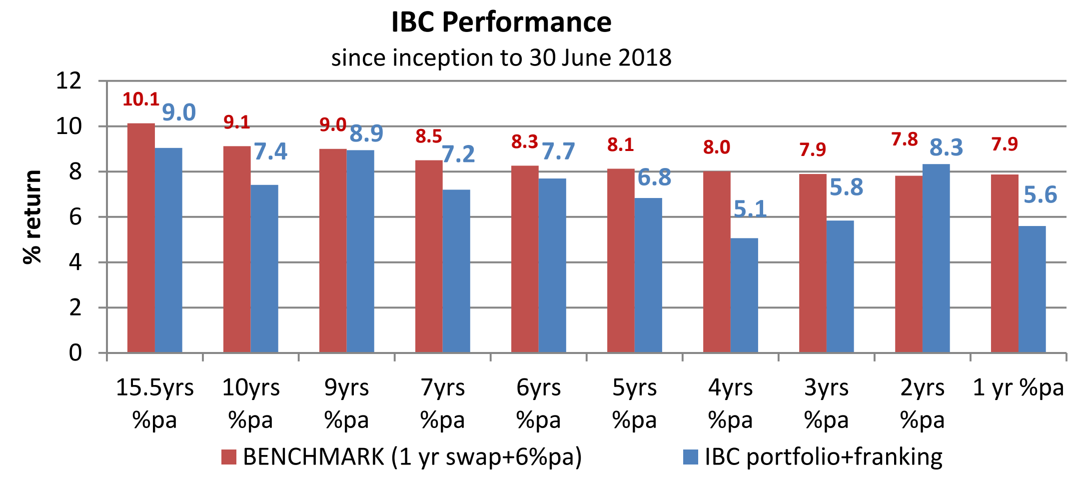
Investment Manager Report –financial year to 30 June 2018

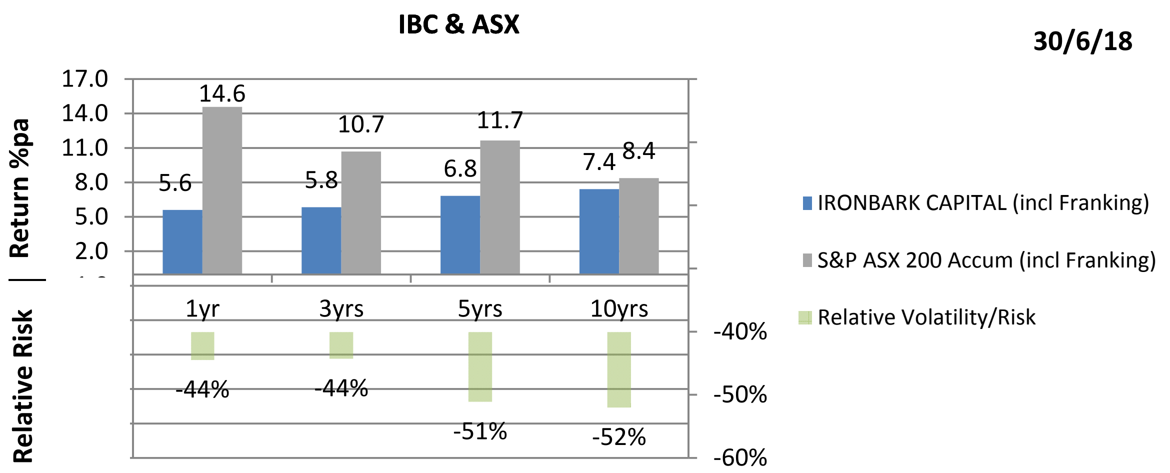
The manager's focus is to deliver consistent returns and a high fully franked dividend yield from the portfolio. Commensurate with its investment objective IBC's performance benchmark is the 1 year swap rate plus 6%.

Performance measurement includes franking credits and option premium income. Franking credits are a significant source of return from IBC's hybrid investments and for shareholders. Option premium income is generated from buy & write activity and varies with market conditions. Over the financial year, realised option premium income was approximately $990,000. The calculation of the portfolio's current running yield of 6.8% excludes option income because realised option premiums are highly variable from year to year.

IBC recorded a portfolio return of 5.6% over the financial year underperforming its benchmark return of 7.9%. Since inception, over 15.5 years including two years of the disastrous GFC, the portfolio achieved a return of 9.0%pa with risk measuring approximately 53% of equity market risk.



IBC's focus on income generation and capital preservation from a balanced portfolio structure has delivered superior risk adjusted returns compared to the equity market. Over the 10 year period the portfolio's return was 7.4%pa with 52% less risk than the ASX200 Accumulation Index return of 8.4% (inclusive of franking credits). In the most recent year a return of 5.6% was delivered with 44% less risk than the equities market.



