Ironbark

Ironbark GCM Global Macro Fund

OBJECTIVE

Seeks to deliver returns with low correlation to the broader equity and fixed income markets and other alternative strategies.

APIR	DEU0109AU	**ARSN**	089 896 837
INCEPTION DATE	30 November 1999	**FUND SIZE**	$105.2m
MANAGER APPOINTED	1 April 2019	**EXIT PRICE**	$1.3250

Net performance (%) and statistics

	1 month	3 months	6 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	Since inception p.a.[2]
Fund[1]	**0.02**	**1.32**	**9.35**	**19.05**	**3.56**	**2.98**	**2.82**	**3.74**
GCM Composite[3]	--	--	--	--	--	**8.80**	**7.74**	**8.32**

[1]Fund performance prior to 1 April 2019 is not attributable to the current investment manager, but the previous investment manager. Presented below is the longer-term track record of the current investment manager's strategy since its inception.

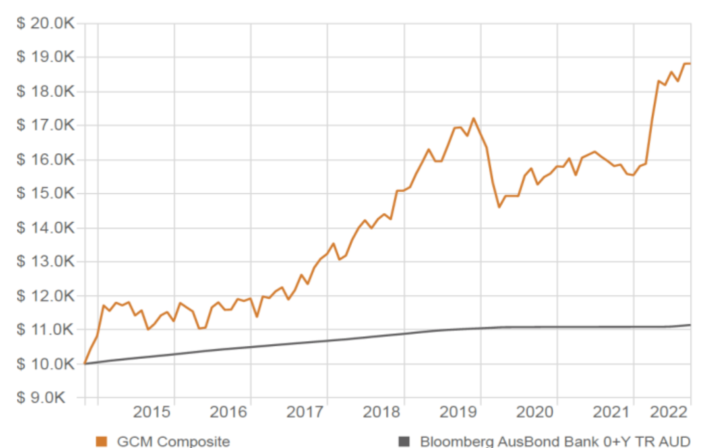
GCM Composite 1 month rolling returns[3]

CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2022	1.73	0.41	8.41	6.40	-0.68	2.14	-1.48	2.82	0.02				**21.09**
2021	-0.07	1.57	-3.08	3.30	0.56	0.55	-0.92	-0.81	-0.90	0.28	-1.74	-0.23	**-1.64**
2020	-2.52	-6.25	-4.79	2.28	0.02	-0.03	4.02	1.38	-3.02	1.44	0.66	1.36	**-5.82**
2019	0.69	2.51	2.31	2.34	-2.15	-0.02	2.97	3.07	0.10	-1.48	3.12	-2.55	**11.21**
2018	2.35	-3.51	0.91	3.53	2.56	1.60	-1.67	1.93	1.03	-1.04	5.87	0.02	**14.07**
2017	-4.56	5.30	-0.40	1.66	0.97	-2.93	2.33	3.71	-2.17	3.91	2.00	1.11	**10.96**
2016	4.76	-1.05	-1.07	-4.36	0.26	5.36	1.27	-1.86	0.07	2.68	-0.48	0.62	**5.94**

GCM Composite statistics since inception[3]	
Standard deviation p.a.	9.52
Sharpe ratio	0.75
% of winning months	63.16
Average win	2.27
% of losing months	36.84
Average loss	-2.02

GCM Composite correlations since inception[3]	
S&P 500 Total Return Index AUD	0.19
MSCI World NR Index AUD	0.17
S&P/ASX 300 TR	0.26
Bloomberg US Agg Bond TR AUD	-0.04
Bloomberg Ausbond Bank 0+Y TR AUD	0.06

Investment growth of $10,000 since inception[3]



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 distributions.

[2]Returns since inception represent the annualised performance from the first full month of operation.

[3] The inception date of the GCM Composite is 1 November 2014. Performances periods from 1 November 2014 to 31 March 2019 represent the Graham Quant Macro Series A ('GCM strategy') track record in USD, converted to AUD, net of fees. From 1 November 2014 to 31 December 2015, the GCM strategy represents the pro forma rates of return of a proprietary account trading the strategy. No assurance can be made that any assumptions used in calculating the pro forma performance would not have a material impact on the performance presentations. From 1 January 2016 to 31 March 2019, the GCM strategy represents the actual net returns of Series A of the Graham Global Investment Fund SPC Ltd - Quant Macro Segregated Portfolio. Performance periods from 1 April 2019 represent the actual net returns of the Ironbark GCM Global Macro Fund. Source: GCM and Morningstar Direct.

