



Ironbark Denning Pryce Australian Tailored Income Fund

Quarterly Investment Report as at 31 December 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

65% S&P/ASX 100 Accumulation Index and 35% Bloomberg AusBond Bank Bill Index

Distribution frequency

Quarterly

Minimum investment

\$20,000

Fund size

\$18.3m

Exit price

\$0.6882

Market review

Volatility in global markets continued into the Christmas holiday period with December proving to be the worst performing month in several years for US and Japanese markets. The S&P 500 fell 15% intra-month with an extraordinary Boxing Day rally of 5% keeping the loss to below 10%. Japan (down 10.45%), Germany's DAX (down 6.2%) and France's CAC40 were the other big losers. Interestingly, Australia's S&P/ASX 200 was largely unchanged for December, a solid result given the global back drop. With that said, the market remains 11.5% off its September highs.

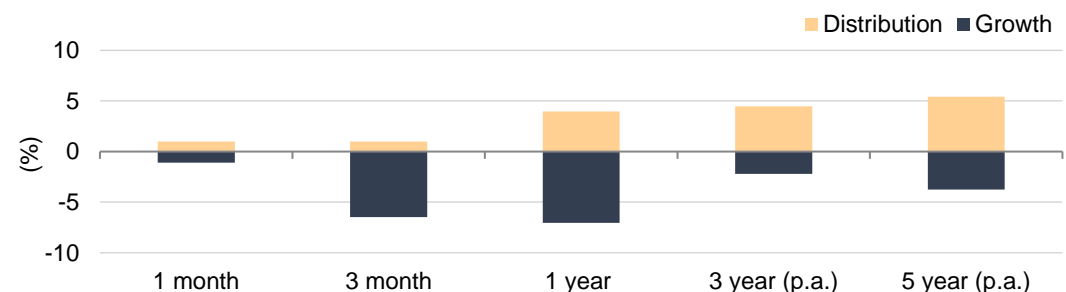
Unsurprisingly, the VIX, having traded in an 11-25 point range for much of 2018, peaked at 36 points during December, a 10 month high. The 5% rally in the S&P 500 eased fears of a further sell-down in markets. The sharp move higher was the 9th time this quarter that the market has reversed an intra-day move of at least 1%. The most since 2011.

The investment manager has made comments in the past on the changing dynamics of the equity market. Namely, that a lack of trader-led liquidity would see market moves becoming larger and quicker than at any time outside of a major crisis. This continues to be the case as large seller-led volumes saw both stocks and indices move quickly lower, as holiday liquidity and a shortage of buyers has only added to the volatility.

Despite the headline volatility, economic data remains relatively positive, particularly in the US. This view is backed by many of the large research houses, with Citigroup's strategists being one of several to have a bullish price target of 3100 on the S&P 500 by the end of 2019. Markets sit in somewhat of a twilight zone where reasonable economic conditions are being overshadowed by headline news creating large share market volatility.

On the economic front, Australia appears to be facing more challenges than the US. A continuing slowdown in China will undoubtedly impact the domestic economy. This, coupled with a pullback in the housing market and the banks trying to balance their ability to continue lending whilst also improving their compliance and governance, indicates it has clearly become a more challenging environment.

Performance



	Total return ¹ (net) (%)	Benchmark return ² (%)	Active return (%)
1 month	-0.11	0.23	-0.34
3 months	-5.49	-4.89	-0.60
1 year	-3.08	0.32	-3.40
3 years (p.a.)	2.29	6.96	-4.67
5 years (p.a.)	1.68	5.41	-3.73
7 years (p.a.)	5.52	9.92	-4.40
10 years (p.a.)	6.84	9.22	-2.38
Since inception ¹ (p.a.)	4.48	5.74	-1.26

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. Returns are rounded to two decimal places. Slight variations to actual calculations may occur.

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

² The 65% S&P/ASX 100 Accumulation Index and 35% Bloomberg AusBond Bank Bill Index was adopted as the Fund's performance benchmark on 1 July 2018. Benchmark calculations prior to this date are based on the S&P/ASX 100 Accumulation Index, which was changed from the S&P/ASX 50 Accumulation Index on 1 July 2017. Bloomberg and the Bloomberg AusBond Bank Bill Index are trademarks or service marks of Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg").

