Ironbark Denning Pryce Australian Tailored Income Fund

Quarterly Investment Report as at 31 March 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

$16.2m

Exit Price

$0.7038

Market Review

Looking back on the recent quarter,

- Inflation fears have given way to concerns around a potential trade war.
- Volatility has held up after the spike.
- Option premiums are now pricing at the top of the 5 year range.
- July options look the best value for outright hedges.

Markets continued to exhibit high levels of volatility during March. The volatility clearly remains at the forefront of investors' minds, with the month of March following a similar pattern to February.

- 9 of the 21 March trading days saw a move of greater than 1% on the S&P 500.
- Option premiums are now pricing at the top of the 5 year range.

Volatility is largely due to Donald Trump's 'tweets' relating to the US trade deficit and to Amazon. It is not new that Trump is "expressing" himself on Twitter, however with nervousness in the market there is a magnification of market volatility. The Amazon price dropped 11% following Trump attacking the company over its tax status, its retail dominance and its relationship with the US Postal Service.

Volatility remains present in the market and this will remain the case into the foreseeable future.

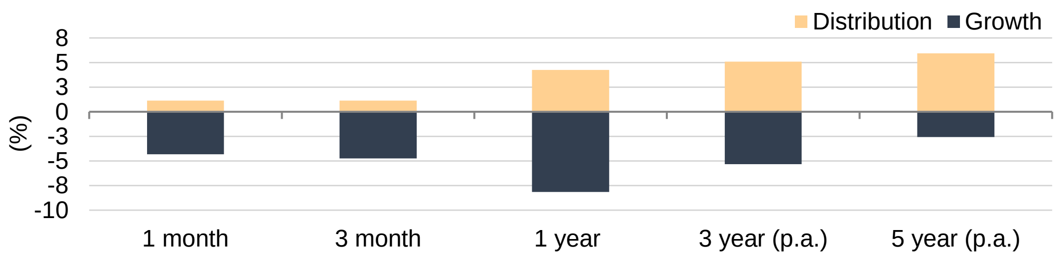
Australia has not been immune to the increasing volatility. Prior to March, the Australian Indicies had been slow to react, however March saw the S&P/ASX 200 fall 4% on US headlines. Banks, under a Royal Commission, continue to be the losing sector.

Performance Review

The Ironbark Denning Pryce Australian Tailored Income Fund (the 'Fund') returned -3.59% (net) over the March quarter, outperforming the benchmark retun of -3.90% by 0.31%.

The Australian market absorbed much of the volatility during the quarter with both January and February finishing largely flat. March proved to be the weakest month. The Royal Commission into the Australian banks weighed heavily on the market. Post the financials crisis the banks now sit at trading levels reached in 2013. It has been a difficult time for the majors, and it has not been helped by poor business practices that are now coming to light. Macquarie by contrast remains one of the best performers and finished up 3.28% for the quarter.

Performance



	Total Return[1] (Net) (%)	Benchmark Return[2] (%)	Active Return (%)
1 month	-3.20	-3.90	0.70
3 months	-3.59	-3.90	0.31
1 year	-3.89	0.69	-4.58
3 years (p.a.)	-0.24	2.36	-2.60
5 years (p.a.)	3.38	6.99	-3.61
7 years (p.a.)	4.04	7.20	-3.16
10 years (p.a.)	4.91	5.65	-0.74
Since inception[1] (p.a.)	4.73	5.73	-1.00

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.

Contact Details

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Performance Review (cont'd)

Away from the banks, Telstra resumed its slide despite trading well into Christmas. In recent months it appeared that the company had put their recent setbacks behind them. The stock consolidating around the $3.50-$3.60 level seemed to confirm this. However, a poor earnings report saw the stock under pressure again and the name finished lower by 13.5%, excluding dividends.

The Fund finished the month maintaining a 77.8% market exposure.

The ASX 100 finished lower by 3.90% for the quarter. As with recent quarters many of the smaller cap names have traded well. This quarter was no exception with a2 Milk ('A2M') finishing up 60%. The name entered the ASX 100 in January and had an immediate influence on the index. This caused a benchmark impact as the Fund does not hold A2M. With an initial index weight of 40 basis points and having no listed option, A2M had not been an area of focus for the Fund. The investment manager remains focused on creating a portfolio that blends the best of equities and options to give a low risk outcome for investors.

It is worth reiterating that the investment manager's observations that a higher interest rate environment combined with several 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). As the market works out where it wants to trade in the short-to-medium term, the investment manager maintains that this higher volatility environment will continue to provide opportunities for the Fund moving further into the year.

Financials

The major bank names remain under pressure as the Royal Commission continues to impact any confidence that was building in the sector. Westpac ('WBC') (-8.7%) and Commonwealth Bank ('CBA') (-10%) were the worst of the majors. The Fund has written calls over all of the majors. With the big four retreating further from their December highs, the investment manager has bought back many of the Fund's written calls. Option premiums in National Australia Bank ('NAB'), ANZ Banking Group ('ANZ'), CBA, and WBC have continued to rise over the March quarter and now sit in the mid-50th percentile range of the 2 year average. This will increase buy-write returns in the sector.

CBA traded ex-dividend and franking credits during the month providing a 4% grossed up return for the 6 month period. The Fund was able to collect the full dividend and associated franking credits and had written calls to collect the extra income in the name.

The Fund currently holds put over, CBA, WBC and NAB having added these protective positions ahead of the Royal Commission into the banks and their practices.

