



Ironbark Denning Pryce Global Tailored Income Fund

Quarterly Investment Report as at 30 September 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

\$45.7m (FUM inclusive of retail, wholesale and institutional classes)

Exit Price

\$1.0407

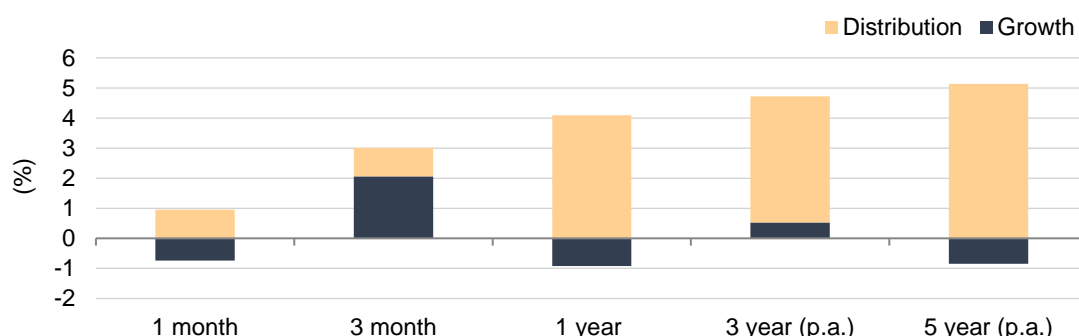
Market Review

September saw global volatility continue to oscillate. A now familiar burst of volatility occurred mid-month as Donald Trump was once again the catalyst. Concerns remain that his proposed tax on \$200 billion (in US dollar 'USD' terms) of Chinese imports will ultimately lead to a sharp escalation in trade tensions. There were signs that financial markets are either becoming indifferent or more accepting of these news headlines. S&P 500 volatility reverted to the four month average as the index traded at new highs. Single stock volatility has largely drifted lower across the globe and now sits in the low to mid 20th percentile (based on the investment manager's model), which is on the cheap end of the long run average.

This sell down in single stock volatility may well be short lived as both European and US stocks will soon be entering the October reporting season. Investors will be looking for the first signs that ongoing trade "negotiations" are having an impact on the sales and revenues of America's biggest companies. With 50% of all S&P 500 earnings coming from outside of the US, it seems that a slowdown in coming months is a distinct possibility.

The mid-term elections are a pivotal moment in the US. Elections are on 6th November, with the entire House of Representatives and one third of senate seats up for election. The Republicans will be looking for a strong showing in order to counter waning support for Donald Trump. A reduction in power for Republicans will make the last two years of Trump's term very difficult. Index volatility has remained relatively well supported, still sitting well above the December lows in 2017, despite the fact the market hasn't moved by greater than 1% since the end of June. Volatility pricing suggests there is some caution heading into the back end of 2018.

Performance



	Total Return ¹ (Net) (%)	Benchmark Return ^{2,3} (%)	Active Return (%)
1 month	0.21	0.47	-0.26
3 months	3.01	1.82	1.19
1 year	3.17	4.22	-1.05
3 years (p.a.)	4.72	6.73	-2.01
5 years (p.a.)	4.28	5.98	-1.70
7 years (p.a.)	7.23	7.82	-0.59
Since inception ¹ (p.a.)	6.00	6.48	-0.48

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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Market Review (cont'd)

S&P 500 and the NASDAQ are once again the best performers of the global markets as technology heavyweights Amazon, Netflix, Microsoft, and Apple continue to dominate returns. Facebook has had a challenging few months post their data breach and a slight pullback in advertising revenue.

Australia has held up relatively well in 2018, returning 5% inclusive of dividends. Banks remain an area of concern as all four major banks are on course for another negative quarter, the fourth in succession.

European markets continue to suffer from the threat of an escalation in trade protectionism. Germany's DAX is down on the year and is trading at April 2015 levels. A major exporter with high exposure to manufacturing, it is perhaps no surprise that it continues to struggle. For these reasons, the DAX screens as a good proxy for hedging developed European market exposure.

