Ironbark Denning Pryce Global Tailored Income Fund

Quarterly Investment Report as at 30 June 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

$45.1m (FUM inclusive of retail, wholesale and institutional classes)

Exit Price

$1.0200

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:

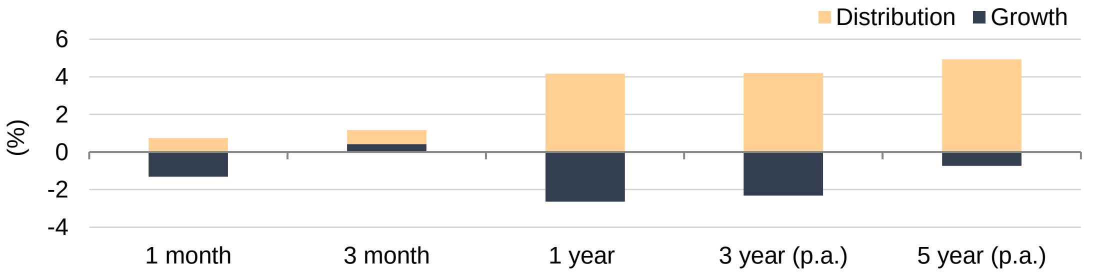
- Speculation of an impending trade war. China and US are the main protagonists, yet Europe is being drawn into the fight. The longer the chatter continues the more serious the market ramifications will be. The probability of an escalation may be increasing.
- Concerns are re-emerging over the state of the Chinese economy. However there is nothing new in this speculation, 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.

In the US and European markets, selling momentum increased in the second half of June. Industrial companies have worn the brunt of the selling, with the sector down 7% since February. Stocks with a high exposure to China or Europe have fallen approximately 10%. Caterpillar fell 10.5% in June. With a 54% exposure outside of the US, it remains vulnerable to both a slowdown in global growth and trade tariffs.

Fears that a trade war could escalate into an economic crisis saw European and US financial companies under pressure. Financial stocks recorded 13 consecutive days of negative returns which was a record at the time, as concerns increased over the potential flow-on impact into the broader economy. European companies were hit particularly hard with Deutsche Bank (down 19%), Commerzbank (down 18.3%) and BNP-Paribas (down 17%), being the worst performers in Europe. US companies averaged lower by approximately 2.5%.

At the highest level there is now a belief that Donald Trump may have overplayed his hand, setting in action a course of events that may be difficult to alter. With both China and Canada preparing to implement counter tariffs and exporters already reporting a lag in demand, it appears that global growth will be impacted.

Performance



	Total Return[1] (Net) (%)	Benchmark Return[2,3] (%)	Active Return (%)
1 month	-0.56	0.33	-0.89
3 months	1.17	3.58	-2.41
1 year	1.53	4.59	-3.06
3 years (p.a.)	1.89	4.80	-2.91
5 years (p.a.)	4.20	6.34	-2.14
Since inception[1] (p.a.)	5.77	6.44	-0.67

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.

[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

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

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Performance Review

The Ironbark Denning Pryce Global Tailored Income Fund (the 'Fund') returned 1.17% (net) over the June quarter, underperforming the benchmark's return of 3.58% by 2.41%.

After a positive start to the first few trading days of June, global markets gave back the majority of the gains. The S&P 500, Japan's Nikkei, and the NASDAQ managed to close in positive territory. Germany's DAX index and the French CAC40 were the worst performers of the major markets, both finishing lower by 2.4% and 1.4% respectively.

The second half of June proved to be a disappointing period, as concerns over a potential trade war escalated. Industrial and financial companies wore the brunt of the selling and were the largest anchor on performance, dragging quarterly returns lower. In that period, industrial companies Caterpillar, Raytheon, St Gobain, Heidelberg Cement, and Illinois Tool Works fell around 10%.

Set against those losses in the industrial and financial sectors, it was once again the information technology sector that supported markets. Google (up 8.9%), SAP (up 15.8%), Facebook (up 21.6%) and Amazon (up 17.4%) were the top performers for the Fund.

The investment manager has recently added written calls over SAP as it rallied back through the €100 level. The stock is now 15% above its March lows. The Fund originally held the positon as a long put with long equity holding and the strong move higher has allowed the investment manager to write calls over the stock to monetise gains made in the quarter. Premiums have remained at attractive levels, in line with volatility levels across the globe.

The Google holding is in a structure which should make money if the stock moves around ('long volatility'). This has worked well over the quarter. The stock has been strong since the extreme volatility seen in February, March and April. Although lagging FAANG (Facebook, Apple, Amazon, Netflix and Google) peers, it has outperformed the broader market and is up 6.5% on the year.

Amazon continues its amazing run. A buy-write holding continues to trade well for the Fund. The Fund used a 5% pull back in the stock at the end of June to roll the existing short call positon out to a higher and longer-dated expiry. The Fund will maintain the existing positions into the forthcoming earnings window in late July.

Facebook had a strong bounce post the privacy scandal. A long call holding lowered the overall risk exposure but also gave the Fund the upside exposure to benefit from the bounce in the company. The long call has since been converted into a long equity exposure over which the investment manager has now written call options. This transition from call options to buy-write demonstrates the flexibility of the Fund's approach.

Moving away from the technology companies, consumer discretionary company Home Depot was a positive performer, up 9.6% for the quarter. The stock has been a core holding over the last couple of years. The investment manager continues to write calls over the company, taking advantage of the premiums which are currently up in the 80th percentile (based on the investment manager's model).