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Sector exposure (%)

Sectors	Long	Short	Net	Gross
Ags/Softs	15.9	1.8	14.1	17.7
Base Metals	1.8	2.2	-0.4	4.0
Energy	6.1	0.0	6.1	6.1
Equities	36.9	5.0	31.9	41.9
FX	6.1	65.7	-59.6	71.9
Long Term/Intermediate Rates	11.7	29.5	-17.8	41.2
Precious Metals	0.0	14.1	-14.1	14.1
Short Term Rates	0.0	13.5	-13.5	13.5
Total[1]	**78.5**	**131.8**	**-53.3**	**210.3**

[1]Data is stated in USD terms and reflects the underlying fund. Totals may not equal due to rounding.

All currency references in the commentary below are in US dollar terms unless stated otherwise.

Market review

High inflation and the associated policy responses continued to drive markets during September. Developed market central banks continued to rapidly raise rates and indicated that the economic pain associated with entrenched inflation would be worse than the pain associated with restrictive monetary policy.

The UK dominated headlines as the new government announced unfunded tax cuts to help offset higher energy costs and rising recession risks, triggering significant disruption in the gilt markets. Concerns over UK debt sustainability drove extreme short-term volatility and significant decreases in UK asset prices, with the British pound sterling nearly reaching parity with the US dollar, and gilt yields peaking at 20-year highs. These developments drove the Bank of England to intervene in financial markets and they ultimately announced two weeks of unlimited quantitative easing to restore functioning in seized-up gilt markets, a move that also seemed motivated by acute pain at UK pension funds. This intervention and return to quantitative easing marked a sharp turnaround for the Bank, as they had just announced quantitative tightening and active gilt sales at their September meeting, alongside their second consecutive 0.50% rate hike.

Central banks continued to drive rates higher and equities lower as they prioritised their inflation mandates over stabilising growth, though the Bank of England's late-month intervention helped to partially reverse some of these moves.

As the Federal Reserve delivered the third consecutive 0.75% rate hike at its September meeting, Chair Powell remained resolutely hawkish and indicated that the Federal Reserve's campaign to bring inflation down to target would likely result in economic pain. The Federal Reserve's projections for a further 1.25% of rate hikes this year pushed treasury yields higher until the Bank of England's quantitative easing announcement drove global yields lower.

The European Central Bank also raised their key interest rates by 0.75% to 'frontload' the transition to a neutral policy setting and opened the door to another 0.75% rate hike in October. Speaking later in the month, President Lagarde also started socialising the possibility that the European Central Bank might need to move beyond neutral to a restrictive policy setting in order to bring inflation down to target. Like their developed market peers, the European Central Bank has indicated that they will prioritise bringing inflation down to target over stabilising growth and that they could continue tightening even into recession.

Several other major central banks delivered supersized rate hikes as they continued their inflation-fighting campaigns in September. The Swedish Riksbank hiked by 1.00%, the Bank of Canada and Swiss National Bank delivered each 0.75% rates hikes, and the Reserve Bank of Australia delivered its fourth consecutive 0.50% rate hike.

The Bank of Japan remains the dovish exception, with Governor Kuroda showing no intention of modifying their yield curve control policies.

US dollar strength continued throughout the month, riding the tailwinds of relatively high US. interest rates, relatively strong US economic growth, and continued safe haven status.

The Japanese intervened to counter this dollar strength, the first time the government has acted to support the currency since the Asian financial crisis in 1998. Currency intervention was not just a Japanese story, however, as Switzerland and Taiwan both discussed currency interventions as a possibility given the damaging effects of the rapidly rising dollar. Russia and China also discussed adjustments to their currency reserve management policies to give them more control against rapid moves in the US dollar.

Market review (continued)

The energy crisis in Europe continued to impact markets and create uncertainty for the Eurozone heading into winter as Russia completely halted gas flows through the key Nord Stream 1 pipeline at the beginning of September. Leaks discovered in the Nord Stream 1 and 2 during the month further exacerbated the problem. Recession increasingly seems like the base case in Europe, but to the extent governments offset higher energy costs with fiscal stimulus, the European Central Bank may ultimately need to tighten more.

