Ironbark Paladin Property Securities Fund

Monthly Investment Report as at 28 February 2018

Asset Class

Property Securities

Investment Objective

Seeks to outperform the benchmark, after fees, over rolling three year periods.

APIR Code

PAL0002AU

ARSN

087 897 667

Fund Inception Date

28 February 1995

Benchmark

S&P/ASX 300 A-REIT Accumulation Index

Distribution Frequency

Quarterly

Minimum Investment

$20,000

Fund Size

$287.0m

Exit Price

$0.9163

Number of Stocks

22

Market Review

The S&P/ASX 300 Property Accumulation Index returned -3.1% for the month, underperforming the broader equity market (as measured by the S&P/ASX 300 Accumulation Index which returned 0.6%).

AREITs suffered from an ongoing long bond sell-off during the month of February. Long bond yields started the month at 2.8%, and rapidly sold off to a peak yield of 2.9%, before settling back around 2.8% by month's end. The fastest average hourly earnings data since 2009 in the US triggered a rise in US 10-year treasury yields to near the highest since the 'taper-tantrum' in 2013.

Ongoing weak anecdotes from retailers during their reporting season saw Australian retail landlords underperform during February. The retail landlord sub-sector ended down 4.3%, with Vicinity Property Group (-7.8%) and GPT Group (-5.4%) dragging the sub-sector down versus peers. The diversified residential names also underperformed during the month and ended -4.0%, which the investment manager expects has been driven by an expectation of a more difficult residential sales market ahead.

The strongest sub-sector for the month was fund managers, predominantly driven by the performance of Goodman Group, with a total return of 1.5%, and reflected strong operational results and a 2018 financial year management guidance upgrade of the operating earnings from 6.0% to 8.0% growth.

Performance Review

The Ironbark Paladin Property Securities Fund (the 'Fund') returned -2.31% (net) in February, outperforming the benchmark return of -3.15% by 0.84%.

Holdings that were major contributors to performance included the average overweight positions to outperforming Global One Real Estate Investment Corporation, Goodman Group and the underweight to underperforming Vicinity Centres. The major detractors from performance was the average overweight positions to underperforming Scentre Group, GPT Group and underweight to outperforming Dexus.

The investment manager is attracted to the funds management sector, where there remains good transparency of earnings in the current environment. The investment manager is also attracted to the social infrastructure sub-sector and in particular, attracted to the length and structure of the long leases within childcare operators. The Fund will retain an overweight position within this sub-sector. The Fund also retains a net overweight to the retail sub-sector, however selectively has exposure, with the preferred names of GPT, Scentre and Westfield Group. The investment manager retains a net underweight to the diversified residential developer sub-sector, with Mirvac being the preferred exposure.

Performance

	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	-2.31	-3.15	0.84
3 months	-3.67	-6.18	2.51
1 year	2.81	0.52	2.29
3 years (p.a.)	6.02	5.04	0.98
5 years (p.a.)	10.41	10.19	0.22
7 years (p.a.)	11.86	11.70	0.16
10 years (p.a.)	3.53	3.27	0.26
Since inception (p.a.)	7.69	8.02	-0.33

Past performance is not an indicator of future results. 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 from the first full month of operation.

Contact Details

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Market Outlook

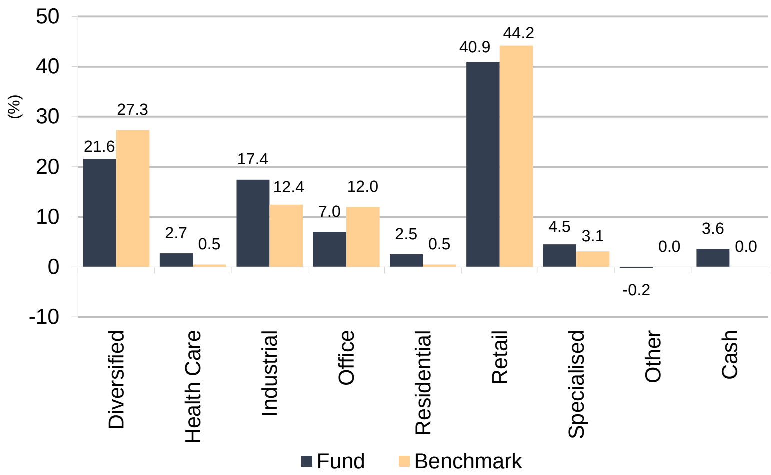
In Australia, the investment manager is forecasting a 14.0% total return over the next 12 months. With record low interest rates, off-shore capital flows and an appetite from companies to grow, the investment manager believes asset values continue to be well supported, despite recent upward movement in the Australian long bond rates.

The investment manager's valuations do not incorporate additional merger activity, which if it were to occur would drive asset values higher and management costs lower. The investment manager expects there is some risk of higher level of corporate activity in the next 1 to 2 years, as some of the stocks seek growth as the earnings growth tailwinds from lower debt costs in recent years start to slow. Fixed annual escalations embedded into lease terms provide AREIT trust portfolios a defensive earnings profile.

Whilst macro drivers and sector preferences are a part of the Fund's positioning, the investment manager is mainly driven by stock level relative value and upside opportunities. The investment manager expects those REITs with active earnings, including residential development, funds management or asset management to have stronger than sector average earnings growth profiles despite the slowing underlying like-for-like rental growth. However, as the top of the pricing cycle in residential market approaches in conjunction with other property segments, the investment manager is being selective within this group. Defensive REITs (pure trusts) will show below sector average earnings growth, however remain well supported, until a pick-up in underlying commercial rent growth drivers in Australia is seen.

Portfolio Summary

Asset Allocation



Top 5 Holdings

Security Name	Fund (%)	Benchmark (%)
Scentre Group	21.32	17.74
Westfield	15.47	14.53
Goodman Group	15.24	11.42
GPT Group	9.79	7.41
Mirvac Group	8.92	6.81
Cash	3.59	0.00
Other	25.67	42.09
Total	**100.00**	**100.00**

Important information

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