Ironbark Denning Pryce Australian Tailored Income Fund

Monthly Investment Report as at 28 February 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

$17.6m

Exit Price

$0.7357

Market Review

The S&P 500 plummeted 8.6% in the first 6 trading days of the month as an equity and bond sell off based on inflation concerns rattled markets.

Thus, February saw volatility return to the market in a meaningful way.

- 12 of the 19 trading days during the month resulted in a move of greater than 1% on the S&P 500.
- Considering the average movement in 2017 was less than half a percent it was an extraordinary shift.
- The largest movements were like the Global Financial Crisis in nature with a -3.75% and a -4.10% movement surprising the market.
- By comparison the largest up movements were less than half of the largest down movements, 1.74% and 1.60%

The ease with which markets sold off remains a concern, and suggests that portfolios are fully invested. There is a concern that future returns will be harder to achieve. The February sell-off saw bids in the markets quickly dry up, and both high frequency and directional traders were able to take advantage of investor indecision and weakness, pushing markets lower. The investment manager continues to watch their risk positioning closely.

Volatility

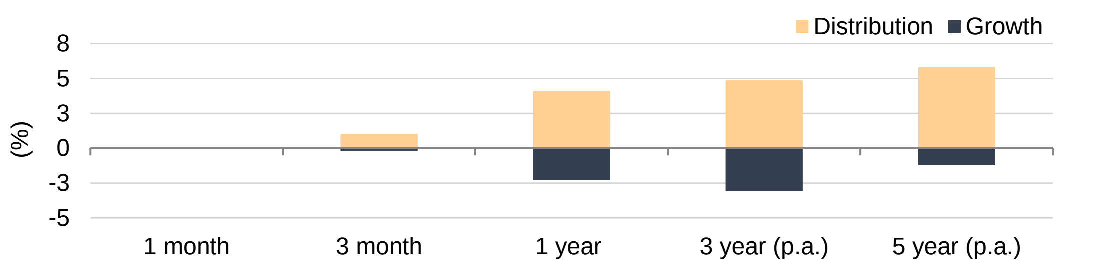
As 2018 unfolds the pricing of options, of volatility, has continued to trend higher. Arguably, the more market volatility experienced in the short term, the greater the probability that volatility will remain at elevated levels for a sustained period.

The investment manager sees this new period of sustained volatility as one which creates opportunity for their multi strategy option fund and better premiums for their buy-write strategy. Premiums have increased between 30-50%, dependening on market and region.

Performance Review

The Ironbark Denning Pryce Australian Tailored Income Fund (the 'Fund') returned -0.07% (net) in February, underperforming the benchmark retun of 0.37% by 0.44%.

Performance



	Total Return[1] (Net) (%)	Benchmark Return[2] (%)	Active Return (%)
1 month	-0.07	0.37	-0.44
3 months	0.56	1.71	-1.15
1 year	0.77	8.21	-7.44
3 years (p.a.)	0.73	3.68	-2.95
5 years (p.a.)	3.47	7.35	-3.88
7 years (p.a.)	4.68	7.93	-3.25
10 years (p.a.)	5.22	5.79	-0.57
Since inception[1] (p.a.)	5.05	6.13	-1.08

Past performance is not an indication of future performance. Net performance figures are calculated using net asset value, 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)

The Australian market absorbed much of the offshore volatility with the S&P/ASX 200 finishing largely unchanged for the second month in succession. A 3.2% sell off in early February saw volatility rapidly move higher however the sell down quickly reversed as corporate earnings supported current valuations.

Market analysts were largely happy with the reporting period and the corresponding stock moves reflected this. The Fund finished the month maintaining a 72% market exposure.

Of the majors, Telstra resumed its slide despite having traded relatively well in recent months. A terrible September quarter in 2017 saw the stock under pressure. In recent months it appeared that the company had put their recent setbacks behind them, the stock had consolidated around the $3.50/3.60 level. However, a poor reporting result saw Telstra under pressure again and it finished lower by 8.72% (excluding dividends).

The major banks remain stuck, with each flurry of buying meeting a wave of opposing sentiment. Macquarie, however, remains one of the best performers.

The investment manager believes volatility conditions will remain at higher levels for the foreseeable future, and option pricing will consequently be found in a new range. It is worth highlighting the investment manager's observations that a higher interest rate environment combined with certain other factors will drive volatility. These include inflation, quantitative easing tapering, and company earnings (which may come under the microscope as the cost of borrowing increases). The investment manager maintains that this higher volatility environment will provide opportunity for the Fund in 2018.

Financials

As the major bank names remain capped at current levels and seemingly offer limited upside in the short term the fund has taken advantage of the higher volatility to continue to write calls. With the stocks trading in a 5% range during February, premiums have continued to increase particularly (as offshore markets have continued to exhibit increasing levels of volatility). National Australia Bank ('NAB'), Commonwealth Bank ('CBA'), ANZ Banking Group ('ANZ') and Westpac ('WBC') premiums have now risen into the low to mid thirtieth percentile range, increasing current buy-write returns.

The current market volatility was an opportunity for the Fund to close out some shorter-dated written calls, collecting the premium and, in turn, writing calls into longer-dated higher premium options. CBA traded ex-dividend with associated franking credits during the month, providing an effective 4% grossed up return. The Fund was able to collect the full dividend and associated franking credits and has written calls to collect some extra income in the name.

The investment manager will continue to collect premium in this buy-write strategy, and close out written calls when the opportunities arise.