Oil-related companies have continued their strong performance, reflecting the rally in oil. Conoco Philips, Chevron and Royal Dutch Shell were the best performing, all returning double-digit gains. Both Conoco Philips and Chevron were initially held as long calls.

The Fund holds a small proportion of assets in certain value companies. Defensive stocks saw market buying at the back end of the quarter. Proctor and Gamble and electricity provider Southern Company both traded higher in June as markets looked to reposition into their defensive earnings streams.

Both European and US financials fell over the quarter. Citi, JP Morgan, Prudential, Bank of America, State Street, INGA, BNP-Paribas and Regions Financial were all down. The Fund remains call-written over the majority of these holdings. Additionally, the Fund holds puts over both Citi and Bank of America which helped protect the downside. The Fund continues to receive solid premiums for writing activities. Average premiums in the above companies sit in the 50-60th percentile of the two year average (based on the investment manager's model). Wells Fargo and State Street were the two best performers in the financial sector finishing higher by 5.8% and 4.7% respectively.

With volatility finishing the quarter at more elevated levels, the Fund has taken advantage of the high premiums to add written calls to the Fund. Buy-write opportunities in higher volatility sectors, for example in thefinancial or industrial sectors, will balance the Fund, offsetting much of the cost of holding the long volatility exposures. Both volatility trading (buying well-priced options) and buy-writes (selling) have appeal in this market which is showing more movement and higher premiums.

The Fund finished the quarter with a 63% market exposure.

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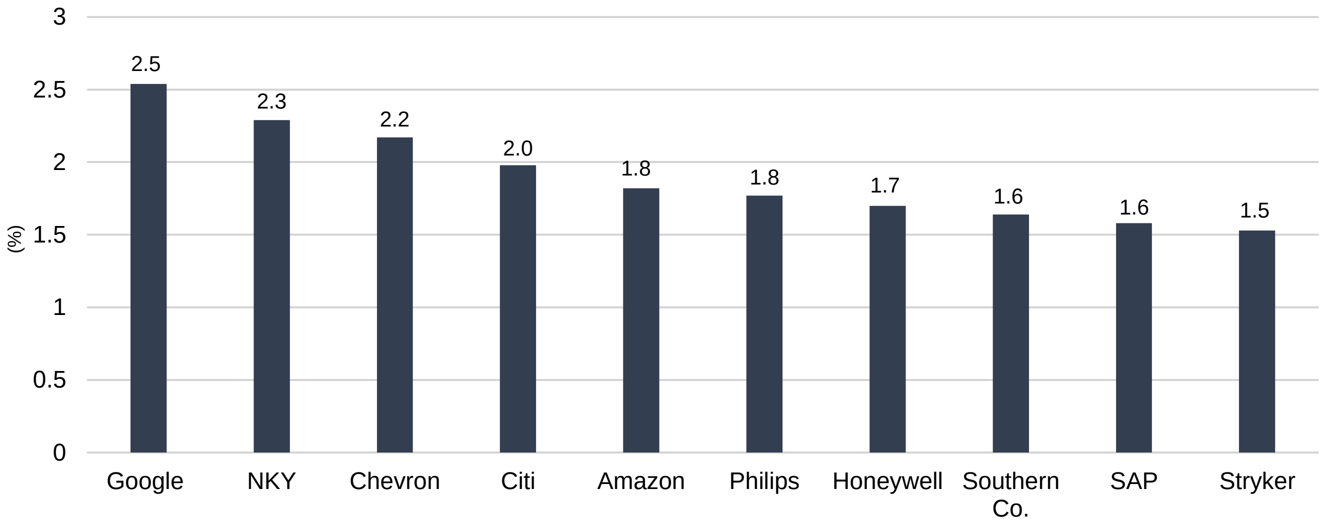
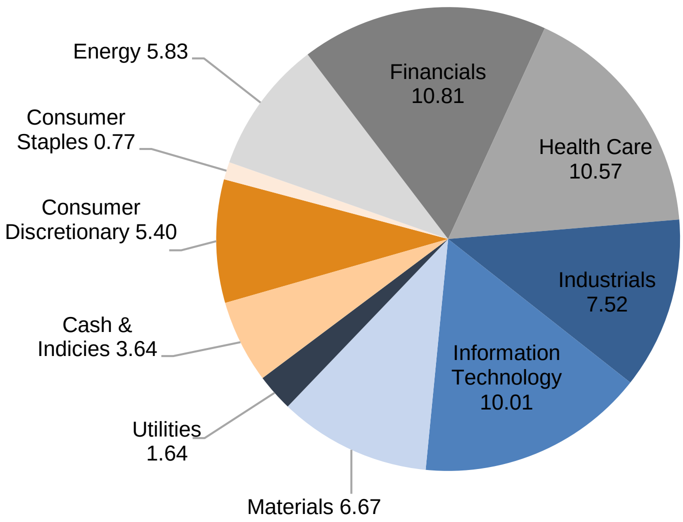
Top 10 Holdings – Delta Exposure (%)



Stress Testing

	Impact on PL %	Delta %
Heavy Selloff	-8.00	32.41
Moderate Slide	-2.52	49.60
Up Trend	2.89	65.10
Strong Rally	12.58	74.41

Sector Delta Exposure (%)



Important Information

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