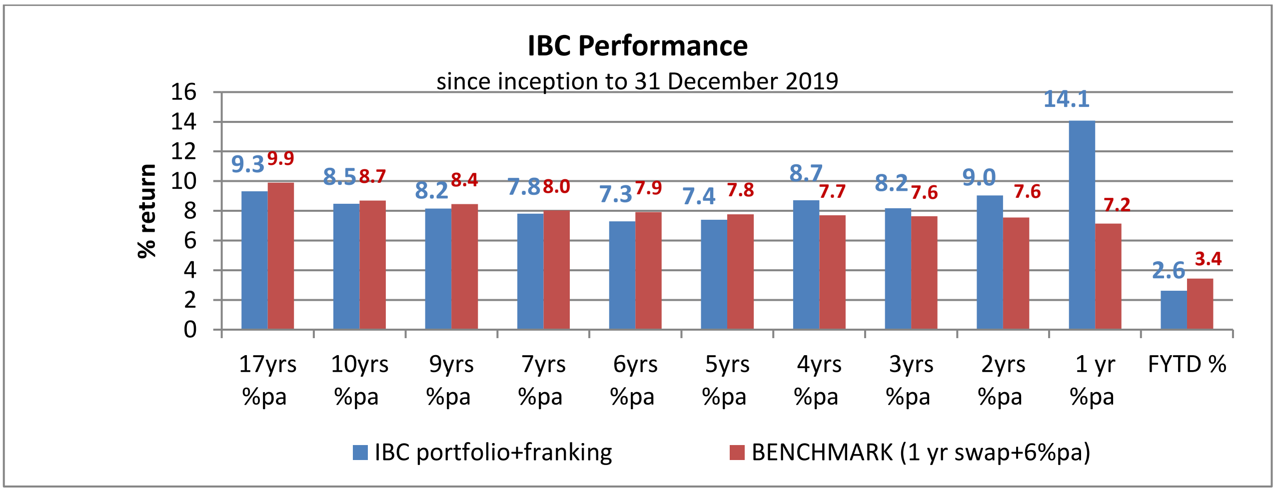
Investment Manager Report –half year to 31 December 2019

The manager's focus is to deliver consistent returns and a high fully franked dividend yield from the portfolio. IBC's performance benchmark is the 1-year swap rate plus 6% per annum.

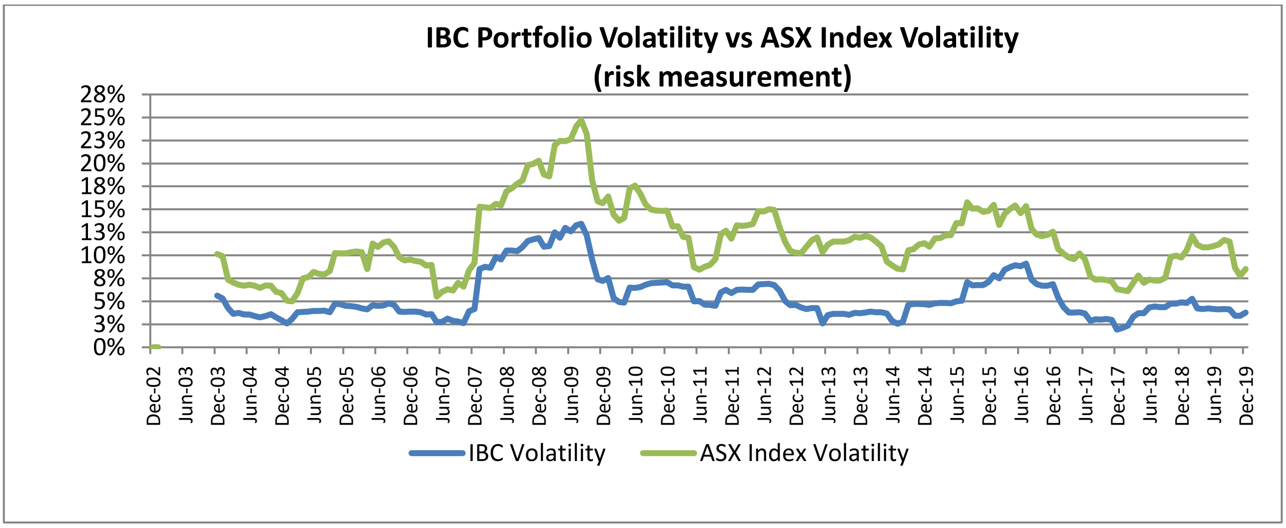
Performance measurement includes franking credits and option premium income. Franking credits are a significant source of return from IBC's hybrid investments and for shareholders. Option premium income is generated from buy & write activity and varies with market conditions. The calculation of the portfolio's current running yield of 6.2% excludes option income because realised option premiums are highly variable from year to year.

