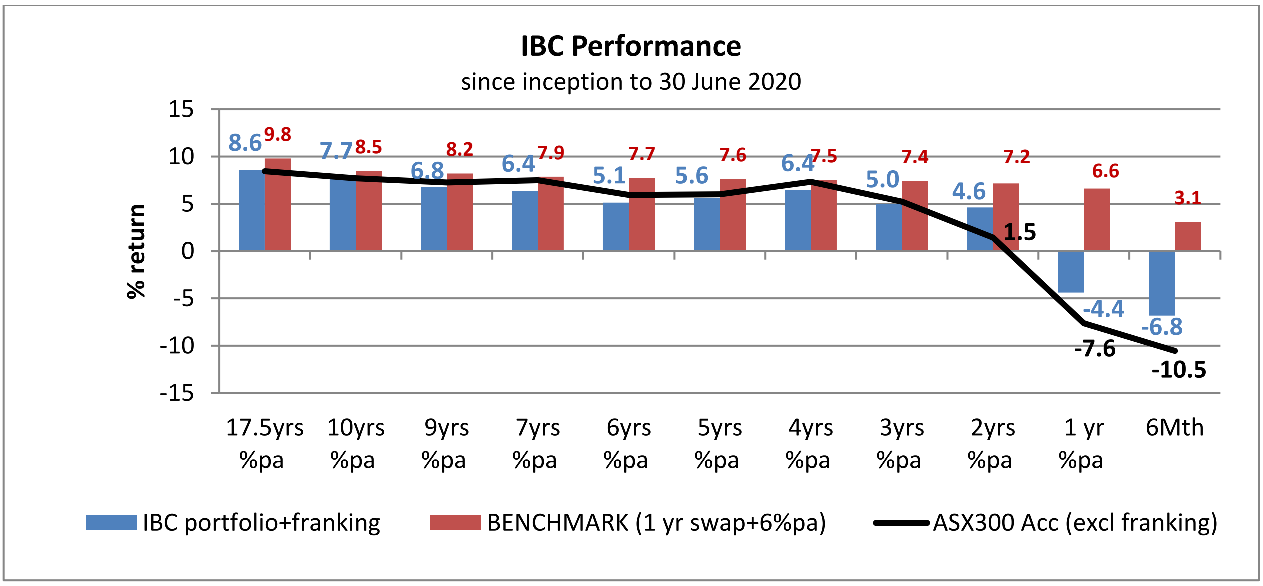
Investment Manager Report –financial year to 30 June 2020

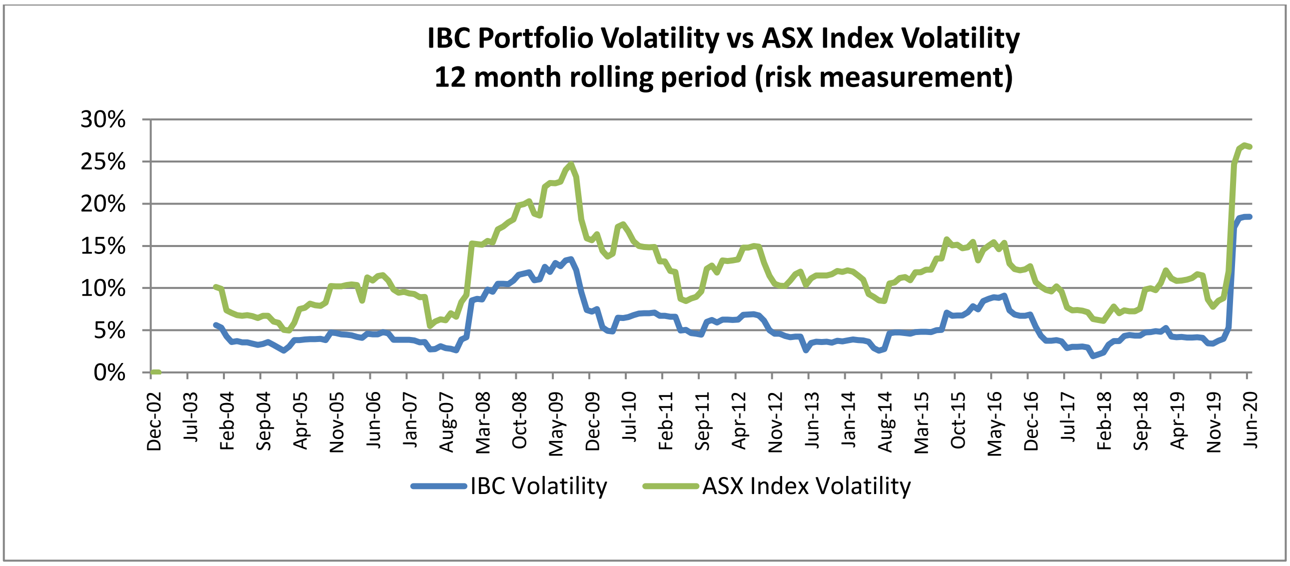
The manager's focus is to deliver consistent returns and a high fully franked dividend yield from the portfolio. IBC's performance benchmark is the 1-year swap rate plus 6% per annum.

