

Ironbark Royal London Concentrated Global Share Fund

BENCHMARK	OBJECTIVE		
MSCI World NR AUD	Outperform the benchmark by 2-3% after fees, over rolling five year periods through investment in a focused selection of equities on a global basis.		
APIR	MGL0004AU	ARSN	090 379 105
INCEPTION DATE	4 October 1996	MANAGER APPOINTED	1 September 2016
MANAGEMENT FEE	0.9000% p.a.	FUND SIZE	\$270.8m
BUY / SELL SPREAD	+0.20% / -0.20%	EXIT PRICE	\$2.3132

Net performance (%)

	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	Since inception p.a.
Fund¹	0.08	8.12	9.32	12.92	11.87	10.34	7.89
Benchmark ²	-0.46	5.85	5.58	11.04	10.86	11.58	7.15
<i>Active</i>	<i>0.54</i>	<i>2.27</i>	<i>3.74</i>	<i>1.88</i>	<i>1.01</i>	<i>-1.24</i>	<i>0.74</i>

¹Shaded Fund performance prior to 1 September 2016 is not attributable to Royal London, but the previous investment manager. The Royal London Composite performance track record since strategy inception is presented below.

Royal London Composite^{3,4}	0.08	8.12	9.32	12.92	12.54	11.20	6.38
Benchmark ⁴	-0.46	5.85	5.58	11.04	10.88	11.51	4.48
<i>Active</i>	<i>0.54</i>	<i>2.27</i>	<i>3.74</i>	<i>1.88</i>	<i>1.66</i>	<i>-0.31</i>	<i>1.90</i>

Top 5 monthly contributors and detractors

Contributing stocks	Active weight	Detracting stocks	Active weight
Samsung Electronics Company	Overweight	BANDAI NAMCO Holdings	Overweight
Anglo American	Overweight	Safran	Overweight
Progressive Corporation	Overweight	Old Dominion Freight Line	Overweight
Micron Technology	Overweight	Verizon Communication	Overweight
Eli Lilly and Company	Overweight	Bridgestone Corporation	Overweight

Top 5 quarterly contributors and detractors

Contributing stocks	Active weight	Detracting stocks	Active weight
Samsung Electronics Company	Overweight	Church & Dwight Company	Overweight
Safran	Overweight	Verizon Communications	Overweight
Anglo American	Overweight	McCormick & Company	Overweight
Micron Technology	Overweight	Ocado Group	Overweight
Steel Dynamics	Overweight	Tesla	Underweight

Past performance is not indicative of future performance. 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.

²The MSCI World NR AUD was adopted as the Fund's benchmark on 1 September 2016, benchmark calculations prior to this date are based on the MSCI World ex Australia in AUD.

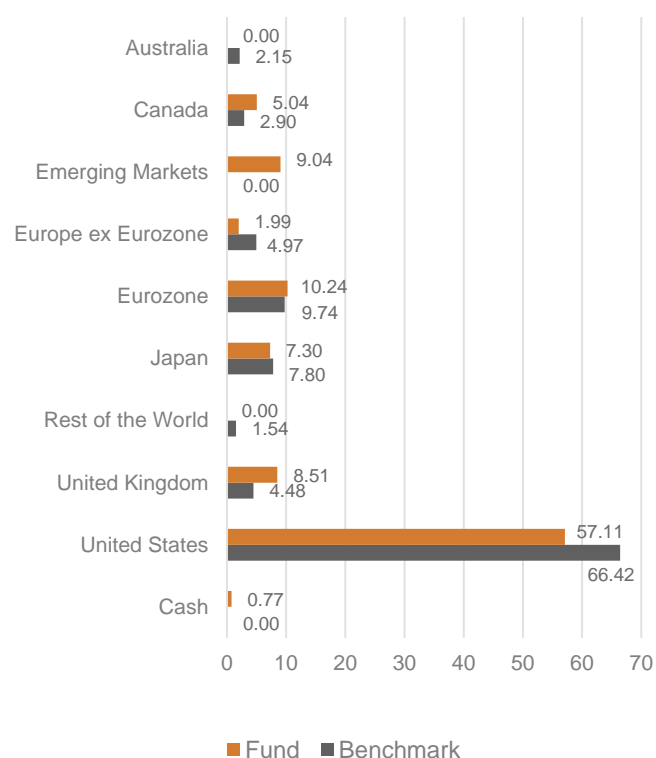
³For periods from 1 April 2001 to 31 August 2016, the Royal London Composite returns in AUD are based on the Royal London Global Select Fund B USD ('strategy') track record, net of 1.00% p.a. management fee. **The strategy was inception 1 April 2001.** Performance from 1 September 2016 reflects the actual net returns of the Ironbark Royal London Concentrated Global Share Fund. Data source: Royal London and Morningstar Direct.

