



Ironbark Denning Pryce Global Tailored Income Fund

Quarterly Investment Report as at 31 December 2017

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 Accumulation Index/50% Bloomberg AusBond Bank Bill Index

Distribution Frequency

Quarterly

Minimum Investment

\$20,000

Fund Size

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

Exit Price

\$1.0540

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 2.9% per day between March 2008 and April 2009.

With market volatility at a low it is unsurprising that the global economic backdrop remains sound. Economic data continues to provide enough evidence of good growth fundamentals, low unemployment and solid consumer spending. This has kept both corporate and retail consumers in a positive frame of mind, with consumer and business confidence well supported. Combined with an accommodative reserve bank policy, volatility continued to push lower.

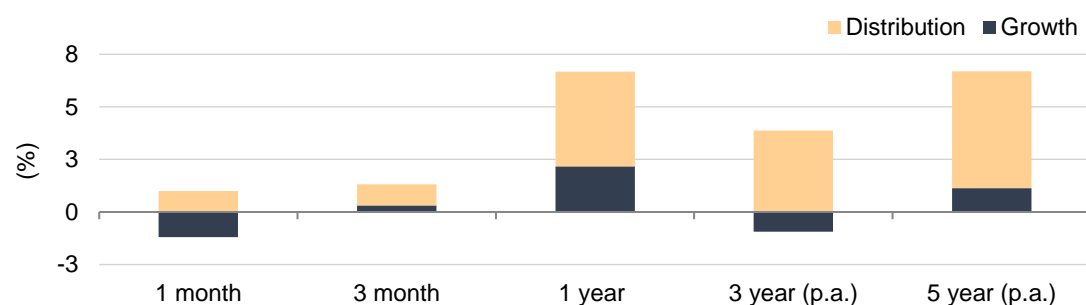
The S&P 500 (up 6.12% for the quarter) and the Dow Jones (up 10.33%) benefitted from the announcement that there was an agreement within the Republican Party on US tax reform policy. Subsequent passing of the bill into law delivered extra benefit. The major US banks and domestic earners with a high tax percentage were the winners.

There were contrasting fortunes in Europe, which remained weak. Euro currency strength and political uncertainty in Germany dominated the quarter and weighed on financial markets. Italy and Spain were the worst. Meantime, the FTSE 100 finished the quarter on a positive note despite uncertainty around Brexit negotiations. UK unemployment sits at its lowest in 40 years and the resource-heavy index benefitted from the recent bounce in commodity prices.

The Australian market had a good 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 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



	Total Return ¹ (Net) (%)	Benchmark Return (%)	Active Return (%)
1 month	-0.20	0.62	-0.82
3 months	1.32	2.85	-1.53
1 year	6.67	9.84	-3.17
3 years (p.a.)	2.94	5.91	-2.97
5 years (p.a.)	6.69	7.79	-1.10
Since inception ¹ (p.a.)	6.43	7.05	-0.62

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.

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

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Performance Review

The Ironbark Denning Pryce Global Tailored Income Fund (the 'Fund') returned 1.32% (net) over the December quarter.

At the end of a positive year, the final two weeks of December pulled back performance. There was profit-taking in several major holdings and continued outperformance of domestic US earners, particularly those benefiting from US tax cuts. The investment manager is maintaining the holdings in the Fund and accept the short-term performance. As the investment manager reviews the year, it was observed that aggressive sector rotation remained a constant. Examples were a switch from health care to banks and financials and from utilities/defensives to technology and retail. These were fairly aggressive momentum trades.

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 it's investment objective.

US listed stocks were the top performers in the Fund with financial, technology and oil names trading higher. Financial names did well benefitting from the announcement and legislation around tax cuts.

These top performers included Bank of America ('BAC') (up 16.50%), Wells Fargo ('WFC') (up 10.03%), and JP Morgan ('JPM') (up 11.97%). The three positions were held in different structures using option and equity. WFC was held as an equity holding with put protection, JPM as a long call position and BAC as a buy-write. The investment manager saw each as being the best risk-reward structure, given pricing and risk outlook. A timely roll of the buy-write position in BAC allowed the Fund to collect much of the upside in the name. The Fund rolled existing short call contracts ahead of the tax cut announcement taking advantage of the higher premiums on offer.

The one laggard in the sector was Citigroup, although it finished higher by 2.3% on the back of the announcement that they will need to take a tax-related write-down of almost \$20 billion. It is expected that more details will follow at their quarterly earnings in January.

Technology names, despite late quarter profit taking, had a positive quarter. Visa, CSCO, Google and Microsoft were the top performers. CSCO had a big quarter, up 13.89%, as a turnaround in earnings and sentiment saw the stock move higher. The Fund has held the stock in the form of a long equity holding with a put protecting the position into the recent results and headlines. With the volatility continuing to trade at the bottom of the long term average the investment manager continues with this positioning.

Microsoft and Visa both reported well during the quarter and moved higher with the broader market. The Fund continues to take advantage of a spike in premiums around the reporting window to write calls over the name which add income to the Fund.

Google had an interesting quarter, after a solid set of quarterly numbers the stock saw profit taking. In both late November and late December, the stock had fallen circa 6% and 4% from its most recent highs. At these points the investment manager chose to add extra upside exposure through long call holdings. This market timing added extra returns for the quarter.

