Ironbark Denning Pryce Global Tailored Income Fund

Monthly Investment Report as at 30 April 2018

Asset Class

Global Equities

Investment Objective

The Fund aims to provide consistent total returns with less volatility than the global share market over 5 to 7 year periods. In addition, the Fund aims to pay distributions within a target range of 4% to 6% per annum.

APIR Code

ZUR0591AU

ARSN

136 845 148

Fund Inception Date

25 July 2011

Fund Benchmark

MSCI World Net Total Return Local Index

Distribution Frequency

Quarterly

Minimum Investment

$20,000

Fund Size

$48.2m (FUM inclusive of retail, wholesale and institutional classes)

Exit Price

$1.0301

Market Review

Positive market returns for April saw a stabilisation and a gradual move lower in volatility pricing. In a positive sign for markets, the aggressive moves witnessed in February and March subsided through April.

Volatility pricing continues to trade well above the December lows. In the eighty-two trading days in 2018, there have been thirty-one days where there has been a move of greater than 1%. In 2017, there were just seven such days. It is unsurprising that volatility remains elevated at around the 60th percentile of the two year average.

The European and US earnings season continued to add to the market volatility. In the US, stocks that have slightly disappointed, or been in line with expectation, have been hit hard. The big winners were the companies that reported large out-performance for the quarter, or those companies that have bounced off recent lows.

US and Europe

Towards the end of April, 80% of US companies had beaten expectations in the recent earnings season. Despite this, investors were slow to support the market. Comments from market heavyweight Caterpillar ('CAT') that the most recent earnings period was "as good as it gets", led to market commentators suggesting that it may have been "peak earnings." Despite this, CAT raised their earnings outlook by 20%. In the US the growth story remains intact, but any tolerance to absorb misses on estimates is increasingly becoming more volatile.

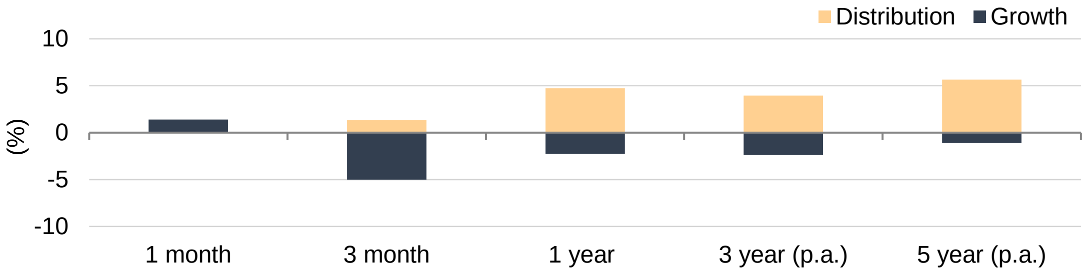
The S&P 500 finished the month largely unchanged. Rotation into European markets drove returns. The DAX (up 4.26%), CAC40 (up 6.84%) and the UK (up 6.42%) reflected the sentiment. The strengthening US dollar ('USD') helped European exporters find renewed investor support.

Australia

The Australian market had a positive month, with the ASX 200 finishing higher by 3.88%, even as the Financial Services Royal Commission weighed on financial companies. The four major banks finished largely unchanged, with National Australia Bank finishing higher by 1.6%. AMP was the biggest loser, down 19%. Materials, and consumer and health care companies were amongst the bigger winners.

Volatility in Australia remains at the low end of the scale when compared to global peers. Volatility remains in the 30th percentile of the two year average, reflecting the fact that the Australian market has mainly avoided the extremes of offshore volatility.

Performance



	Total Return[1] (Net) (%)	Benchmark Return[2,3] (%)	Active Return (%)
1 month	1.40	1.94	-0.54
3 months	-3.65	-3.93	0.28
1 year	2.48	3.86	-1.38
3 years (p.a.)	1.55	4.01	-2.46
5 years (p.a.)	4.59	5.94	-1.35
Since inception[1] (p.a.)	5.95	6.36	-0.41

Past performance is not an indication of future performance. Net performance figures are calculated using exit price, net of fees and reflects the annual reinvestment of distribution.

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

[2] The MSCI World Net Total Return Local Index was adopted as the Fund's performance benchmark on 1 February 2018. Benchmark calculations prior to this date are based on the 50% MSCI World Accumulation Index / 50% Bloomberg AusBond Bank Bill Index. Source: Morningstar Direct.

[3] The performance of the MSCI World Net Total Return Local Index is comprised of multiple currencies and is based on the local currency of the listed holdings.