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. Over the financial year, realised option premium income was approximately $490,000 (0.8% of the portfolio). The calculation of the portfolio's current running yield of 5.6% excludes option income because realised option premiums are highly variable from year to year.

IBC recorded a portfolio return of -4.38% over the financial year underperforming its benchmark return of 6.62%. Since inception, over 17.5 years including two crisis periods (GFC & Covid-19), the portfolio achieved a return of 8.6%pa with risk measured in terms of volatility approximately 57% 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. The portfolio demonstrated defensive qualities and performed substantially better than the equities market over the last 6 months, 1 & 2 year periods. However, the absolute return benchmark was unachievable this year because of the severity of the Covid-19 market sell off.



Portfolio

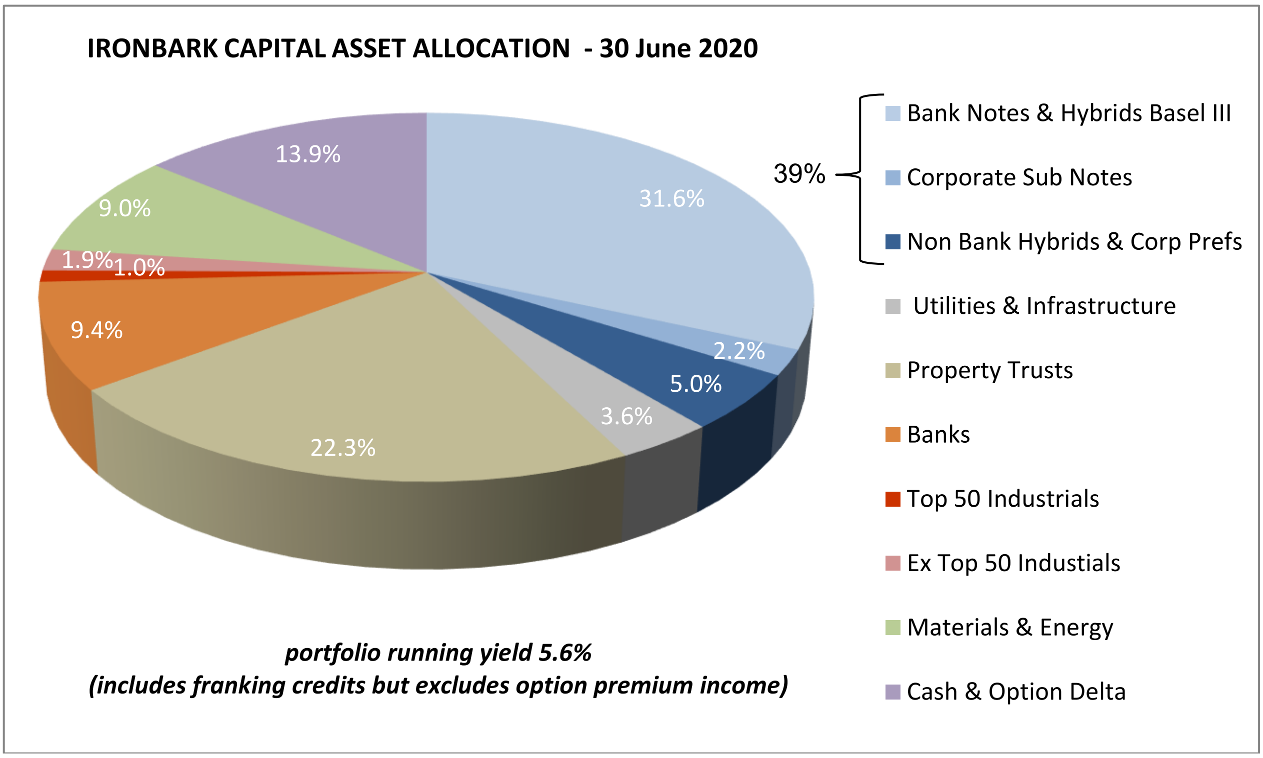
The portfolio is structured with an emphasis on income through yield orientated securities (hybrids and corporate bonds, utilities, property trusts) and buy & write positions in Banks, BHP, Telstra and other leading companies. The portfolio's running yield was 5.6% inclusive of franking credits but excluding 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 28 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 39% of the portfolio was held in hybrids and corporate bonds and 19% in buy & writes in Banks, Telstra, Coles, Ramsay Health Care and BHP. The balance was represented by: 22.3% in property trusts, 1.9% in mid-cap and small companies, 3.6% in utilities and 13.9% held in cash & option delta.

Asset allocation reflects a cautious stance.