IBC recorded a portfolio return of 2.62% over the half year underperforming its benchmark return of 3.45%. Over 12 months, the portfolio returned 14.1% almost double the benchmark return. Since inception, over 17 years including two years of the GFC, the portfolio achieved a return of 9.3%pa with risk measured in terms of volatility approximately 52% 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 equities market. Over the 10 year period, the portfolio's return was 8.5%pa with 56% less risk than the ASX200 Accumulation Index return of 9.5%pa (inclusive of franking credits).

Portfolio volatility/risk has measured consistently around 50% of the equity market volatility/risk.



Portfolio

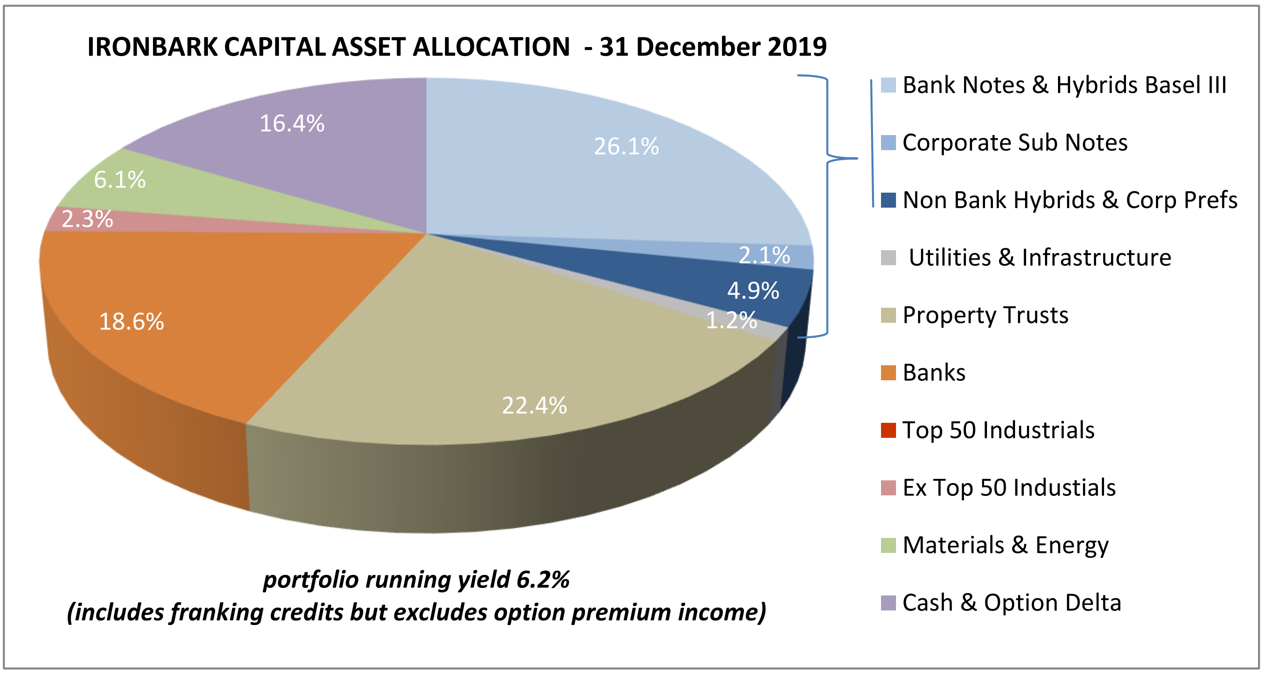
The portfolio is structured with an emphasis on income through yield orientated securities (hybrids and corporate bonds, utilities, property trusts) and buy & write positions in Banks, BHP and other leading companies. The portfolio's running yield was 6.2% inclusive of franking credits and excluding 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 21 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 33% of the portfolio was held in hybrids and corporate bonds and 25% in buy & writes in Banks and BHP. The balance was represented by 22.4% in property trusts, 2.3% in mid-cap companies, 1.2% in utilities and 16.4% held in cash & option delta.

Asset allocation reflects a cautious stance.