Contact Details

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Market Review (cont'd)

Volatility

Volatility has trended lower from its highs in February and March. Despite the decrease, markets remain reactive to news and the investment manager does not anticipate further large moves lower in volatility. Concerns for investors include inflationary pressure and interest rate rises, and now, fears that US companies may be reaching "peak earnings".

Donald Trump's political and economic issues include:

- negotiations with Iran and North Korea over their nuclear future,
- trade tariffs and the US trade deficit
- drug prices in the US
- Amazon and its market dominance

Trump's erratic style of politics has unsettled markets in 2018. If the markets continue to react to his attacks, further volatility is to be expected.

Volatility opportunities

The Funds sees the recent drift lower in volatility as an opportunity to accumulate a long volatility exposure, either through specific long volatility (hedging strategy) or increasing the Fund's put protection.

It is important to observe the previous market lows, as a guide to where volatility can trade. This applies to both single stock and index optionality. It then becomes an exercise in pricing the potential downside against the return from protection, in the event that the market falls away.

Performance Review

The Ironbark Denning Pryce Global Tailored Income Fund (the 'Fund') returned 1.40% (net) in April, underperforming the benchmark's return of 1.94% by 0.54%.

April was a positive period for the market with European indices leading returns for the first time in several months. Broad gains were made across various sectors. Philips ('PHIA'), BNP-Paribas ('BNP'), SAP, Royal Dutch Shell ('RDSA'), and Air Liquide ('AI') were the best performers for the Fund.

A long volatility position in PHIA benefitted as the stock traded higher by 13%. The stock has struggled in recent months as a strong Euro impacted export returns.

With the US 10-year Treasuries trading up through the 3% level the US dollar has seen a return to favour, rallying against its European peer by 4% in the last three months.

German software giant SAP had a positive month. The Fund's exposure is held in the form of a long call position which saw gains as the stock moved higher by 7.3%. The move snapped a 5 month losing streak.

A protected equity holding in RDSA was another of the big European winners for the Fund. The stock was higher by 12.5%. A positive earnings report and an oil price that has reached the $70 per barrel (in USD terms) level added to the positive sentiment in the company. Just over two years ago oil was trading at $26 a barrel (in USD terms) and the sector was weighing on the sentiment in the market as a whole. With OPEC cutting the oil supply and a clean-out in the sector, inefficient businesses have exited the industry, it appears that the industry now sits in a better space.

Air Liquide and BNP-Paribas both had a better month, rallying with the French Index. The stocks were up 8.61% and 6.33% respectively. The Fund has continued to write cash-backed puts over BNP. It is a trade that continues to work well, particularly in recent times, taking advantage of higher premiums on offer.

Astra-Zeneca ('AZN') and British Petroleum ('BP') were the best of the UK companies held in the Fund. BP reported well and the investment manager has turned the existing position into a buy-write as the company has reached recent highs. AZN is also held in the form of a buy-write.

Outside of Europe, and despite the solid earnings season, investor confidence in the US seems to have plateaued in the near term. The earnings season produced some excellent results with 80% of companies beating their earnings estimates. Upon this, the S&P 500 managed a small gain for the month.

US listed stocks remained the best performers in the Fund, outperforming both European and Japanese holdings. Europe continues to struggle and with Trump continuing to move toward more "isolationist policies", namely trade barriers and tariffs, there has been a growing concern regarding the impact it will have on the major industrial powerhouses in Europe. Germany was the weakest of the European markets falling 6.35% in the quarter (February to April).

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Performance Review (cont'd)

The best performers for the Fund continue to be the major technology companies. The earnings season continued to highlight the outperformance of some of the majors. Visa ('V'), CSCO ('CSC'), Microsoft ('MSFT'), and Amazon ('AMZN') were the best. Amazon's result kept investors happy with the stock managing to shake off the worst of a Trump tirade and it finished higher by 8.21% for the month. The stock is now held in the form of a buy-write with volatility providing attractive returns (premiums trading in the 60% percentile of the two year average).