Retail

Wesfarmers ('WES') and Woolworths ('WOW') had mixed results over the quarter. Woolworths fell broadly in line with the market, reporting reasonably well mid quarter. The Fund collected the dividend and franking credits from the March dividend, however with premiums trading at the bottom of the two year average, there has been limited call writing opportunities in the name. This caused the investment manager to prefer to own puts, knowing that should there be further market weakness the Fund is well protected.

Wesfarmers had a mixed quarter, as their venture into the UK home improvements market was a disaster, costing the firm a $1 billion asset write down at their most recent result. The quarterly performance was saved somewhat by the announcement that the company will be looking to spin-off and list their Coles Supermarkets. The announcement saw an immediate 6% bounce in the stock. The Fund saw this as a volatility opportunity, selling call options over the stock and buying put options to protect the 6% gain. It was a good trade for the Fund as the stock gave back the bulk of the gains over the following 2 weeks. The Fund has taken profits on the trade by partially closing the put position.

Resource and Energy Sector

Rio Tinto ('RIO') and BHP Billiton ('BHP') finished the quarter broadly in line with the market. For RIO it was the first negative return for a quarter since March 2016, which ended a remarkable run. The stock has continued to pay down its debt and is rapidly increasing their dividend payouts to shareholders. The stock remains a success story in what has been a challenging sector in recent years. Having traded at multi-year highs the investment manager has taken the opportunity to write calls over the name and also hold a put, protecting the downside.

The Fund remains well written in BHP. Volatility, hence premiums, have gradually increased over the course of the last three months and the stock has continued to oscillate between $28 and $30, which has benefitted the Fund's buy-write positions. With the company returning to their progressive dividends policy the stock has been well supported in the short to medium term. Moving into the middle of the year the Fund does hold some protection in the name around the $27.50 level.

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Performance Review (cont'd)

South32 ('S32') had a large range over the quarter. An insipid half year result, with both disappointing earnings and outlook, gave the market an excuse to take profits and sell the stock lower. The Fund has closed out the majority of the physical holding during the quarter and replaced the exposure with a long call. This worked well as the stock fell 13% during the month. The Fund has since used the pull back to write short cash backed puts as the investment manager looks to re-enter around the $3.30 level. Premiums remain high due to the large moves in recent weeks.

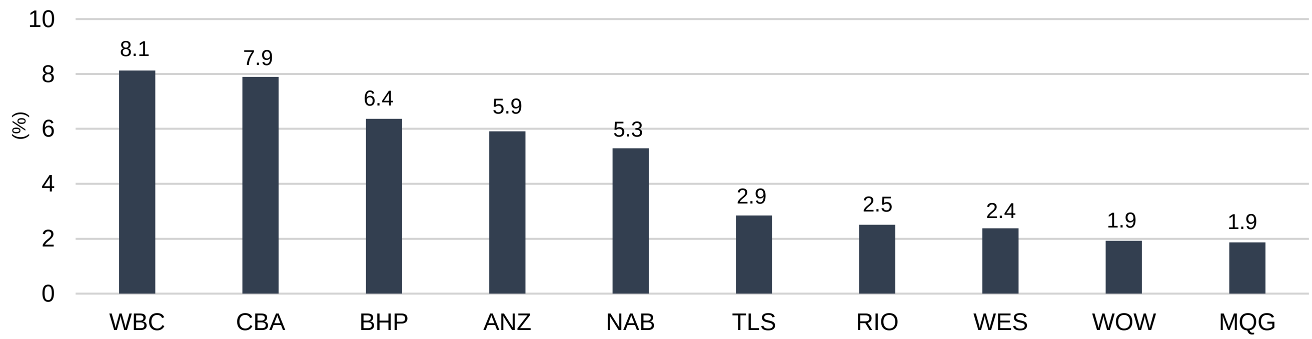
Fortescue Metals ('FMG') continues to struggle, down 11% this quarter which is the 4th successive negative quarter for the name.

Woodside ('WPL') has consolidated and moved higher with the oil price post their $2.5 billion rights issue. The Fund holds a physical share position and has complemented this with short cash backed puts which take advantage of the higher premiums on offer.

Index Positioning

The Fund has maintained the existing S&P/ASX 200 index long put position. The Fund currently holds May index protection around the 5600 level.

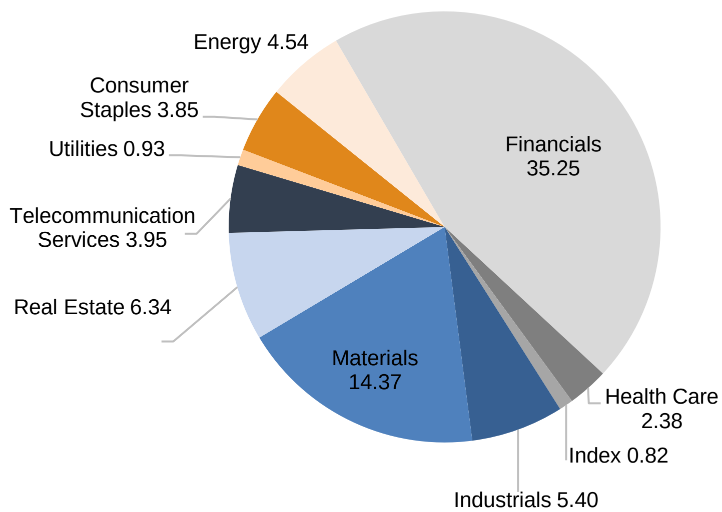
Top 10 Holdings- Delta Exposure (%)



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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