Ironbark Denning Pryce Australian Tailored Income Fund

Quarterly Investment Report as at 30 June 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

$16.4m

Exit Price

$0.7351

Market Review

Volatility has continued to remain at elevated levels into the middle of 2018.

Global volatility has been well supported, the US now sitting in the 65th percentile of the two year average (based on the investment manager's model), implying there is concern about the market in the near-term. After a brief respite in late April and into May, all sectors are experiencing higher volatility as the second half of 2018 approaches, the investment manager sees little reason for volatility to trade to lower levels.

Two factors in particular are impacting markets:

- Speculation of an impending trade war. China and US are the main protagonists, yet Europe is being drawn into the fight. The longer the chatter continues the more serious the market ramifications will be. The probability of an escalation may be increasing.
- Concerns are re-emerging over the state of the Chinese economy. However there is nothing new in this speculation as the issue was ever-present 2 years ago. Renewed concerns regarding slowing growth and an increasing debt burden have seen China's A-shares fall 18% since February.

Performance Review

The Ironbark Denning Pryce Australian Tailored Income Fund (the 'Fund') returned 5.24% (net) for the June quarter, underperforming the benchmark return of 8.45% by 3.21%.

The major mining and materials were amongst the best performers over the quarter. BHP Billiton and Rio Tinto were up 20.2% and 14.8% respectively as iron ore and oil prices remain elevated. Oil companies finished the quarter with a June rally, Oil Search, Santos and Woodside all rallying.

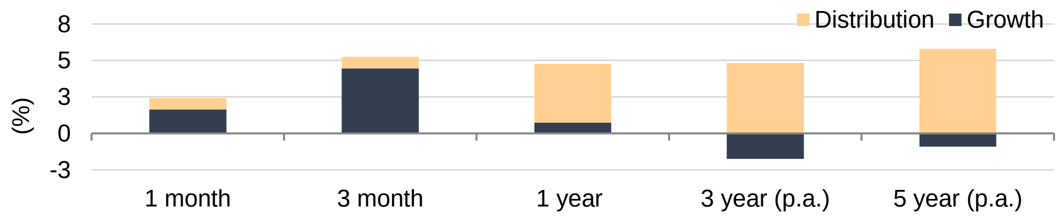
The S&P/ASX 200 finished the quarter up 7.56%, the best quarterly return in five years. The banks managed to find some buying support near their 2013 lows. AMP and Telstra continue to incur investor discontent, finishing lower.

The Fund finished the quarter with a 69% market exposure.

Financials

Macquarie was the standout performer in the financial sector (up 20.2% for the quarter) the company has continued to outperform global and domestic peers. The Fund has written calls in the $110 level, taking advantage of the elevated premiums at the time of their company earnings. With the stock now trading at the $123 level the Fund will look for any pull backs in the stock to roll the short call position.

Performance



	Total Return[1] (Net) (%)	Benchmark Return[2] (%)	Active Return (%)
1 month	2.42	3.46	-1.04
3 months	5.24	8.45	-3.21
1 year	4.77	12.05	-7.28
3 years (p.a.)	3.09	7.57	-4.48
5 years (p.a.)	4.90	9.03	-4.13
7 years (p.a.)	5.21	9.02	-3.81
10 years (p.a.)	5.62	6.58	-0.96
Since inception[1] (p.a.)	5.07	6.32	-1.25

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

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

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Performance Review (cont'd)

The financial services Royal Commission hung over the Australian financials for much of April and May. June saw a rally in the sector as it appeared the worst of the news had been confirmed. Whether this proves to be the case as the full report and recommendations are only due in the new year. National Australia Bank was the worst performing major bank, finishing largely unchanged (inclusive of the May dividends). Commonwealth Bank of Australia, Australia New Zealand Bank and Westpac all returned small gains in what was an otherwise excellent quarter for the S&P/ASX 200.

A combination of call writing and put protection, underwriting the Funds exposure to weak stocks helped to protect from the worst of the downside. The Fund has maintained these positions moving into the new financial year.

Expected future volatility has continued to oscillate on the numerous headlines that have emanated from the sector. Sitting between the 35th and 60th percentile of the two year average (based on the investment manager's model), the Fund has typically looked to add written calls when premiums trade at the higher end of the range.

Resource and Energy Sector

The resource and energy companies were some of the best performing stocks in the index. Demand for oil remains strong, driving the spot oil price into the $70's (per barrel in US dollar terms) for the first time since November 2014. Oil Search, Santos, and Woodside all traded higher by circa 23%. The investment manager has written calls over both Oil Search and Woodside after their June gains.

A long call holding in Caltex benefited from a strong bounce in the company. The stock finished higher by 10.5% in June, post solid selling in the stock in April and May. With the selling pressure easing in the company the stock rallied throughout June. The Fund has since taken profits on the position by partly writing against part of the holding and rolling the calls out and up to a higher strike.

Rio Tinto (up 14.8%) and BHP Billiton (up 20%) both had solid quarters on the back of strong commodity prices. The Fund has continued to roll written call positions, which are held in BHP Billiton, out to longer dated, higher strikes. Even as the stock has moved into a higher ($32-$34) trading range, option premiums continue to remain attractive for call writing. The Fund has also written calls over Rio Tinto at the $82 level.

