Ironbark Paladin Property Securities Fund

Monthly Investment Report as at 31 October 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

$303.9m

Exit Price

$0.9568

Number of Stocks

26

Market Review

The S&P/ASX 300 Property Accumulation Index returned -3.1% for the month, outperforming the broader equity market (as measured by the S&P ASX 300 Accumulation Index which returned -6.2%).

The best performing asset sub-sectors over the month of October were the fund managers, thanks in large part to Goodman Group's total return of 0.2%. National Storage REIT's (up 2.1%) ensured the storage sub-sector also outperformed. The worst performing sub-sector was diversified residential. Despite relatively strong quarterly updates, the market sold down the stocks as the market's view on the pricing and volume outlook weakened.

The market observed two equity capital market transactions over the month. Shopping Centre Australasia raised $259 million to buy 10 shopping centres from Vicinity Centres, and Charter Hall Long WALE REIT raised $60 million through institutional placement to fund the acquisition of an industrial asset in Sydney and a half share of a Perth office tower. Vicinity sold the shopping centres at an implied discount of 5.1% to their latest book value.

Merger and acquisition activity picked up over the month, with:

- Propertylink's independent directors to recommend ESR Real Estate's $1.20 cash per unit takeover offer proposal, subject to due diligence, approvals and advice.
- Oxford Properties' pursuit of Investa Office Fund came a step closer, with Blackstone choosing not to match Oxford's $5.60 per unit bid. A meeting of unitholders is expected to be held in early December.
- Australian Unity Office Fund received a proposal from Starwood Capital Asia to acquire all units in their fund for $2.95 cash per unit. The price represents a 10.5% premium to last reported book values.

With many passive A-REITs now trading at discounts to book value and a discount to direct market pricing, the investment manager expects merger and acquisition activity to continue.

Finally, the quarterly updates from the A-REITs showed continued strength in Sydney and Melbourne office markets, a pick-up in turnover sales of the retail portfolios and slowing residential sales rates.

Performance Review

The Ironbark Paladin Property Securities Fund (the 'Fund') returned -2.90% (net) in October, outperforming the benchmark return of -3.12% by 0.22%.

During the month, holdings that were major contributors to performance include the average overweights to outperforming Australian Unity Office Property Fund, Scentre Group and the underweight to underperforming Stockland. The major detractors from performance were the average overweights to underperforming Mirvac Group, Unibail-Rodamco-Westfield and the underweight to outperforming Shopping Centres Australasia.

Performance

	Net Fund Return (%)	Benchmark Return (%)	Active Return (%)
1 month	-2.90	-3.12	0.22
3 months	-2.14	-2.13	-0.01
1 year	9.58	7.31	2.27
3 years (p.a.)	8.37	7.43	0.94
5 years (p.a.)	11.50	11.30	0.20
7 years (p.a.)	14.22	14.20	0.02
10 years (p.a.)	9.26	9.27	-0.01
Since inception (p.a.)[1]	7.81	8.17	-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
T: 1800 034 402 | **E:** client.services@ironbarkam.com | **W:** www.ironbarkam.com

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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.

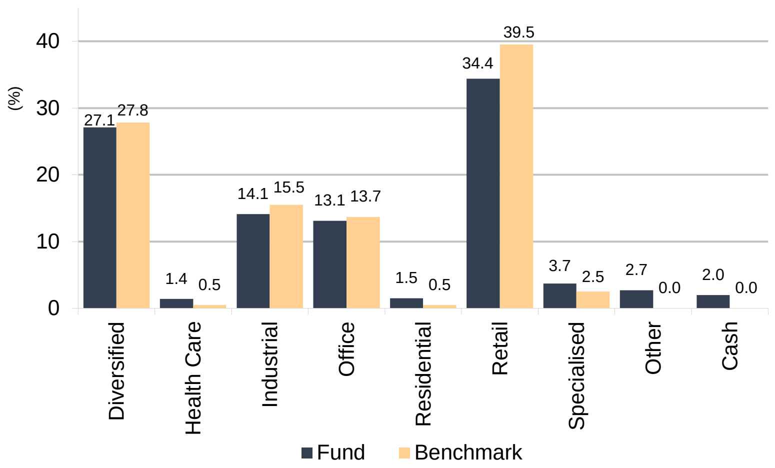
The investment manager's valuations do not incorporate additional merger activity, which if it were to occur would drive asset values higher and management costs lower. The investment manager expects higher levels of corporate activity in the next 1 to 2 years, as some of the stocks seek growth as the 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 overweight to several retail companies. Whilst significant structural headwinds remain for the retail sub-sector, the investment manager believes this is factored into their current price. The investment manager is also attracted to the social infrastructure sub-sector, specifically, to the length and structure of the long leases within child care operators, and retains 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. The Fund has also moved underweight to fund managers after significant outperformance over the past couple of years.

Portfolio Summary

Asset Allocation



Top 5 Holdings

Security Name	Fund (%)	Benchmark (%)
Scentre Group	21.05	18.40
GPT Group	12.14	8.04
Goodman Group	12.08	14.44
Mirvac Group	10.36	6.98
Unibail-Rodamco-Westfield	8.50	7.82
Cash	2.00	0.00
Other	33.87	44.32
Total	**100.00**	**100.00**

Important information

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Ironbark ASSET MANAGEMENT