Contact details

T: 1800 034 402 | E: client.services@ironbarkam.com | W: www.ironbarkam.com





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Performance review

The Ironbark Denning Pryce Australian Tailored Income Fund (the 'Fund') returned -5.49% (net) for the December quarter, underperforming the benchmark's return of -4.89% by 0.60%.

The S&P/ASX 200 finished 9.04% lower for the quarter. It was a challenging quarter for markets globally and Australia was no exception. Concerns over Chinese growth and the domestic housing market continue to weigh in on the ASX 200. Oil stocks were the biggest losers as a falling oil price triggered large selling across the sector. Woodside Petroleum was the best performer, falling 19% for the quarter. The retreat from oil companies extended to the broader materials sector, with BlueScope Steel falling 35.5%.

Banks also performed poorly, with NAB and ANZ standing out, falling circa 13%. Consistent negative headlines surrounding the housing market and the future of franking credits in the Australian equity market caused the sector to slide.

Rio Tinto and BHP Billiton have recently completed large off market buy-backs. The Fund has participated in both of these buy-backs. The results were that the Fund generated considerable franking credits to be paid out at the end of the financial year, in return for a small drawdown in the unit price. With the future of franking credits in doubt due to a future Labour government change in policy, companies are increasingly looking at this strategy as a means of returning their excess franking credits to their shareholders. The 2019 tax year may prove to be the last opportunity to participate in these type of events. The Fund evaluates and participates in these trades where there is a clear benefit for unitholders.

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

Financials

NAB, Westpac and ANZ were the worst performers for the Fund over the quarter. With the Royal Commission continuing to weigh on the stock prices and a housing market that has fallen from the all-time highs, flow remains negative in the sector.

The Fund has continued to write calls over all four major banks during the quarter and will continue to use rallies in the sector to increase call writing activities. The Fund has also maintained the existing put protection over most of the major companies as this continues to serve the Fund well and in the event of an extended sell-off, will offer targeted protection over a large part of the index.

December proved to be another weak month for Macquarie Bank, mirroring the performance of their offshore peers. That said, the stock now sits at the levels first traded in April. The Fund has covered the existing short call position during the quarter and remains unwritten. A bottoming in the pullback and a resumption of the positive momentum in the stock may provide opportunities to write calls in coming weeks.

Resource and Energy Sector

As already mentioned, the oil companies were hit particularly hard as a falling oil price gave extra impetus to the selling over the quarter. Santos and Origin were the worst hit. The Fund covered its written calls in all the major oil companies. Despite the higher premiums on offer, the investment manager has held off further call writing due to the extreme pull-back. The Fund will look for signs of a stabilising oil price, to support a positive rebound in stock prices, before implementing further call writing.

BHP and Rio Tinto both held up well in a difficult market. The spot iron ore price remains around the \$70 per tonne level (in US dollar terms) which has surprised investors, particularly as there are clear signs of a slowing Chinese economy. With production costs for a tonne of iron ore in the low teens, both companies are generating an enormous amount of free cash flow, which is increasingly being returned to shareholders. The Fund remains lightly written across both companies. BHP will pay a special dividend of \$1.40 per share in January, on top of their regular half yearly dividends, bringing the 2019 dividend yield including franking of 12.5%.

Newcrest Mining had a strong quarter, finishing up by 12%. With markets increasingly volatile, money has been quick to flow into safe haven companies. The Fund holds a partially written position in the company and returns for Newcrest Mining going forward seem largely reliant on the outcome of China and US trade negotiations and US interest rates.

OZ Minerals was a solid performer over the quarter. Whilst the stock did fall during the period, it has been held as a full buy-write position. Option premiums are trading at the top end of the two year average, providing attractive returns. The Fund has covered the January out-of-the-money calls and rolled them into February and March.

The Fund added upside calls in Bluescope Steel, increasing the Fund's exposure to the company, post its recent sell down. With implied volatility trading considerably below the realised volatility, it screened as a good opportunity to risk manage the Fund's exposure to the company. The stock finished the quarter under \$11. Analysts are currently showing an average 12 month price target of \$16. Even allowing for future downgrades, the stock still offers plenty of upside should markets bounce in the short term.