Commodity prices generally fell as investors anticipated declines in demand amidst US dollar strength and tighter financial conditions globally. Brent crude oil fell below $85 per barrel (in USD terms) for the first time since January as the strength of the US dollar and mounting recessionary concerns threatened demand. Natural gas fell more than 25% as the US supply grew due to less-than-expected exports to Europe. The surge in US dollar and treasury yields continued to put pressure on gold, which hit its lowest level since April 2020. Base metal prices also fell sharply on several factors including China's zero COVID-19 policy, European energy crisis, and strong dollar, which reduces the purchasing power of currencies to buy US dollar denominated imports. Agricultural commodities generally moved sharply lower amidst concerns over the potential impact of the strong US dollar on global trade.

Performance review

The Ironbark GCM Global Macro Fund (the 'Fund') returned 1.32% (net) for the quarter (in Australian dollar terms).

The Fund's underlying strategy experienced losses in commodities due to long positions in energy, especially natural gas and, to a lesser extent, oil, as well as from various agricultural commodities including wheat, soybeans, and cotton. Long positions in energy were driven by carry, trend, and value models while agricultural commodity positions were driven by a combination of the underlying strategies.

The portfolio also recorded losses in equities due to modest long positions in global benchmark indices. Long equity positions were generated by a combination of sub-strategies and supplemented by portfolio construction considerations as these positions have low correlation to other positions in the portfolio.

The portfolio generated strong gains in currencies due to a stronger US dollar versus the Australian dollar, British pound sterling, Japanese yen, New Zealand dollar, and Euro, among others. Long US dollar positions continued to be influenced by a combination of carry, trend, and value strategies as well as portfolio construction considerations.

Positive performance in fixed income was driven mainly by modest short positions across the yield curve in the US and UK Gains were partially offset by losses from long positions in European bonds. The trend sub-strategies were primarily responsible for generating short fixed income positions.

Market outlook

In summary, the investment manager is gratified by the consistency of their performance during 2022, having delivered portfolio diversification benefits as well as absolute returns when many investors have experienced challenges in other areas of their portfolios. The investment manager believes that the environment remains uncertain and there are many opportunities and risks on the horizon in the coming months and years.

The re-emergence of inflation and reignition of central bank activity, after many years of easy monetary policy and forward guidance that suppressed volatility is one key factor. While central banks will eventually slow their hiking cycles as they move policy into restrictive territory and growth inevitably slows, ongoing inflation risks mean that central banks will no longer be able to accommodate downside risks to growth.

Looking ahead, the Federal Reserve remains very resolute in their tightening path and has signalled a high bar for pausing the tightening cycle, let alone easing policy.

Other major central banks have followed in the Federal Reserve's footsteps, signalling continued aggressive rate hikes in the period ahead, prioritising bringing inflation down to target over stabilising growth.

While some governments, most notably the Truss government in the UK, have indicated that they will provide fiscal stimulus to offset the bite of higher prices, central banks have indicated that such action may just require more aggressive policy.

These dynamics represent a regime shift from the decade following the Great Financial Crisis, during which inflation was too low and central banks were trying to re-anchor inflation and inflation expectations higher. Central banks were quick to ease and slow to tighten in this environment, and they could accommodate any new downside risks to growth. The opposite now seems to hold true, central banks will be quick to tighten and slow to ease, and will have to offset upside risks to growth, as seen in the UK as the central bank has indicated that fiscal stimulus will require a greater policy response.

If inflation cools, monetary policy eases, and equities re-enter a bull market cycle over the next few years, many investment strategies could perform well. However, if inflation remains high and central banks maintain restrictive policy settings, equity prices may continue to deteriorate.

Market outlook (continued)

Macro strategies, however, have shown the ability to perform well irrespective of the market cycle, and can participate in both market rallies and corrections, including equity stress periods. As macroeconomic and geopolitical events continue to transpire, investors are exposed to a wide spectrum of risk, which underscores the importance of constructing a portfolio of uncorrelated alpha that is resilient to a wide range of potential market conditions. However please note, that future market conditions are uncertain and may not necessarily be conducive to the investment manager's trading strategies.

Material matters

A new PDS for the Fund was issued on 30 September 2022, updated for FY2022 fees and costs and the new RG97 fees and costs disclosure regime.

There have been no material changes to the Fund in terms of key service providers, the risk profile, investment strategy or changes to individuals in the investment team who play a key role in the investment decisions of the Fund.

The Fund is classified as a hedge fund in accordance with the Australian Securities and Investments Commission, Regulatory Guide 240 'Hedge funds: Improving disclosure'. This classification is based on the fact that the Fund currently exhibits two or more characteristics of a hedge fund, being:

- complexity of investment strategy or structure;
- use of leverage;
- use of derivatives;
- use of short selling;
- charges a performance fee.

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