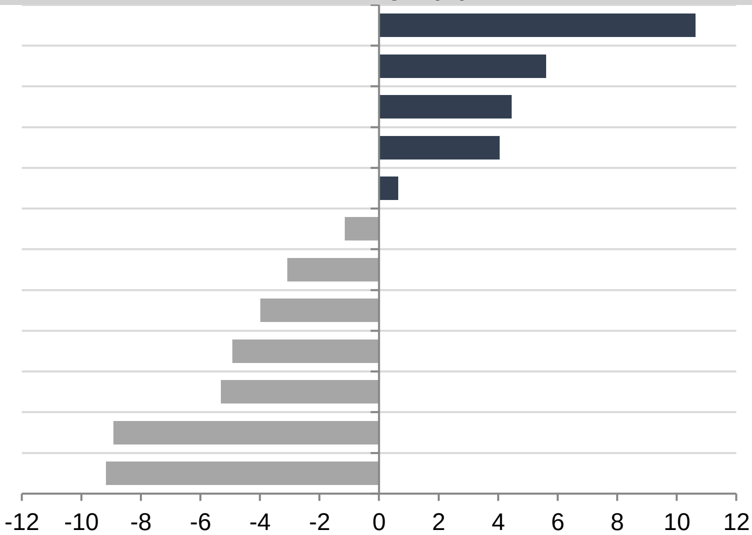
Active Weight (%)



Ironbark Karara Australian Small Companies Fund

Sector Weights	Fund (%)	Bench (%)
Information Technology	17.53	6.89
Utilities	6.23	0.62
Metals & Mining	18.57	14.12
Consumer Staples	14.43	10.38
Financial ex Property Trusts	8.67	8.03
Telecommunications Services	0.69	1.84
Materials ex Metals & Mining	0.00	3.08
Energy	2.38	6.37
Health Care	1.71	6.62
Industrials	4.59	9.90
Consumer Discretionary	10.85	19.77
Property Trusts	3.21	12.38
Cash	11.14	0.00

Active Weight (%)



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Ironbark ASSET MANAGEMENT