⁴The period from 31 March 2011 to 31 October 2012 was a non-compete for the strategy. Performance of the strategy and benchmark was zeroed during this period.

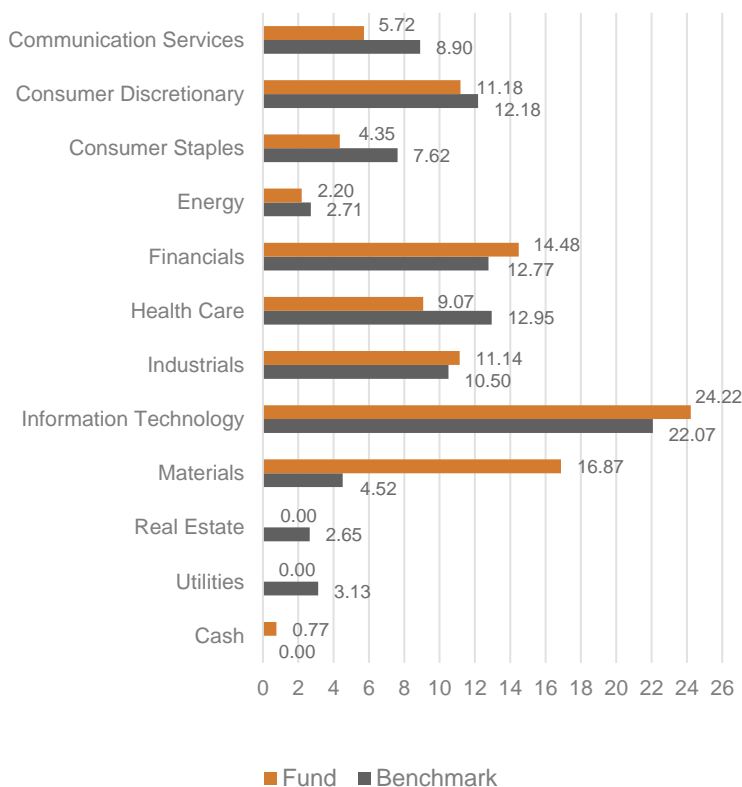
Top 5 holdings

Stocks	Sector	Country (domicile)
Anglo American	Materials	United Kingdom
Steel Dynamics	Materials	United States
Reliance Steel & Aluminum Company	Materials	United States
Microsoft Corporation	Information Technology	United States
Safran	Industrials	France

Regional asset allocation (%)



Sector asset allocation (%)



Market review

Major global stock markets delivered a strong fourth quarter. The MSCI World Index rose 6.3%. Remarkably, despite the pandemic, this means that 2020 as a whole posted positive returns (up 6.4%). All major markets rose during the quarter with the dispersion in returns resulting more from sector rotation. Among the major regions, emerging markets, Asia Pacific excluding Japan and the UK were the stronger markets, whereas Japan, Europe excluding the UK and the US were slightly more pedestrian.

Companies that had been struggling because of COVID 19 tended to perform well on the Pfizer vaccine news, while several sectors rose on the prospect of a more traditional US president and gridlock in the legislative bodies preventing extreme policy decisions. Unlike prior quarters, it was not technology that led sectors (up 5.3%), but a strong recovery in energy (up 18.5%) and financials (up 15.7%), which had previously underperformed. For the full year, however, energy was still down 36.5%, despite its strong final quarter.