Recent Volatility patterns

- Single stock volatility has drifted lower in the last three weeks as markets remain in a tight range.
- Global demand for short-dated index optionality has gradually increased post the northern hemisphere summer.
- The skew in Australia remains at the expensive end of the 2 year average: 100% to 90%, 2-3 month skew sits in the 90th percentile out to the 6 month expiries.
- Outright US and Australian at-the-money volatility remains at the cheaper end of the 2 year average.

In a higher skew environment, put spreads look appealing. They are a means of cheapening the protection budget and a method of choosing the re-entry level for the Fund's exposure.

Performance Review

The Ironbark Denning Pryce Global Tailored Income Fund (the 'Fund') returned 3.01% (net) in the September quarter, outperforming the benchmark's return of 1.82% by 1.19%.

September returns were suppressed as markets struggled to find momentum at the back end of the month. Despite this, the quarter was a positive return for the market and for the Fund. Returns were once again led mainly by US stocks, and in particular the major technology companies. Other sectors struggled throughout the quarter with financials seeming to have peaked in January. Industrial companies have all come under pressure as Trump upped his tariff and trade rhetoric and utilities have given back their recent gains.

European stocks continue to struggle and are wearing the brunt of the selling in developed markets, specifically the stocks which stand to lose from a global trade war, including luxury goods and car manufacturers.

Despite these challenges the economic outlook, particularly in the US, remains strong. Inflation remains contained and the Federal Reserve is happy to gently bump US rates. The US 10 year yield has traded back through the 3% level, a level that sparked the sell-off in February, and the market remained calm and seems comfortable with the current rates trajectory.

Unsurprisingly, the bulk of the quarterly performance came from the US listed stocks in the Fund. In particular, the technology giants Apple, Cisco, Visa, SAP, Adobe, and Amazon led the market returns. Apple and Amazon continued their amazing run, both finished up strongly by approximately 19% and 16% respectively. Amazon remains the largest holding in the Fund. The Fund has used the rally in the stock price to write calls over the stock, adding premium gains and gradually lowering the overall Fund exposure to the stock. The stock has been weak, by its own standards, into the back end of September. With results due in October the stock could well trade within a tight range.

Both Microsoft and Visa had a solid quarter. Both companies finished up 14% to 15%. The Fund remains written in Microsoft and will look to roll the existing position as we get closer to option expiry.

Cisco continued its strong performance of late. The Fund has used the most recent rally to lower exposure through call writing and were happy to be called away at the September options expiry.

SAP has traded very well in a difficult market, outperforming the DAX by 11%. The Fund took advantage of the elevated volatility during the company reporting window to write calls over the existing position.

Long volatility positions in the technology sector traded well over the quarter, which included positions in Google, Adobe, and Facebook. The existing position in Adobe has been converted into a buy-write holding post its recent strong run. The investment manager has since partially monetised the position by selling volatility over the existing position to lock in some of the recent gains. Google has continued to oscillate through a wide range and with volatility continuing to price cheap, this has allowed the Fund to trade these ranges and monetise gains.

Facebook was a good win for the Fund. Having made good returns in the strong run up to \$217, the Fund added a volatility position ahead of the result. This trade worked well as the stock fell 25%, post reporting, allowing the Fund to cover a short exposure in the mid \$170's.