Portfolio Performance-financial year to 30 June 2020

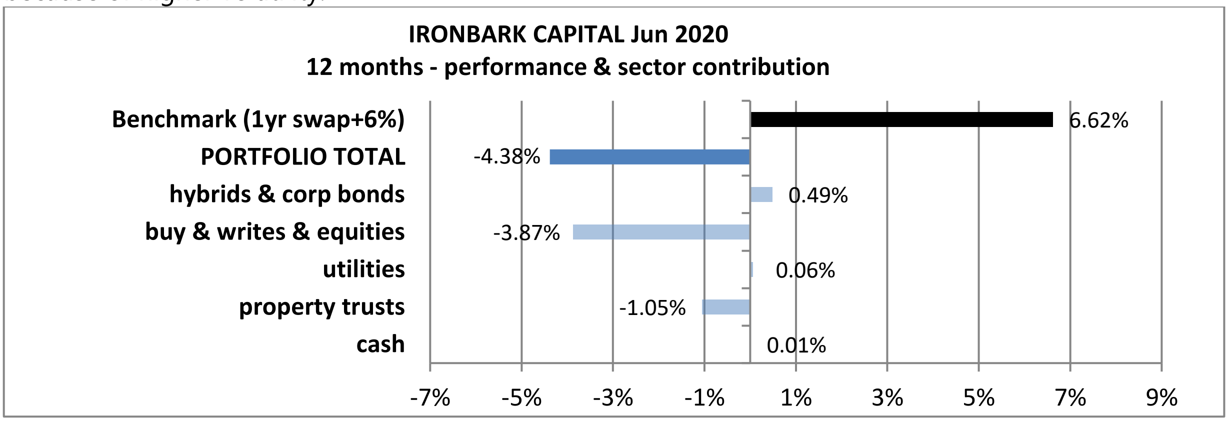
The portfolio recorded a return of -4.38% for the financial year. The 2H period to June was negatively impacted by the Covid19 market sell off. Portfolio losses for the 2H were -6.83% compared to the ASX300 Accumulation Index fall of -10.55% in the 2H.

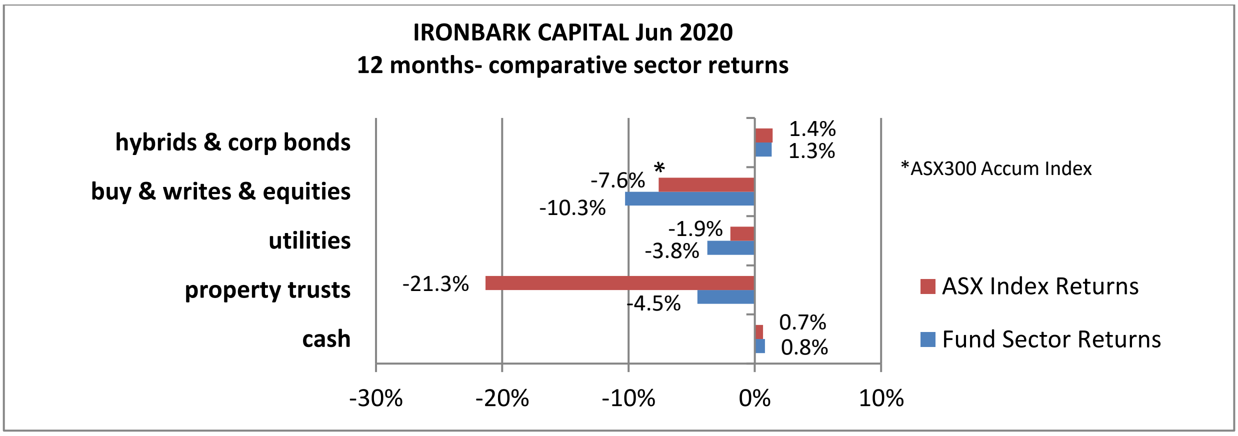
Hybrids representing around 40% of the portfolio gained 1.3% over the year and proved defensive. Apart from a brief liquidity induced sell off in March, hybrids regained their March losses by June and the major banks continued to preference hybrid distributions over bank dividends. Average major bank hybrid margins peaked at 8.5% in March and finished the quarter at 3.3%. APRA provided capital relief to the banking sector and bank capital raisings were a credit positive for bank hybrids. The RBA cut rates to 0.25% and introduced quantitative easing causing increased appetite for higher yield credit.

Utilities suffered losses as the regulator reset lower the allowable regulated returns for the industry. The portfolio increased its utilities exposure in the June quarter attracted to the sector's high security cashflow and high dividend yield.

The portfolio held a large position in REITS with exposure mainly to industrial, healthcare, non-discretionary retail, and long leased assets to high grade tenants. These investments proved defensive with stable cashflows and experienced losses of -4.5% compared to the broader REIT Index that fell -21.3%. The property trust sector was impacted by the mandatory code of conduct between landlords and tenants introduced by the government. An investment in Australian Unity Healthcare (unlisted) was introduced for added diversification and secure and growing cashflows from the health care industry.

Buy & writes suffered from bank exposure of around 9%. Banks felt the brunt of the Covid-19 crisis sell off (WBC -34%, ANZ -31% , NAB-28%, CBA-11%) with option premium only providing partial protection. Better performance by BHP, Telstra, Coles, and Ramsay Health Care mitigated banking losses. The manager took advantage of the spike in market volatility caused by the Covid-19 sell off to increase buy & write holdings by 4% outside of the major banks. New buy & write return parameters lifted significantly because of higher volatility.





KAPLAN FUNDS MANAGEMENT