

COVERING JUNE 2017

FUND COMMENTARY

THREADNEEDLE GLOBAL EQUITY INCOME FUND (Unhedged)

Summary

- Global equity markets rose in June in US dollar terms, but declined in Australian dollar terms due to currency effects.
- The fund outperformed its benchmark.
- Gains were driven by stock selection.
- Positive contributors included Valero Energy, Las Vegas Sands and UBS.
- The fund opened new positions in Manulife, PacWest and Siam Commercial Bank, while exiting Coach, Reynolds American and National Grid.

Market Background

Global equity markets rose in June in US dollar terms – but declined in Australian dollar terms due to currency effects – with politics, monetary policy and the slide in oil prices taking centre stage. The S&P 500 scaled new peaks but the Nasdaq finished the month lower due to the sell-off in technology stocks, which had enjoyed a very strong run throughout much of 2017. The Federal Reserve hiked rates by 25 basis points (bps); while this was largely priced in, investors were surprised by the release of policymakers' plans to start unwinding the Fed's balance sheet this year.

In the UK, the Conservatives' failure to secure an absolute majority pressured sterling. The currency later recouped some losses amid hopes of a "soft Brexit" and the prospect, then reality of a deal between the Conservatives and the Democratic Unionist Party. European equities also trended lower in June despite generally buoyant economic indicators, well-received election results and hopes of improvements in the banking sectors in periphery countries. In Japan, the yen initially strengthened as concerns over geopolitics, the UK's election and the European Central Bank's intentions led investors to favour safe havens. In emerging markets, Chinese large-caps performed particularly well as MSCI's decision to include A-shares in its widely tracked EM index cheered investors.

Performance

The fund outperformed the index, net of fees. Stock selection drove returns at the sector and regional levels: the picks in energy and consumer discretionary, along with those in the US, added the most value. Regional allocation detracted, mainly due the overweighting of the UK, though this was not sufficient to erase the fund's gains elsewhere.

At the individual stock level, positive contributors included Valero Energy; the refiner is benefiting from increased exports of US petrol. Casino operator Las Vegas Sands also traded higher, buoyed by a recovery in Macau's gambling market and the prospect of international expansion. In a good month for financials – which were boosted by US banks passing Fed stress tests and the prospect of rising interest rates – Wells Fargo, UBS and CME Group were all among the top contributors. Deutsche Telekom was the largest detractor, falling

on the prospect of Sprint Corp. delaying merger talks with T-Mobile US, one of the German company's units.

Activity

During the month, the fund added Manulife, PacWest and Siam Commercial Bank to the portfolio. Manulife, an insurer, appears well placed to increase its core return on equity in coming years; this seems underappreciated by the market and should drive the stock's re-rating from current inexpensive levels. The purchase of PacWest was based on its share price weakness year-to-date, while Siam Commercial Bank looked attractively valued, particularly with the potential for a pick-up in its loan growth. Credit costs should also start to decrease, making Siam a very attractive proposition.

Coach was sold following its strong run prompted by news of its acquisition of Kate Spade. The proceeds were used to top-up the fund's positions in Regal Entertainment, as well as in L Brands and Las Vegas Sands, both of which look set to benefit from an acceleration in sales momentum. Reynolds American was also exited after a strong run in performance, and the holding in National Grid was closed to look for new ideas; the latter stock's recent rise took it close to the fund's price target. Givaudan has also been approaching its price target, so this position was reduced to reallocate funds to better risk/reward ideas.

Outlook

Although doubts persist about President Trump's ability to push through market-friendly reforms, the Fed's plans to continue with interest-rate rises – supported by robust recent jobs data – suggest that prospects for the US economy remain broadly positive. Trump also continues to send mixed messages on trade, but more recent rhetoric indicates a more pragmatic streak than prevailed earlier in his presidency. Improving data from Europe provides grounds for optimism, though much will depend on French president Emmanuel Macron's ability to translate political capital into far-reaching reform. In addition, while any tightening of monetary policy in the Eurozone and even the UK might indicate a welcome move back towards "normality", it could certainly generate headwinds for the global economy in the near term.

Against this backdrop, the fund continues its focus on "quality income", seeking competitively advantaged companies that generate strong cashflow and offer high, growing and sustainable dividend yields. In the fund manager's view, a strategy that emphasises both income and growth characteristics should remain attractive to long-term investors.

Ironbark Asset Management (Fund Services) Limited ABN 63 116 232 154 AFSL 298626 ("Ironbark"), is the issuer of units in the Threadneedle Global Equity Income Fund (Unhedged) ARSN 161 086 497 ('the Fund'). Ironbark is the responsible entity of the Fund and has selected Threadneedle International Limited ('Threadneedle') to manage the investments of the Fund.

The information contained in this report is not personal financial product advice, does not constitute an investment offer or invitation to anyone in any jurisdiction in which such offer is not authorised. This publication has been prepared without taking into account the objectives, financial situation or needs of any particular person. Before making an investment decision to continue to hold units in the Fund you should consider, with the assistance of a financial or other professional adviser, whether the investment is appropriate in light of those circumstances. A copy of the latest Product Disclosure Statement ('PDS') is available at www.ironbarkam.com/reservices/columbiathreadneedlefunds or by contacting Client Services directly on 1800 03 44 02. Neither Ironbark, nor its directors, officers, representatives, employees, associates or agents of Ironbark, or any party named in the PDS guarantee the repayment of capital or the performance of the Fund. Past performance and asset allocation is not a reliable indicator of future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested. Please note that the securities mentioned herein should not be considered a recommendation to purchase or sell any particular security. The information stated, opinions expressed and estimates given constitute best judgement at the time of publication and are subject to change without notice to you. Although the information was compiled from sources believed to be reliable, no liability for any error or omission is accepted by such source(s), Ironbark or its affiliates or any of their directors or employees for any loss whatsoever arising directly or indirectly from any use of this publication. Performance figures and other data relating to a fund or a representative account are provided for illustrative purpose only and may differ from that of other separately managed accounts due to such differences as cash flows, charges, applicable taxes, and differences in investment strategy and restrictions. The information contained in this update was current at time of publication. This document describes some current internal investment guidelines and processes. These are constantly under review, and may change over time. Consequently, although this document is provided in good faith, it is not intended to create any legal liability on the part of Ironbark or any other entity and does not vary the terms of a relevant disclosure statement.

Threadneedle International Limited (TINTL) is registered in England and Wales (no. 2283244) and is authorised and regulated by the Financial Conduct Authority under UK laws, which differ from Australian laws. TINTL is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cth) in respect of the financial services it provides. Threadneedle International Limited is regulated by the Financial Conduct Authority under UK laws, which differ from Australian laws.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.