Health care

CSL continued on its strong run toward $200. The stock finished up 24% for the June quarter and is higher by 44% for the financial year. The stock remains one of the top momentum stocks in the S&P/ASX 100 over the last three years. With the stock at all-time highs, the Fund holds the existing position in the form of shares, having converted a long call, and long the $194 calls. This allows the Fund to both better manage the risk, limiting the downside, and maintain upside exposure to the company.

Retail

Wesfarmers closed the quarter higher by 18.8%. The Fund has continued to write calls over the holding, rolling the call strikes higher with the stock movement and now sits written over the majority of the holding.

Retail

Telstra continued to struggle and has been the largest drag on performance for the Fund. The company's recent strategy day saw yet another write down in profit expectation resulting in the stock falling 16.5%. The Fund holds puts in the company protecting the downside in the company. The written calls partly funded the puts.

Index positioning and protection

With the index trading at the 6200 level single stock volatility, dispersion across sectors, remains the Fund's biggest risk. Banks, AMP and Telstra collectively make up 29% of the ASX 100 and have been a big drag on overall market performance in recent months. The Fund prefers to hold put protection in these companies, rather than in the overall index, where strength in other companies has led to lower net volatility at the index level.

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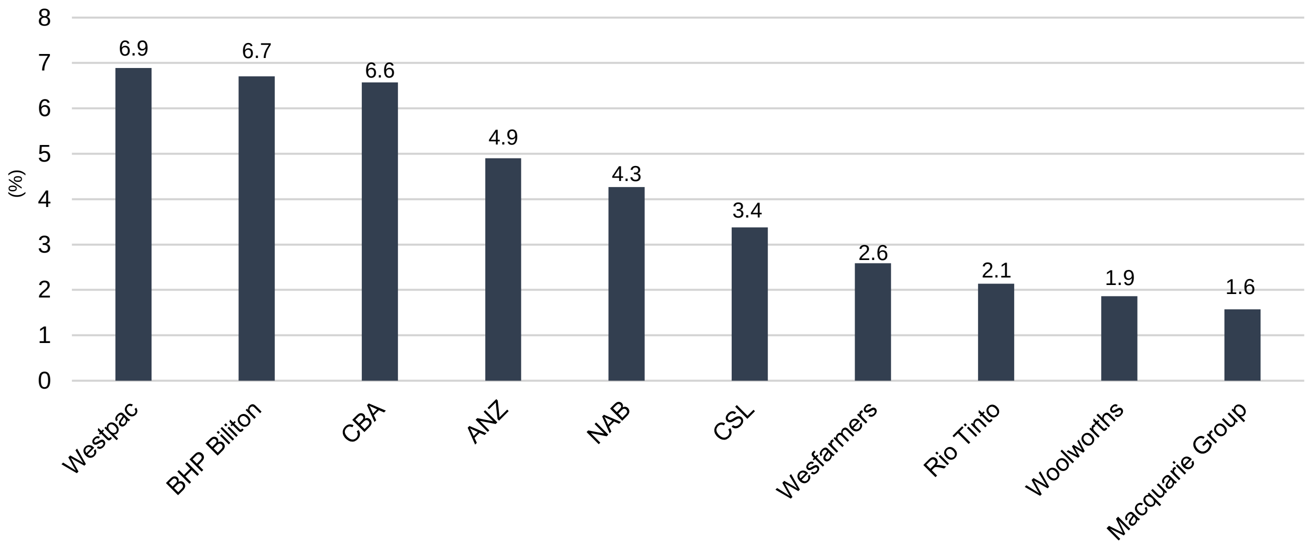
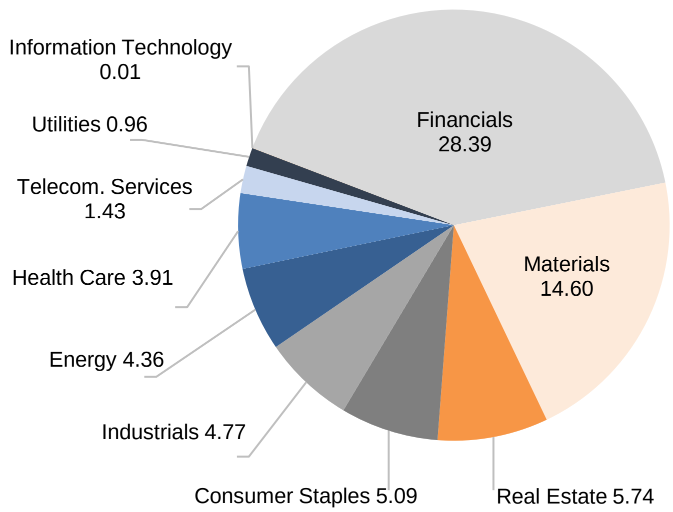
Top 10 Holdings- Delta Exposure (%)



Stress Testing

	Impact on PL %	Delta %
Heavy Selloff	-9.00	54.43
Moderate Slide	-2.60	57.89
Up Trend	2.98	75.97
Strong Rally	13.40	79.20

Sector Delta Exposure (%)



Important Information

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Ironbark ASSET MANAGEMENT