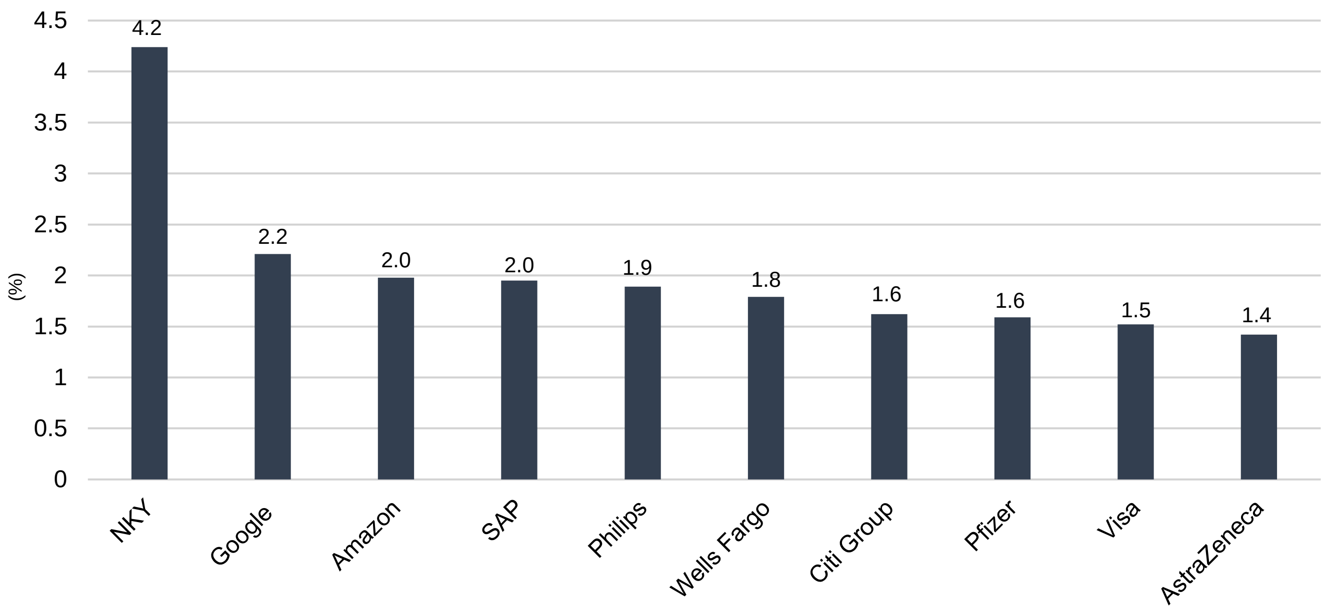
As somewhat of a surprise, Google ('GOOGL') remains the worst of the FAANG (Facebook, Apple, Amazon, Netflix, and Google) companies, down 14% in the last three months. Volatility remains at attractive levels given the significant move lower. The investment manager has maintained the Fund's existing volatility (active trading) position.

The worst of the technology companies was Flextronics ('FLEX'). The stock fell 20% after reporting its earnings result. The result itself was not bad, however the outlook disappointed some investors. The Fund's exposure was limited to the first 4% of the move due to the put protection held over the company.

The banking and financial companies finished the month largely unchanged. Citigroup ('C') was the best, perhaps due to their recent underperformance versus their peers, finishing higher by 1.2%. Bank of America ('BAC'), Wells Fargo ('WFC'), JP Morgan ('JPM') and Regions Financial ('RF') all closed flat for the month.

Volatility has remained elevated since mid-January and looks likely to remain at these higher levels for longer periods. Both volatility trading (buying well-priced options) and buy-writes (selling) have appeal in a market with both more movement and higher premiums.

Top 10 Holdings – Delta Exposure (%)



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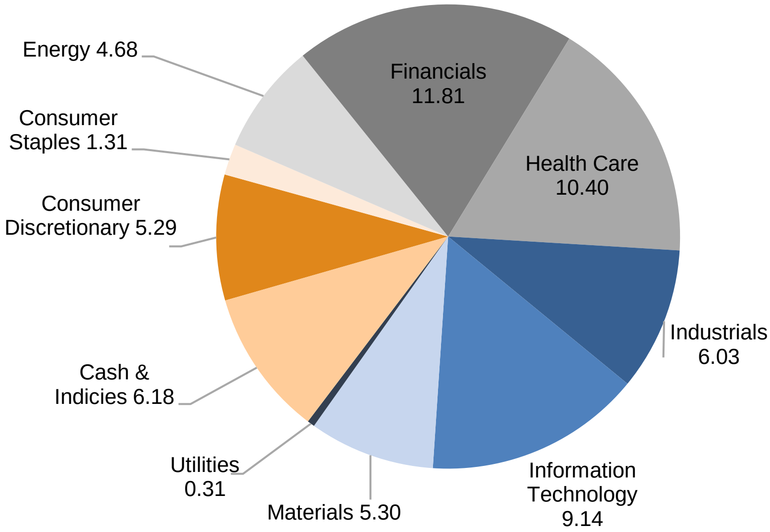
Stress Testing

	Impact on PL %	Delta (%)
Heavy Selloff	-7.00	46.84
Moderate Slide	-2.30	48.73
Up Trend	3.11	80.31
Strong Rally	13.33	67.27

Sector Delta Exposure (%)



Important Information

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Ironbark ASSET MANAGEMENT