Ironbark Paladin Property Securities Fund

Monthly Investment Report as at 31 January 2019

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

$322.8m

Exit price

$1.0208

Number of stocks

26

Market review

The S&P/ASX 300 Property Accumulation Index returned 5.96% for the month, outperforming the broader equity market (as measured by the S&P ASX 300 Accumulation Index which returned 3.87 %).

The best performing asset sub-sectors over the month of January were the fund managers (up 9.9%) and office (up 6.6%). Both benefitting from the ongoing strong demand and high occupancies in office and logistics markets. At a stock level, the standout performer was Unibail-Rodamco, providing a total return of 15.1% for the month. Unibail bounced after several months of underperformance, and investors positioning into or covering shorts ahead of its result in February. It is widely expected that management will provide a medium-term earnings growth forecast following the successful integration of the Westfield Group business. Unibail will pay its annual distribution within the next six months of approximately, 11.95 cents per share, equivalent to a 7.8% distribution yield.

During early February, the 10 year bond yield was 2.15% (as 7 February 2019), having dropped from 2.6% at the end of November, which is generally supportive of A-REIT valuations. Whilst geopolitical and macro uncertainty persists, the investment manager expects the yield on long bonds will remain low. Interestingly on monetary policy, in early February the investment manager notes that the Governor of the Reserve Bank of Australia suggested the likelihood of a cash rate cut was as likely as a cash rate increase as their next move. Potentially, the decline in bond yields and surveys of economists had already suggested this was more likely, however the admission that the probabilities should more even was also supportive of the sector.

Performance review

The Ironbark Paladin Property Securities Fund (the 'Fund') returned 6.22% (net) in January, outperforming the benchmark return of 5.96% by 0.26%.

Holdings that were major contributors to performance include the average overweight positions to outperforming Vicinity Centres, Unibail-Rodamco-Westfield and Arena REIT. The major detractors from performance were the average overweight positions to underperforming Scentre Group, Australian Unity Office Property Fund and the underweight position to outperforming Charter Hall Group.

Performance

Net returns (%)	1 month	3 month	1 year	3 years p.a.	5 years p.a.	7 years p.a.	10 years p.a.	Since inception p.a.[1]
Fund Returns	6.22	7.03	12.96	10.03	13.93	14.47	12.58	8.04
Benchmark Return[1]	5.96	7.50	13.10	9.30	13.74	14.52	12.43	8.40
Active return	0.26	-0.47	-0.14	0.73	0.19	-0.05	0.15	-0.36

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. Returns are rounded to two decimal places. Slight variations to actual calculations may occur.

[1]This figure represents the annualised performance of the Fund from the first full month of operation.

Contact details

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Ironbark ASSET MANAGEMENT

Ironbark Paladin Property Securities Fund

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Market outlook

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 supported, despite recent upward movement in the Australian long bond rates.

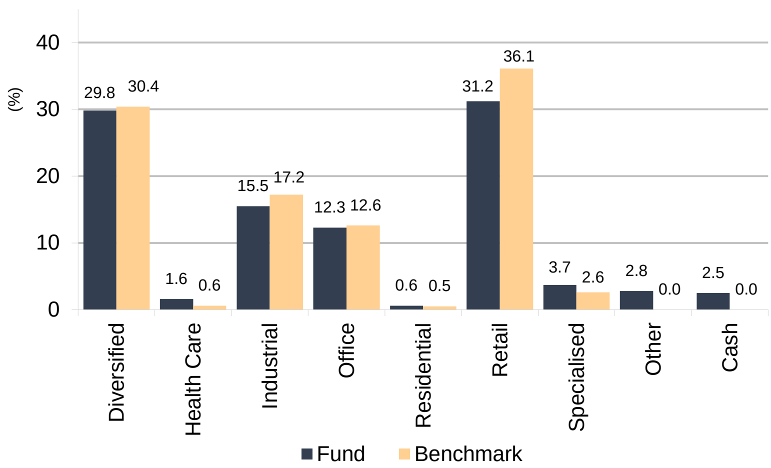
The investment manager's valuations do not incorporate additional merger activity, which if it were to occur would drive asset values higher and management costs lower. The investment manager expects higher levels of corporate activity in the next 1 to 2 years, as some of the stocks seek growth as the earnings growth tailwinds from lower debt costs in recent years start to slow. Fixed annual escalations embedded into lease terms provide A-REIT 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 Australian commercial rent growth drivers is seen.

The Fund is selectively underweight retail landlords. Significant structural headwinds remain for the retail sub-sector, and for some stocks the investment manager believes these risks are factored into their current price. However, they also believe the market will see an extended period of adjustment in the retail sub-sector. The Fund is underweight fund managers. Whilst a triple benefit of rising asset values, increasing rents and growing development pipelines has grown revenues and increased prospects of strong management fee revenues, the investment manager expects this is now factored into their price. The investment manager is attracted to the social infrastructure sub-sector, specifically, to the length and structure of the long leases within child care operators, and retain an overweight position. The Fund has a net neutral positioning to the diversified residential developer sub-sector, at a time when tightening credit availability and weaker demand from offshore buyers and property investors, weighs on both sales volumes and achievable prices.

Portfolio summary

Asset allocation



Top 5 holdings

Security name	Fund (%)	Benchmark (%)
Scentre Group	19.63	18.17
Goodman Group	13.32	16.06
GPT Group	12.72	8.95
Mirvac Group	10.94	7.64
Unibail-Rodamco-Westfield	7.73	4.53
Cash	2.50	0.00
Other	33.16	44.65
Total	**100.00**	**100.00**

Important information

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