Leading central banks, including the Federal Reserve, European Central Bank and Bank of England continued to neutralise the impact of government bond issuance through asset purchases. In addition, the removal of roadblocks to the dispersal of the €750 billion EU Recovery Fund was a significant positive for European economies. With renewed lockdowns in many countries and activity remaining below normal levels, yields on benchmark 10-year government bonds fell over the quarter in most major developed markets, apart from the US, Canada, Sweden and Japan.

Market review (continued)

Credit spreads tightened further reflecting optimism that vaccines will be successful and ongoing support for struggling companies.

The Australian dollar was one of the stronger global currencies over the quarter, appreciating, in particular, against the yen and a notably weak US dollar ('USD') (up 6.9%) following the recent decision by the Federal Reserve to alter its inflation targeting methodology. It also strengthened marginally against sterling and the euro. This strength tempered the returns from global equities.

Oil prices recovered strongly in the quarter as global economy continued to grow and Saudi Arabia announced production cuts. The price of Brent crude oil rose by 26.5% to over \$52 a barrel (in USD terms). Copper continued to strengthen as economic activity strengthened in China, rising 15.8% over the quarter. Gold fell 0.2% to \$1,933 per ounce (in USD terms), although this masked its volatility across the quarter as some investors sought a safe haven on renewed fears about COVID 19 and political risks.

Performance review

The Ironbark Royal London Concentrated Global Share Fund returned 8.12% (net) for the quarter, an outperformance of 2.27% when compared with the MSCI World NR AUD return of 5.85%.

Semiconductors stocks (Samsung, Micron and Taiwan Semiconductor), Safran and Anglo American contributed strongly to returns over the quarter. Samsung, which is in the 'Turnaround' category of the investment manager's corporate Life Cycle classifications, and Micron ('Slowing & Maturing') are closely aligned as DRAM chips are a key component of their sales. Both companies benefitted from an upturn in the DRAM market, whilst this is not a perfect indication of the contract part of the market, spot prices for standard chips have increased 28% from their recent lows in August. Crucially, the manufacturers also stayed profitable across the cycle, which has not been the case in previous DRAM price cycles. As well as this structural boost, there is a long-term demand story as 5G phones require more RAM and the ongoing trend to digitisation, which has been boosted by increased remote working in the pandemic, is increasing the demand data centre servers. The strong performance of Taiwan Semiconductor ('Compounding') was related to the decline of Intel. Taiwan Semiconductor has achieved such an IP advantage in core and graphical processors that Intel has announced a strategic review and is considering outsourcing the manufacture of its processors to Taiwan Semiconductor. This transformative shift would be a major boost for Taiwan Semiconductor. As an example of its leadership, Taiwan Semiconductor is producing the M1 chip that is integral to the new Apple MacBooks. French aircraft engine manufacturer Safran ('Slowing & Maturing') performed well across the quarter. Following the lifting of some European travel restrictions in October, the broader hope of successful vaccine rollouts was very positive for travel-related companies. The company's valuation remains attractive and it is well placed to benefit from a recovery in the airline industry. Anglo-American ('Mature') also benefitted from the general positive shift in sentiment. While metals have been more resilient than oil through the crisis, the possibility of a 'return to normal' next year, still boosted prices. As an example, copper rose 15.8% in the quarter to reach its highest level since early 2013.