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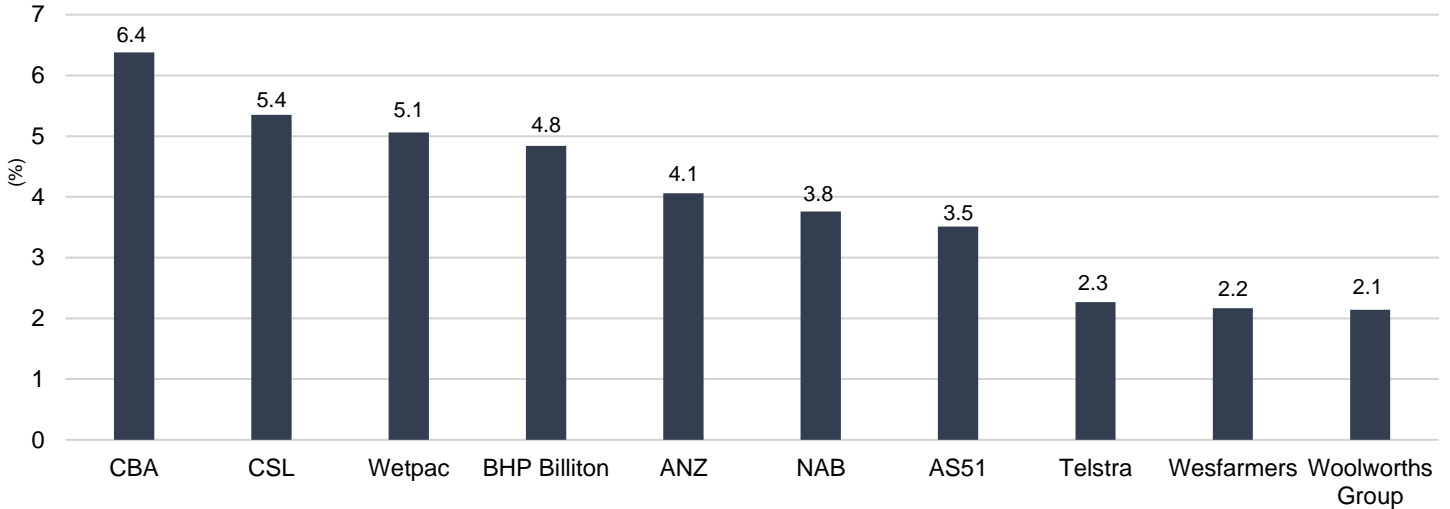




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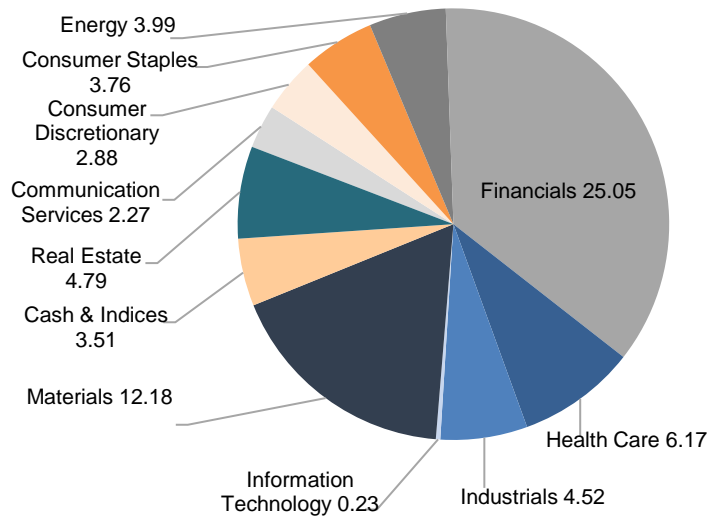
Top 10 holdings - Delta exposure (%)



Stress testing

	Impact on PL %	Delta %
Heavy Selloff	-13.40	56.00
Moderate Slide	-3.70	70.00
Up Trend	3.90	82.00
Strong Rally	16.20	85.00

Sector delta exposure (%)



Important information

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