Portfolio

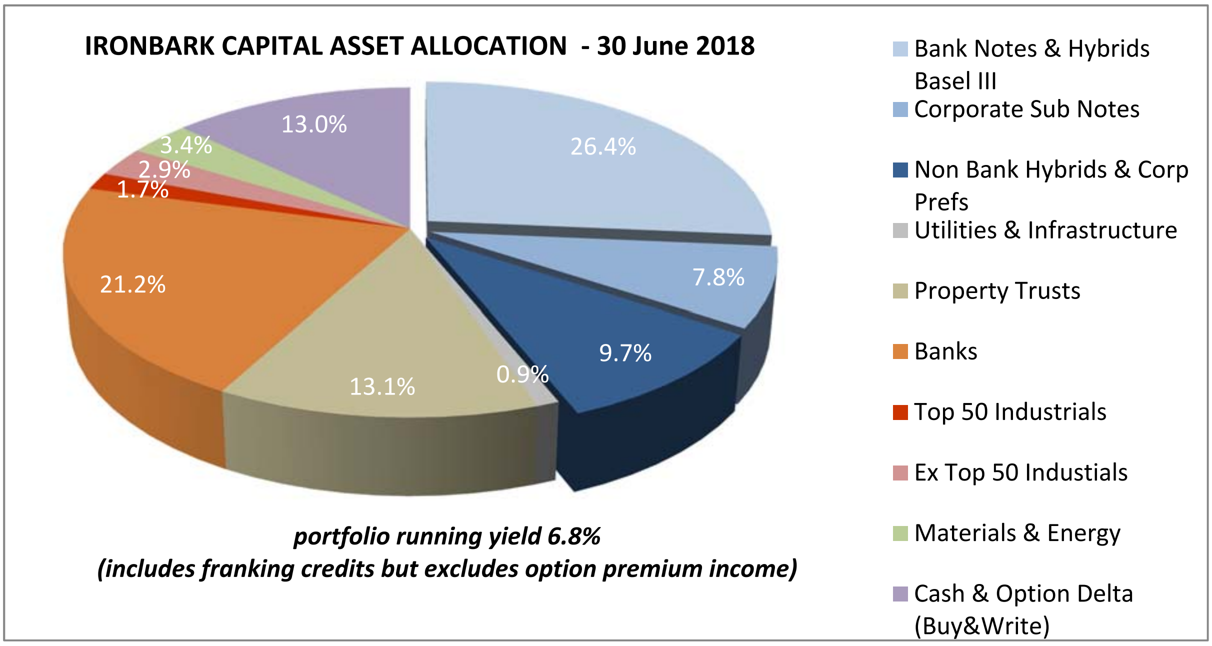
The portfolio is structured with an emphasis on income through yield orientated securities (hybrids and corporate bonds, utilities, property trusts) and buy & write positions in Banks, BHP, Telstra and other leading companies. The portfolio's running yield was 6.8% inclusive of franking credits but excluding option premium income.

The buy & write strategy involves buying selective shares and selling, subject to appropriate timing, call options over those shares. This strategy gives away some of the upside potential from a shareholding but generates option premium income consistent with the income emphasis of the portfolio.

The portfolio is diversified across 39 different entities. Higher risk exposures in banks, industrials and resources are largely held through buy & write option positions for income enhancement or added protection. The portfolio's hybrid and corporate bond holdings are mostly floating rate securities with little duration risk.

Approximately 44% of the portfolio was held in hybrids and corporate bonds and 26% in buy & writes in Banks, Telstra and BHP. The balance is represented by: 13.1% in property trusts, 2.9% in mid-cap and small companies, 0.9% in utilities and 13% held in cash & option delta.

Asset allocation reflects a cautious stance.



Portfolio Performance-financial year to 30 June 2018

The portfolio produced a return of 5.6% for the financial year.

Corporate credit and hybrid securities representing 44% of the portfolio delivered more normalised returns of 5.3% compared to the double digit returns achieved last year. A number of listed corporate bonds matured during the year that were issued around 5 years ago, but without replacement due to the absence of equity credit previous afforded by the credit rating agencies to these securities. A further $2.4bn in corporate sub notes will mature over the next six months. The manager introduced unlisted investment grade corporate debt to improve diversity away from financials. The unlisted market is very liquid. New issues of Basel III bank hybrid securities during the year were largely replacement securities. All hybrids to date have been redeemed on the first optional call date. The demand supply balance remains favourable with around $4.9bn of bank hybrids maturing in the next nine months. The floating rate structures of corporate debt and hybrid securities received the benefit of a widening in the bank bill rate by 0.6% over the official cash rate in the June quarter.

The equities markets rallied strongly but returns were heavily skewed towards resources with BHP up 51%. At the other end, Telstra fell by a massive -30% and the banks collectively struggled to produce a positive return impacted by the banking royal commission. CBA was the worst performing bank falling 6.8% and ANZ the best of the major banks gaining 3.9%. Buy & write returns were overall modest due to the negative contribution from Telstra. Over the year, the physical weighting in Telstra was significantly reduced and replaced with an increased weighting to BHP.

The property trusts sector produce a strong return of 13% driven by corporate activity and continued yield compression. The portfolio weighting was increase during the year from 9% to 13% and returns benefited from a takeover bid for Investa Office Fund by Blackstone.

Cash exposure (including option delta) was 13% at the end of the period reflecting the manager's cautious outlook.