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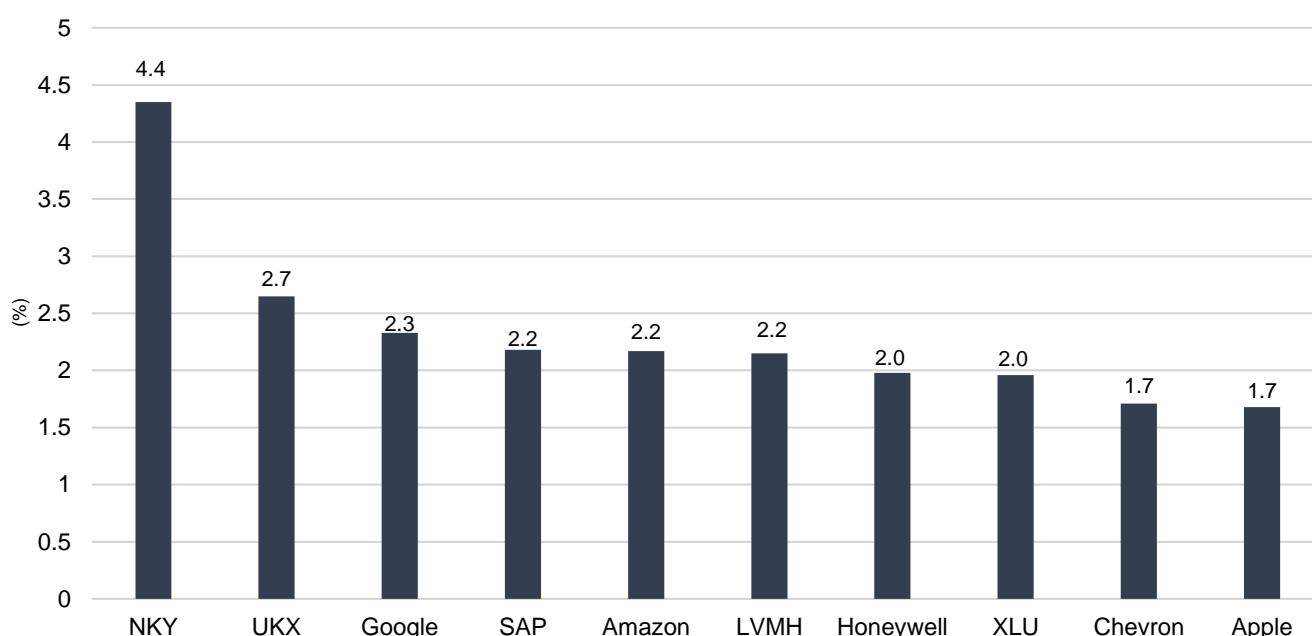
Performance Review (cont'd)

Health care companies have performed well over the quarter, particularly the big US names. To some extent they have flown under the radar as the market as focused on the technology sector. Returns of 20%, 18% and 16% for Pfizer, Thermo Fischer, and Zimmer Bionet respectively, highlight the excellent returns in the sector. The investment manager has added written calls over both Pfizer and Thermo Fischer.

With volatility drifting lower over the back end of September, the Fund has continued to add positions that will benefit from sharp moves in the market. Positions in Coca Cola, Google, Renault, BMW, and CSL have been added over the quarter. The Fund continues to add to these trades as opportunities arise.

The Fund finished the month with a 64% market exposure.

Top 10 Holdings – Delta Exposure (%)



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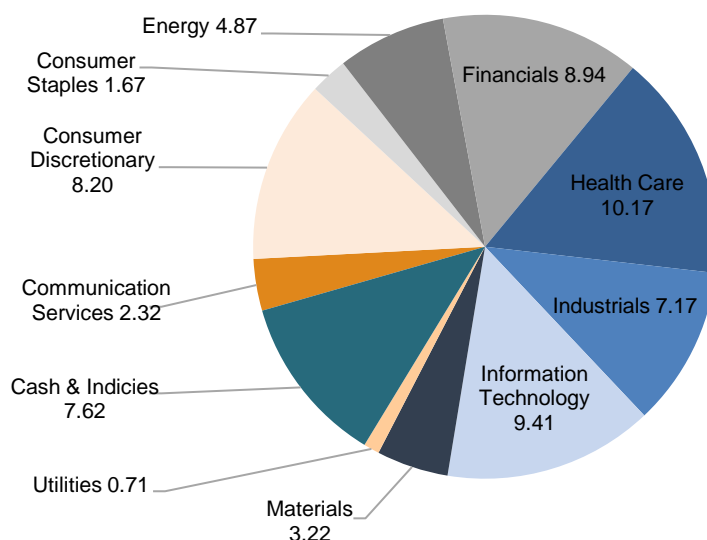
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Stress Testing

	Impact on PL %	Delta %
Heavy Selloff	-8.10	41.00
Moderate Slide	-2.50	48.00
Up Trend	3.10	75.00
Strong Rally	12.80	84.00

Sector Delta Exposure (%)



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