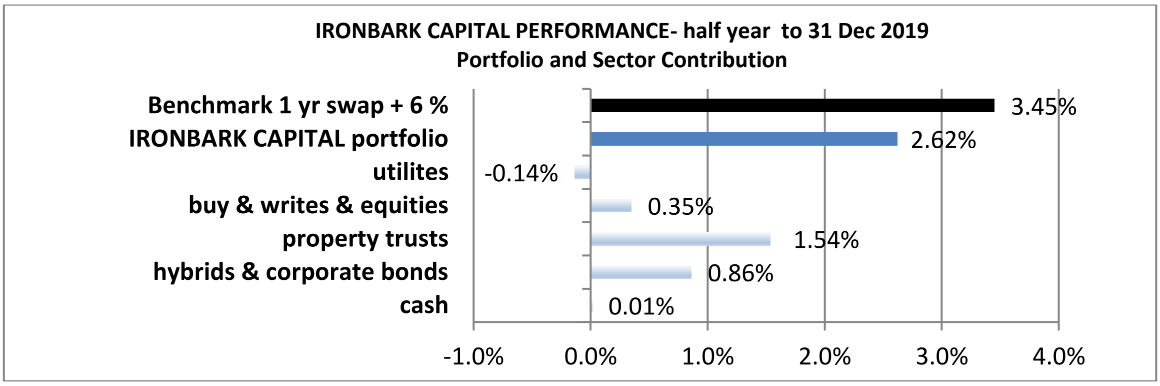


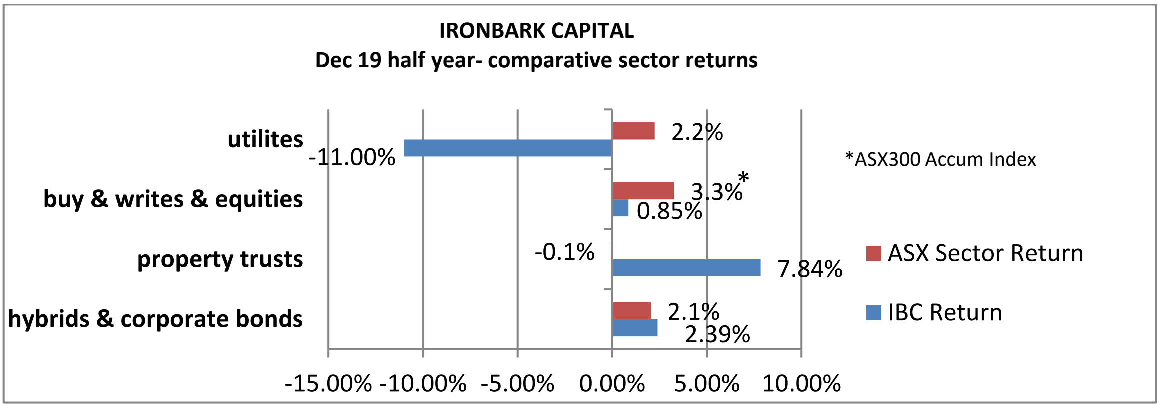
Portfolio Performance-half year to 31 December 2019

Financial asset markets globally were buffeted by the US/China trade war and counterbalanced by further central bank stimulus. Equities hit record highs, bond yields were more or less steady and credit spreads remained tight.

The key driver of financial markets remained accommodative monetary policy and quantitative easing. Additional monetary stimulus through official rates cuts were delivered in the US, Europe, Australia, New Zealand, India, Thailand. The ECB reacted to the pronounced weakness in Europe by reactivated QE at a rate of 20bn euro per month commencing in November and extended negative rates by -10bps to -0.50%. The US Fed introduced a form of quantitative easing by purchasing $60 billion per month of US T-Bills to calm the repo market. China injected more measured monetary stimulus and weathered the trade war better than expected, recording quarterly GDP growth of 6% in December and 6.1% over 2019. But is now impacted by the Coronavirus outbreak in January.

The Fund recorded a return of 2.62% for the half year period and 14.1% over 12 months.





The main change in the portfolio was a significant up weighting to property trusts from 16.8% to 22.4%. The portfolio participated in property trust capital raisings and introduced an investment in Australian Unity Healthcare Property Trust (unlisted). The healthcare property sector offers defensive returns and improves portfolio diversification. Property trusts holdings delivered a strong return of 7.8% with a focus on office, industrial and healthcare sectors.

Buy & write returns of 0.85% were dampened by losses in bank shares and BHP. Option writing provided protection against BHP losses but only partial protection against the significant fall in bank shares led by a -11.7% decline in Westpac. The portfolio participated in the WBC $2.0bn share placement under a buy & write position.

Utilities suffered from a -10.9% decline in Spark Infrastructure from reduced regulatory returns negatively impacting the dividend outlook. However, the trading yield of 6.4% is now supportive.

Hybrid and corporate bond holdings continued to produce steady gains and represented 33% of the portfolio. Credit spreads were largely unchanged and net new issuance was quiet in the listed sector. In credit markets, unlisted subordinated debt issuance continued to be active with major banks seeking to meet higher total loss absorbing capital requirements by 2024. Senior bank spreads tightened with issuance of senior debt being replaced by subordinated debt issuance. The portfolio participated in CBA Perls XII (300 bps floating margin) and IANG was redeemed on maturity. Crown subordinated notes (CWNHB) were exited due to increased regulatory risks.

Cash exposure (inclusive of options delta) reduced to 16.4% from 26.4%.

The challenge for investors is to navigate an environment with entrenched accommodative monetary policy alongside high valuations, slow growth, late cycle economic pressures and geopolitical risks.

KAPLAN FUNDS MANAGEMENT