Ironbark Denning Pryce Global Tailored Income Fund

Quarterly Investment Report as at 31 December 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

50% MSCI World Net Total Return Local Index and 50% Bloomberg AusBond Bank Bill Index

Distribution frequency

Quarterly

Minimum investment

$20,000

Fund size

$40.1m (FUM inclusive of retail, wholesale and institutional classes)

Exit price

$0.9426

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.

Multiple factors continue to drive this dramatic increase in volatility. Trump remains a major focus. Tensions continue to escalate in US and China relations, and with no end in sight, trade war concerns remain a constant threat. Recent Chinese economic data has also disappointed, highlighting a moderation in the growth of the Chinese economy. Trump continues to burn bridges in Washington, demanding sign off on funding for his Mexican wall and remains happy to have a partial shutdown in governmental agencies unless he gets his way.

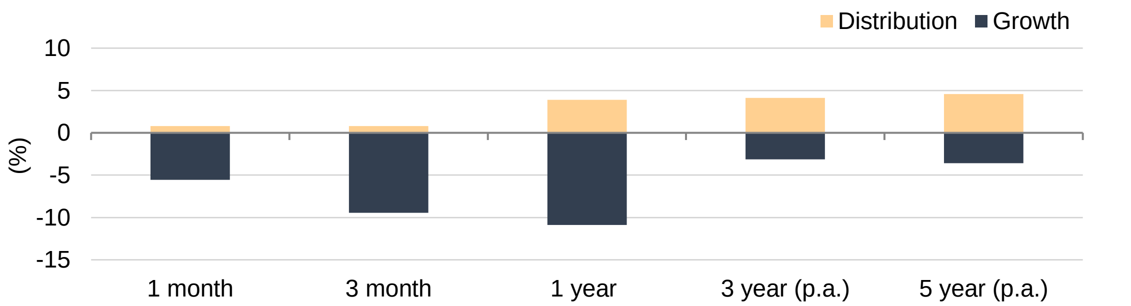
Unsurprisingly, the VIX, having traded in an 11-25 point range for much of 2018, peaked at 36 points during December, a 10 month high. The 5% rally in the S&P 500 eased fears of a further sell-down in markets. The sharp move higher was the 9th time this quarter that the market has reversed an intra-day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



Net returns (%)	1 month	3 month	1 year	3 years p.a.	5 years p.a.	7 years p.a.	Since inception p.a.[2]
Fund Returns	-4.76	-8.67	-7.00	1.00	1.00	5.06	4.51
Benchmark Return[1]	-5.68	-7.70	-6.47	2.75	3.38	5.92	5.11
Active return	*0.92*	*-0.97*	*-0.53*	*-1.75*	*-2.38*	*-0.86*	*-0.60*

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. 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 50% MSCI World Net Total Return Local Index and 50% 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 MSCI World Net Total Return Local Index, which was changed from the 50% MSCI World Net Total Return Local Index and 50% Bloomberg AusBond Bank Bill Index on 1 February 2018. Bloomberg and the Bloomberg AusBond Bank Bill Index are trademarks or service marks of Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg").

[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.

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Ironbark ASSET MANAGEMENT

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Performance review

The Ironbark Denning Pryce Global Tailored Income Fund (the 'Fund') returned -8.67% (net) in the December quarter, underperforming the benchmark's return of -7.70% by 0.97%.

The December quarter produced the worst two performing months for the S&P 500 in eight years, as continuing tensions between Trump and China dominate market direction. Both October and December saw heavy losses for investors as the market fell 7% and 9% respectively. Investors continue to react to any new headline, with many of the intraday market moves in December reminiscent of the Global Financial Crisis. Global economies remain in relatively good shape, however there is an admission that, for global corporates, the easy money may well be behind them.

Earning season begins in mid-January for northern hemisphere stocks. For global markets, this season more than ever is proving pivotal to the direction of markets in 2019. With many stocks having traded lower by 15%-30% over the quarter, it is arguable that some of the "potential" economic slowdown is priced in to current stock prices.

The Fund had a challenging quarter as markets struggled across the globe. With the average exposure sitting at approximately 60% relative to market, oscillating rapidly on the large moves. Despite the large sell off, elements of the Fund traded well. Health care, utilities and blue chip consumer stocks including Proctor and Gamble, Johnson and Johnson, United Health Group, Pfizer, and Coca Cola all outperformed the market. Proctor and Gamble was a standout for the Fund with a long holding in the company, the best performing stock of the quarter. Johnson and Johnson, despite concerns over a pending legal case, outperformed the market by 8%. Pfizer also had a solid quarter, with a buy write position trading well, with the stock down 1% over the three months. Utilities also had a good quarter and were largely unchanged. Their defensive nature saw safe haven buying as the market traded lower.

Volatility trading in several companies added to returns and partly protected the Fund against further losses. Volatility positions in Costco, Facebook, Thermo Fischer, Apple, Newcrest Mining, BHP Billiton and Coca Cola all traded well in the higher volatility environment. In Apple and Facebook, a fall of 30% and 20% respectively allowed the Fund to hedge the short options exposure as the stocks fell and lock in gains in both positions.