Detractors from performance included Church & Dwight, Verizon Communications and Progressive Corporation. Having been an outstanding performer last quarter, US household products company Church & Dwight ('Slowing & Maturing') paused as the market shifted with the optimism around successful rollouts of vaccination programmes. The company's defensive qualities had served it well through the recent challenging period with demand for its staple products holding up or even increasing despite the impact of the COVID 19 pandemic as well as the positive impact of a lower rate on its cashflows. It naturally underperformed as both factors reversed. The same applied to Progressive Corporation ('Accelerating'). The US auto insurance specialist had performed particularly well earlier in the year as its revenue is particularly defensive, as insurance is a legal requirement and paid in advance, so is far less vulnerable to consumer discretion in a downturn. Given the early lockdown greatly reduced miles driven and accident claims, this led to a period of supernormal profit. As activity returned to more normal levels later in the year, this effect unwound. However, even with the quarter's weaker performance, Church & Dwight and Progressive each returned roughly twice the level of the broad market over the full year. While the investment manager has taken some profits, both stocks remain key components of the Fund's diversified portfolio approach. Verizon Communications ('Mature') was similarly affected by the rotation into 'COVID 19 recovery' stocks as the defensive cashflows of mobile telecommunications were less prized by investors. In addition, its revenues were impacted by lower international roaming activity (for which the charges are onerous for US consumers) and the launch of the new Apple iPhone 12, which delayed handset upgrades. Nonetheless, the investment manager remains positive on the rollout of 5G in the US, particularly as the company hopes to capitalise on this by offering 5G at home as a broadband connection.

Volatile market conditions and the rotation away from highly-rated growth companies to 'COVID 19 recovery' stocks provided opportunities to add to some holdings at attractive prices. In the run up to the US elections, the valuation of HCA Healthcare was attractive as its prospects as the largest-scale provider of hospitals across the US is compelling. Following a sector review, the investment manager added to South Korean bank KB Financial and separately added to Safran and Bridgestone. The investment manager felt the market's reaction to Reliance Steel's results provided an opportunity to add to this high-quality metal services company. Against these trades, the investment manager took some profits in a number of defensive stocks that have performed strongly through the crisis, including Taiwan Semiconductor, Church & Dwight, McCormick and car insurers Progressive Corporation and Admiral. The investment manager also reduced Japanese stationary supplier Kokuyu, feeling there are better opportunities elsewhere.

Market outlook

While new, more transmittable strains of COVID 19 represent a near-term challenge with the need for tighter lockdowns, a number of other risks have lifted, including whether vaccines could be developed, US political risks and the UK and EU trade talks. While the first half of the year could be particularly volatile, governments and central banks remain committed to supportive monetary and fiscal policies, and the investment manager believes that equities will outperform bonds over the year with a strong economic recovery in the second half.

The investment manager is conscious, however, that following the remarkable recovery of global equity markets from their lows in late March, valuations are less compelling. They are challenged in many areas and using the investment manager's global discount rate methodology are approaching the extremes seen in the Tech Bubble. Nonetheless, relative to bonds, while clearly more expensive than at points in 2020, equity valuations are still not extreme and are actually lower than in 2018. The investment manager also believes earnings momentum will remain favourable. They further believe sectors will be a key point of volatility risk, with the rotation into more cyclical/COVID 19 recovery stocks in the autumn showing the potential for positive and negative effects on performance. The investment manager is addressing this risk by minimising factor exposure to sectors and focusing on stock-specific risk.

There will be challenging periods in the year ahead. At a macro level, a reversal in the bond markets similar to 1994 would impact equity returns as would a change in perception around central bank support. In this respect, the sustained rallies in oil, copper and other commodities could create a headwind to the expectations of lower rates for longer as higher input prices could feed through to inflation if they're not absorbed by manufacturers. This may challenge the current low rate environment orthodoxy, which has been a contributor to the outperformance of growth stocks. There are also signs of increasing costs elsewhere with container rates from China to Los Angeles having more than doubled since the start of 2020. Other than these risks, there will no doubt be stock-specific hits from earnings releases or trading statements for companies that fail to meet the high expectations of analysts and investors. Some technology stocks that pulled forward demand in lockdown could be vulnerable once markets move to more normal conditions.

The benefits of the investment manager's disciplined investment approach, a focus on stronger business models combined with robust portfolio risk controls, enable superior stock wealth creation and valuation to drive long-term performance. As vaccination programmes roll out and economic conditions normalise, the investment manager sees opportunities for the underlying stability of many of the businesses to be better reflected in valuations. They believe that active equity managers, in particular, will perform well in the recovery from the pandemic. The crisis will result in strong companies (high returns, strong balance sheets and good 'moats') getting stronger as they are better able to take advantage of opportunities, whether through new areas of demand or having better balance sheets to navigate through lower levels of cash generation in most industries.

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