



Ironbark Denning Pryce Australian Tailored Income Fund

Monthly Investment Report as at 30 April 2018

Asset Class

Australian Equities

Investment Objective

To provide consistent total returns with less volatility than the Australian share market over 5 to 7 year periods. In addition, the Fund aims to pay distributions within a target range of 4% to 6% (plus franking) p.a.

APIR Code

DPR0001AU

ARSN

622 132 816

Fund Inception Date

18 May 2006

Benchmark

S&P/ASX 100
Accumulation Index

Distribution Frequency

Quarterly

Minimum Investment

\$20,000

Fund Size

\$16.7m

Exit Price

\$0.7223

Market Review

Positive market returns for April saw a stabilisation and a gradual move lower in volatility pricing. In a positive sign for markets, the aggressive moves witnessed in February and March subsided throughout April.

Volatility pricing continues to trade well above the December lows. In the eighty-two trading days in 2018, there have been thirty-one days where there has been a move of greater than 1%. In 2017, there were just seven such days. It is unsurprising that volatility remains elevated at around the 60th percentile of the two year average.

The European and US earnings season continued to add to the market volatility. In the US, stocks that have slightly disappointed, or been in line with expectation, have been hit hard. The big winners were the companies that reported large out-performance for the quarter, or the companies that have bounced off recent lows.

The Australian market had a positive month, with the ASX 200 finishing higher by 3.88%, even as the Financial Services Royal Commission weighed on financial companies. The four major banks finished largely unchanged, with National Australia Bank ('NAB') finishing higher by 1.6%. AMP was the largest loser, down 19%. Materials, consumer, and health care companies were amongst the largest winners.

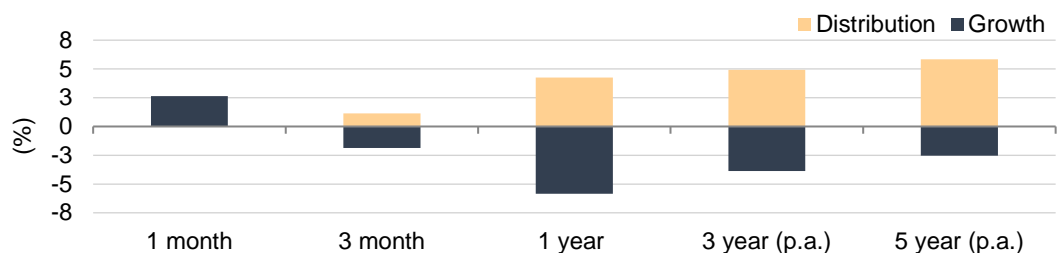
Volatility in Australia remains at the lower end of the scale when compared to global peers. Volatility remains in the 30th percentile of the two year average, reflecting the fact that the Australian market has mainly avoided the extremes of offshore volatility.

Performance Review

The Ironbark Denning Pryce Australian Tailored Income Fund (the 'Fund') returned 2.63% (net) in April, underperforming the benchmark return of 3.91% by 1.28%.

The Australian market has absorbed much of the global volatility in recent months, and despite a positive April, the S&P/ASX 200 is down slightly on the year. The financial services Royal Commission continues to be the biggest impediment to the Australian market, in particular the banks and AMP. For AMP, the outcome of the Commission's findings into their practices has resulted in the company being forced to initiate a board, executive and cultural overhaul. AMP was down 19% in April, wiping close to \$4 billion off their market capitalisation. By contrast, Macquarie ('MQG') remains one of the best performers in the top 50, finishing up 5.63% for the month and, seemingly, not encountering the same issues as their sector peers.

Performance



	Total Return ¹ (Net) (%)	Benchmark Return ² (%)	Active Return (%)
1 month	2.63	3.91	-1.28
3 months	-0.72	0.23	-0.95
1 year	-1.59	3.56	-5.15
3 years (p.a.)	1.05	4.37	-3.32
5 years (p.a.)	3.30	6.66	-3.36
7 years (p.a.)	4.41	7.76	-3.35
10 years (p.a.)	4.73	5.51	-0.78
Since inception ¹ (p.a.)	4.92	6.03	-1.11

Past performance is not an indication of future performance. Net performance figures are calculated using exit prices, net of fees, and reflects the annual reinvestment of distribution.

¹ This figure represents the annualised performance of the Fund since inception.

² The S&P/ASX 100 Accumulation Index was adopted as the Fund's performance benchmark on 1 July 2017. Benchmark calculations prior to this date are based on the S&P/ASX 50 Accumulation Index.

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Performance Review (cont'd)

Aside from the banks, the major mining and materials companies traded well. BHP Billiton ('BHP') and Rio Tinto ('RIO') were up circa 10% as iron ore and oil prices remain elevated. Oil companies had an exceptional month, with Santos ('STO') (up 21.1%), Origin ('ORG') (up 12%) and Woodside ('WPL') (up 10.2%) highlighting the moves.

The Fund finished the month with a 70% market exposure.

Financials

The major bank names remain under pressure as the Royal Commission impacted any confidence that was building in the sector. The banks underperformed the market with NAB the pick of the major banks finishing in the positive (up 1.6%) with Westpac ('WBC'), Commonwealth Bank ('CBA'), and ANZ Banking Group ('ANZ') finishing flat on the month.

The fund has continued to write bank calls for income which has generated premiums in the sector in what was an otherwise flat month. Volatility sits around the 40th percentile of the two year average. At a headline level it is not particularly expensive, given the backdrop of the Commission and the fact that they are due to report earnings in early May. As such the Fund holds put protection. This has helped to reduce the downside.