Thermo Fischer also added to returns. A solid earnings report meant little in a falling market, with the Fund having added puts to the holding post a strong November. They acted to protect and create a synthetic short positon as the stock fell 10% in December. The stock remains one of the Fund's larger holdings (1.5% physical). With an analyst price target of 17% above today's price, a positive earnings announcement in late January will be crucial in driving future gains.

Industrial companies were some of the worst performing for the quarter. Caterpillar, Dow DuPont, Raytheon, and Honeywell all underperformed the market. The main concern is that the lingering trade war will continue to impact these companies, which are heavily reliant on a buoyant global economy for growth. Caterpillar has been converted from a buy-write position and is currently held as a volatility position. The stock has moved on average 2.5-3.5% a day for the last two months and the aim of the trade is to capture these moves, both up and down.

Financial and information technology companies were the worst performing for the Fund over the quarter. Cisco, Visa, Adobe, Microsoft, Google, and Amazon all saw significant losses, profit taking and aggressive selling. Amazon (down 25%) and Adobe (down 16%) were the worst performing. Amazon rallied apporximately 11% in the last days of December, however losses were realised on the existing buy-write holding.

Financial companies came under enormous pressure. The Fund has lowered its overall exposure to the sector in recent months, yet there were still some big losses in the sector. Citigroup (down 27%) and Bank of America (down 16%) were the worst performing. Citigroup was the victim of a brutal 14 day losing streak which saw the stock plumet 24%. A long put position protected the Fund from the worst of the losses. The company reports on the 15th of January and the options market is implying an expected move of 4%.

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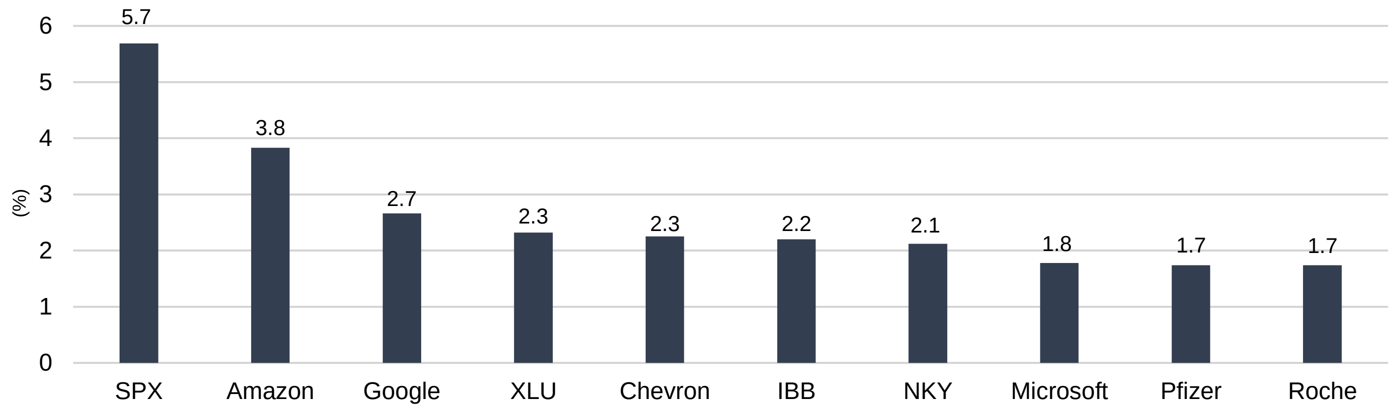
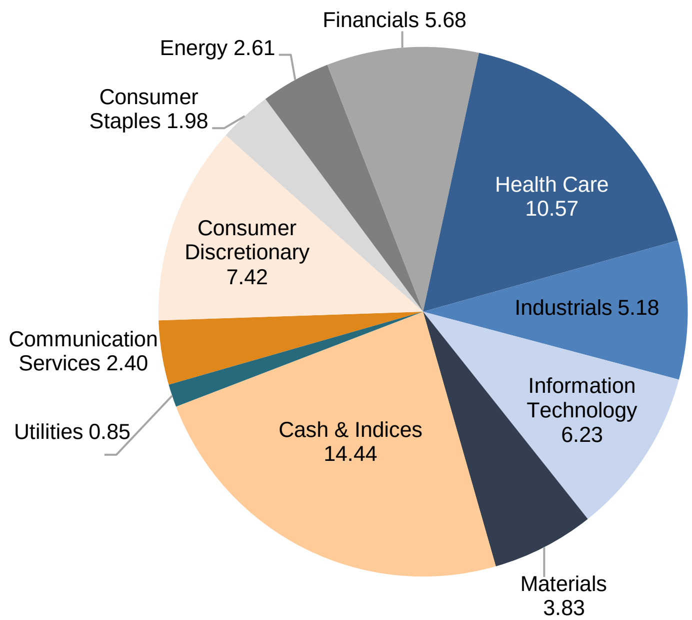
Top 10 holdings – Delta exposure (%)



Stress testing

	Impact on PL %	Delta %
Heavy selloff	-7.30	21.00
Moderate slide	-2.70	44.00
Up trend	3.50	79.00
Strong rally	17.60	107.00

Sector delta exposure (%)



Important information

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