Resource and Energy Sector

Rio Tinto was the best of the resource names, finishing higher by 5.6%. The Fund has converted a long call position, which benefitted from the move higher, into physical shares in order to collect the dividend in early March. The stock has continued to outperform the broader market and is up 28% this financial year. With iron ore prices remaining well supported the stock has continued to touch multi-year highs.

We remain well written in BHP Billiton, a 1% return for the month allowing the Fund to roll existing written calls out to longer-dated strikes. The investment manager has added put protection coverage over one third of the existing positon. With volatility slowly increasing in the name the investment manager sees limited downside to owning protection in the current environment.

South32 has gone from the best to worst performer in the sector inside of a month. An insipid half year result, with both the earnings and the outlook disappointing, gave the market the excuse it need to take profits and sell the stock lower. The Fund had heavily written the existing holding which offered solid protection as the stock fell 13% during the month and allowed the fund to collect good premiums in the name. The stock managed to close 7% above its intra-month lows.

Woodside ('WPL') completed a large capital raising in the form of a rights issue, tapping existing investors for close to $2.5 billion dollars. The stock was quick to trade lower on the news and put in a poor month as declining oil prices also weighed on the share price. The investment manager has added to their short cash-backed put holding to increase the exposure to the name and have also added an upside call.

Index Positioning

As markets tumbled in early February the investment manager took partial profits on their existing long Index protection. The investment manager remains cognisant of the long term goals of the Fund and have maintained sufficient protection in the portfolio to protect against future unforeseen events.

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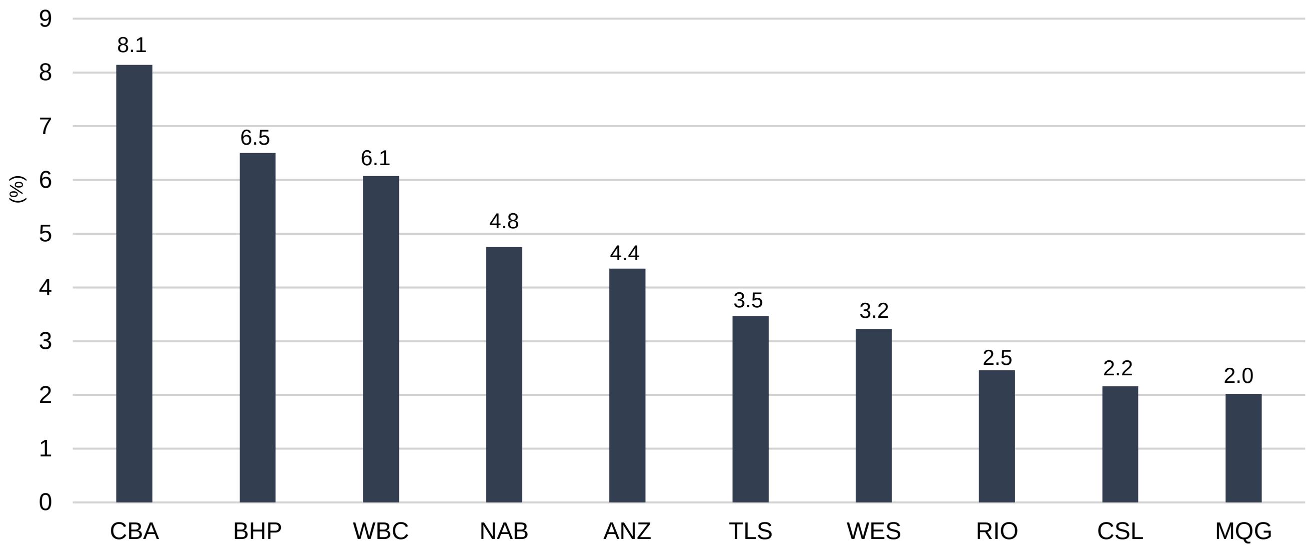
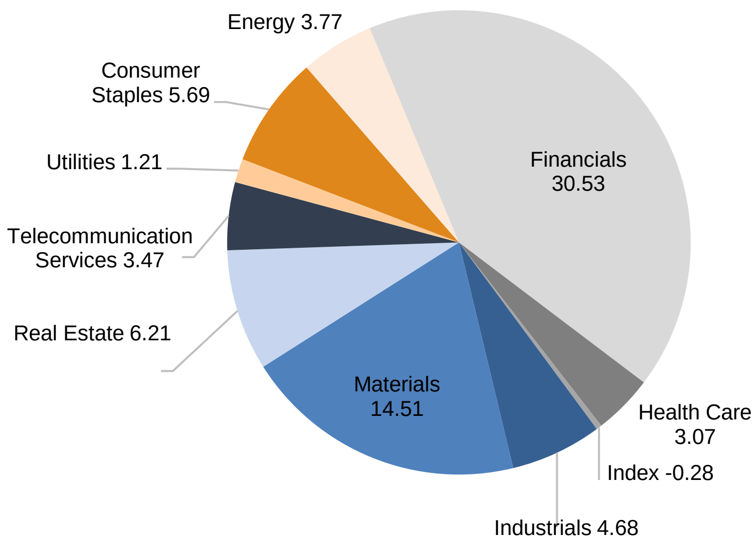
Top 10 Holdings- Net Exposure (%)



Stress Testing

	Impact on PL %	Market Exposure (%)
Heavy Selloff	-10.00	68.39
Moderate Slide	-2.55	73.03
Up Trend	2.60	78.75
Strong Rally	10.70	77.19

Sector Exposure (%)



Important Information

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