AMP was the big loser for the month as the Royal Commission highlighted a multitude of deficiencies in the company's processes and culture. The Fund had partially written calls over AMP, ahead of the sell-off, and added \$4.40 puts as the worst of the headlines hit the market. This helped the Fund limit the losses in the stock, but of course it was still a disappointing result to see the former blue-chip so reduced.

Resource and Energy Sector

RIO and BHP had a positive month as resource and materials names traded up. The Fund has continued to write calls in BHP, rolling the existing position higher as it trades through the \$30 level. Premiums remain attractive.

South32 ('S32') has continued its volatile start to 2018. The stock had a large bounce in April, jumping 15.5%. The stock has been an analyst's nightmare as downgrades in February gave way to upgrades in April. A long call position helped returns for the month.

WPL had an excellent month moving higher with the oil price. The investment manager used the momentum in the name to close an existing short put position, collecting the written premium, and rolling it out to a strike in June. The Fund also holds WPL shares.

STO was the other big winner for the Fund. Having closed the Fund's written call position, the stock was then boosted by an increase in the takeover bid for the company. Harbor Energy is on track to take ownership of the company if a \$13.5 billion bid wins both company and shareholder approval.

Health Care

CSL had a strong month, trading higher by 9.58%. It is a clear momentum company and has shown little sign of consolidating. The Fund has maintained a long call position in the company, which has largely kept exposure at index weight, but also lowered the overall risk exposure to the downside should the company see any short term profit taking.

Retail

Wesfarmers ('WES') continued its recent return to favour, with the stock finishing higher by 5.3% (Woolworths 'WOW' also finished up 5.9%). The Fund successfully closed its WES volatility position, taking in the premiums. The Fund now holds a buy-write.

The investment manager remains wary of the extended price action. Several analyst downgrades in recent months post the poor earnings numbers in February have done little to curb the stock price. Enthusiasm over the Coles spin-off has seemingly driven the price higher and the Fund is happy to be written at current levels.

Index positioning and protection

Whilst the Fund has maintained the existing S&P/ASX 200 Index long put position the investment manager notes that following the market rally they are significantly out of the money. In the meantime, the investment manager is happy to own protection in a targeted manner, in this case put protection in the major bank names and AMP.

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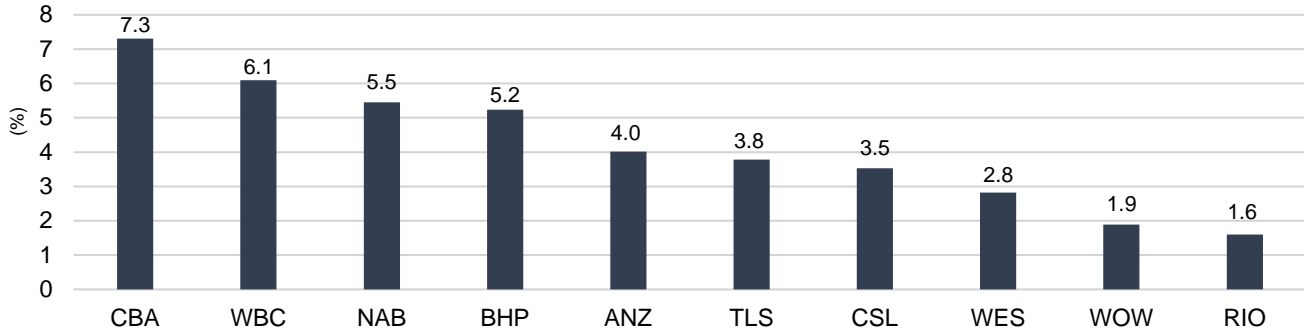




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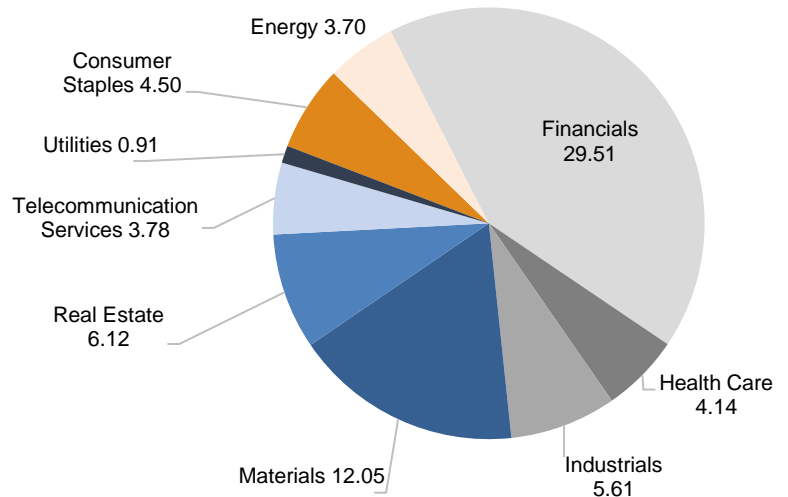
Top 10 Holdings- Delta Exposure (%)



Stress Testing

	Impact on PL %	Delta (%)
Heavy Selloff	-9.00	60.85
Moderate Slide	-2.54	67.21
Up Trend	3.08	87.91
Strong Rally	13.09	88.92

Sector Delta Exposure (%)



Important Information

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