



# Ironbark Denning Pryce Australian Tailored Income Fund

Quarterly Investment Report as at 31 December 2017

## 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

\$0.7387

## Market Review

US and global markets continued their extraordinary run. Including dividends in the total return, the S&P/500 has traded higher for the last 14 months. It is a move that has seen index volatility, and general market volatility, slumping to new lows. To provide a little colour on these numbers the S&P 500 has, on average, moved 42 basis points a day over the last 12 months. By way of an extreme comparison, at the height of the Global Financial Crisis the same Index moved 290 basis points per day between March 2008 and April 2009.

The Australian market had a positive quarter with the S&P/ASX 200 finally breaking through the 5750 level to finish at a 10 year high of 6065. The 6.75% return for the ASX index was led by materials and energy names. BHP Billiton ('BHP') and Rio Tinto ('RIO') finished higher by circa 14%. There was strength in ex-ASX 50 stocks, Bluescope Steel and Oz Minerals. As to energy names, Woodside Petroleum ('WPL') was up 13.7% after Shell sold down the last of their holding, and both Oil Search ('OSH') (up 11.3%), and Origin Energy ('ORG') (up 25.6%) continued to benefit from the bounce in oil. Santos was a winner after a US entity approached the company with a \$4.55 takeover bid which was swiftly rejected.

After a brief rally in premiums into the middle of December, the S&P/ASX 200 Index volatility collapsed into the Christmas period. It remains near its lows and with market volume falling away over the holiday period, it finished with premium heavily offered. Post a strong rally in markets the decrease in premiums, in absolute terms, are viewed as an opportunity to add put protection into the New Year.

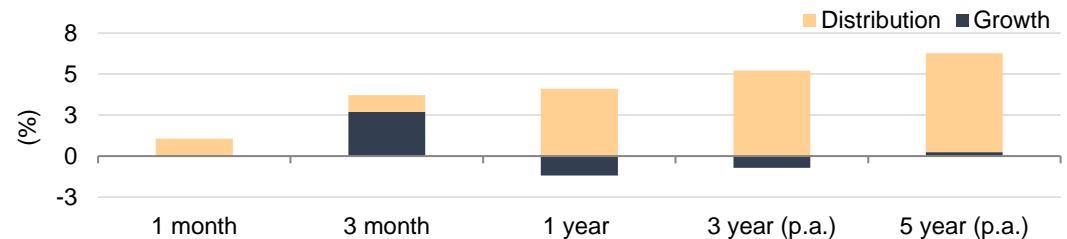
## Performance Review

The Ironbark Denning Pryce Australian Tailored Income Fund (the 'Fund') returned 3.43% (net) over the December quarter.

As mentioned previously, the quarter was highlighted by the S&P/ASX 200 finally breaking through the 5750 level to close at a multi-year high of 6065. Despite a myriad of negative articles around housing and the economy, sentiment continues to be positive in Australia. A 6.75% quarterly return for the market was an excellent result.

The Fund finished the quarter with 72% market exposure. The Fund continues to hold a portfolio of what the investment manager considers to be the best combination of equity and options. This enables the Fund to reach its stated investment objective

## Performance



	Total Return <sup>1</sup> (Net) (%)	Benchmark Return (%)	Active Return (%)
1 month	0.97	1.71	-0.74
3 months	3.43	7.07	-3.64
1 year	1.85	10.04	-8.19
3 years (p.a.)	3.43	7.20	-3.77
5 years (p.a.)	5.13	9.64	-4.51
7 years (p.a.)	5.25	8.41	-3.16
10 years (p.a.)	4.20	4.45	-0.25
Since inception <sup>1</sup> (p.a.)	5.16	6.22	-1.06

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.

<sup>1</sup>This figure represents the annualised performance of the Fund since inception.

## Contact Details

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## Performance Review (cont'd)

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### Financials

The pull-back in the bank sector during the quarter allowed the Fund to buy back existing short call options as they traded out of the money. As expected, near-dated optionality was sold down into the Christmas period. Bank premiums retreated to sit around the tenth percentile of the two year average. The Fund has rolled part of its written call positions down to lower strikes (however is positioned to write more optionality should there be a short-term bounce in the sector).

The Fund continues to hold long put positions in both National Australia Bank and Westpac.

Commonwealth Bank is a combination of shares and an out-of-the-money call option. With the stock having pulled back on the money-laundering scandal the investment manager prefers to hold a smaller equity position and manage the Fund's upside exposure through long calls. The stock has been the best performing of the big four.

Macquarie Bank finished the quarter as the best performing of the large cap financial names. The Fund's existing call position was converted into physical shares ahead of the dividend. The trade worked well as the Fund benefitted from the 11.83% move higher in the stock (including dividend) and collected the associated franking credits. The Fund has also written calls into the recent strength, to collect extra premiums.

AMP has continued to lag the market, trading around the \$5 to \$5.25 level. The Fund has written calls over the name during the course of the year. With premiums falling into the back end of December, the holding has been repositioned by closing out the written calls and adding long puts. These puts take advantage of the cheap volatility on offer and provide downside coverage into the February reporting period.

### Resource and Energy Sector

The resource sector finished a very strong quarter trading to multi year highs. RIO (up 13.95%), WPL (up 13.68%) and BHP (up 14.7%) were the best performing of the majors. With oil and iron ore prices bouncing in recent months, BHP's share price has been a beneficiary. The turnaround has been quite remarkable for the S&P/ASX 200 heavyweight, as it has been less than two years since the stock traded as low as \$14.05 during the resource rout.