Away from the technology sector the Fund had some positive returns from the oil and energy sector. Holdings in British Petroleum), Royal Dutch Shell and Exxon all benefitted from the rally in the oil price. Strangely there were limited headlines highlighting the 17% rally in oil over the quarter. Production cuts by OPEC and a cold winter thus far in the US and Europe has helped pricing.

Home Depot ('HD') and Astra Zeneca ('AZN') were two of the other major winners. HD has done well off a booming housing market in the US, and AZN continues to oscillate in a trading range of \$45 to \$52, this being mainly linked to movement in the British pound.

As mentioned, the European names in the Fund lagged with Philips, Fresenius, and Cie de Saint Gobain struggling during the quarter. Euro currency strength continues to keep a cap on momentum in these names.

As volatility fell away ahead of the Christmas break the Fund has added Index protection on the S&P/500 and a handful of single stock names. With short-dated pricing moving a tad higher the investment manager is buying protection in slightly longer-dated expiries.

Stress Testing

	Impact on PL%	Market Exposure (%)
Heavy Selloff	-4.00	53.86
Moderate Slide	-1.51	38.00
Up Trend	2.87	79.89
Strong Rally	12.54	68.45

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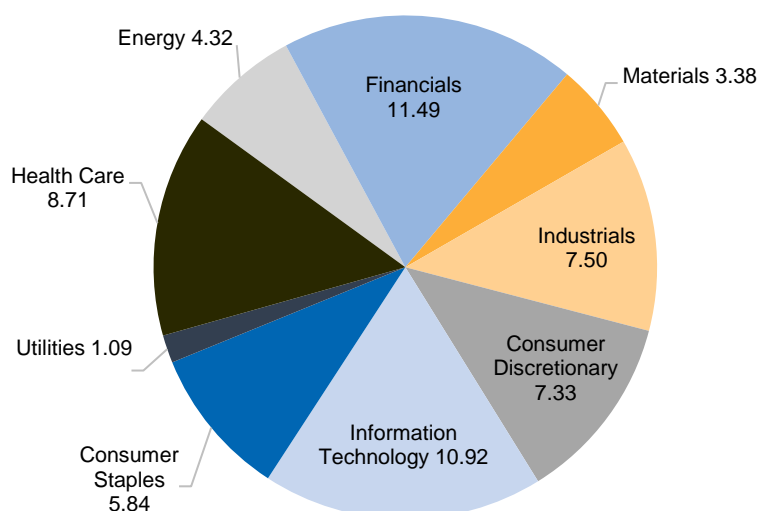




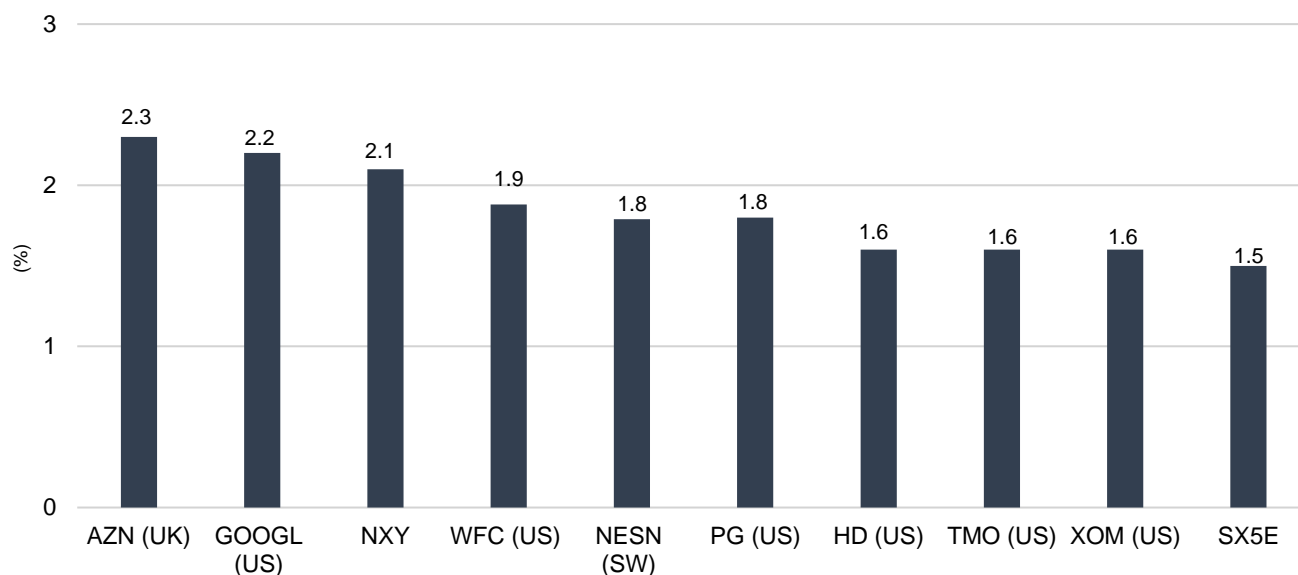
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Sector Exposure (%)



Top 10 Holdings – Net Exposure (%)



Important Information

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