The Fund has continued to sell calls over 25% of the existing holding in BHP. With option premiums beginning to fall away into the back end of 2018 the fund wrote longer-dated options. With BHP due to report its half yearly results in February the Fund will look to roll these existing positions as the option premiums increase over the reporting period.

The Fund continues to hold long call positions in lieu of stock in RIO. The existing position has been rolled into higher strikes as the stock has continued to rally. The existing long call positions have been good income generators for the fund and have also allowed the fund to hold its resource exposure at a lower risk.

Energy names benefitted from the rally in the underlying oil price. Spot oil is up 32% since June quarter end, a move which has flowed through to the underlying stock. WPL and OSH were two of the best performing names in the Fund. WPL is held in the form of a short cash-backed put and long upside call. The structure worked well as WPL traded higher by 13.7%. The Fund has since collected the short put premium and remains long the January call.

The Fund added a long out-of-the-money call position in BSL. The position was funded by a short cash-backed put. BSL issued an upgrade to its earnings in December and rallied 13% resulting in a good outcome for the Fund.

Fortescue Metals had a forgettable quarter, finishing down 5%. Despite a 6% rally in December, the stock has continued to underperform both the broader resource sector and the spot iron ore price. Iron ore has jumped 12% over the quarter. The investment manager remains written in a short cash-backed put which has profited as the stock has remained around the \$4.90 level.

### Retail

December proved to be a positive quarter for both Wesfarmers and Woolworths. Both stock prices have absorbed the initial impact of the arrival of retail giant Amazon. The market expectation of fierce competition impacting margins for the two major retailers in Australia are said to have been exaggerated, at least in the short term. Wesfarmers traded well in recent weeks with its Bunnings franchise continuing to generate large profits. The investment manager has written calls over the name after its recent run higher.

### Stress Testing

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	Impact on PL%	Market Exposure (%)
Heavy Selloff	-7.00	58.82
Moderate Slide	-2.18	62.36
Up Trend	2.48	76.88
Strong Rally	10.05	72.31

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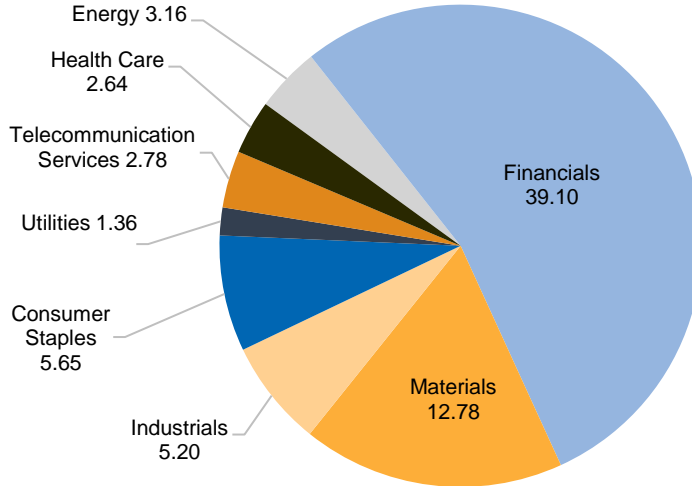




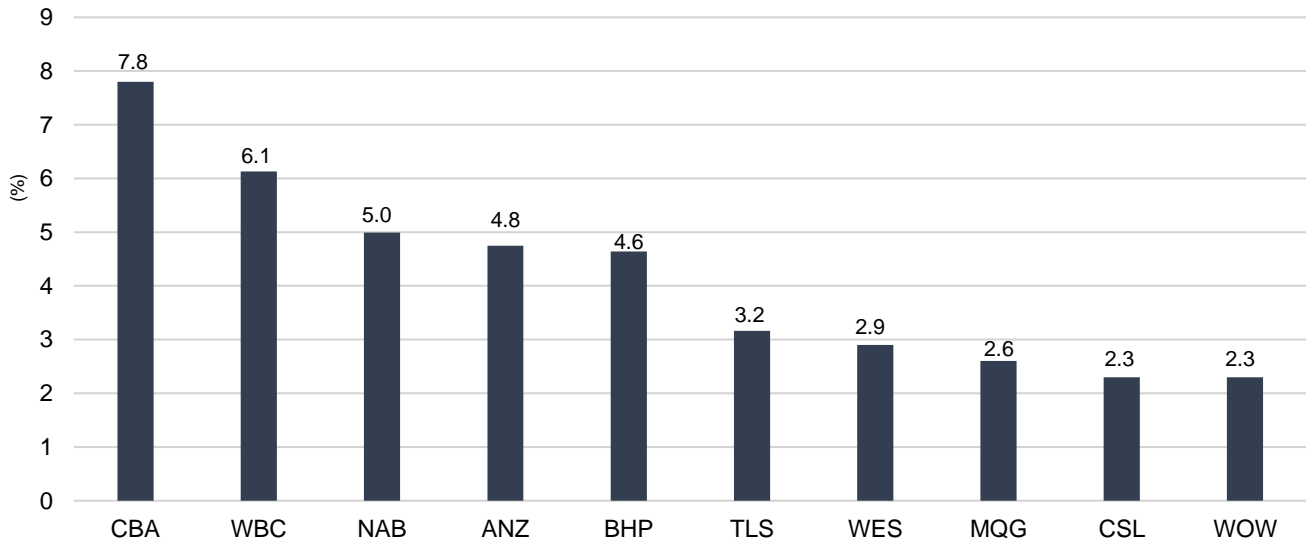
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## Sector Exposure (%)



## Top 10 Holdings- Net Exposure (%)



## Important Information

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