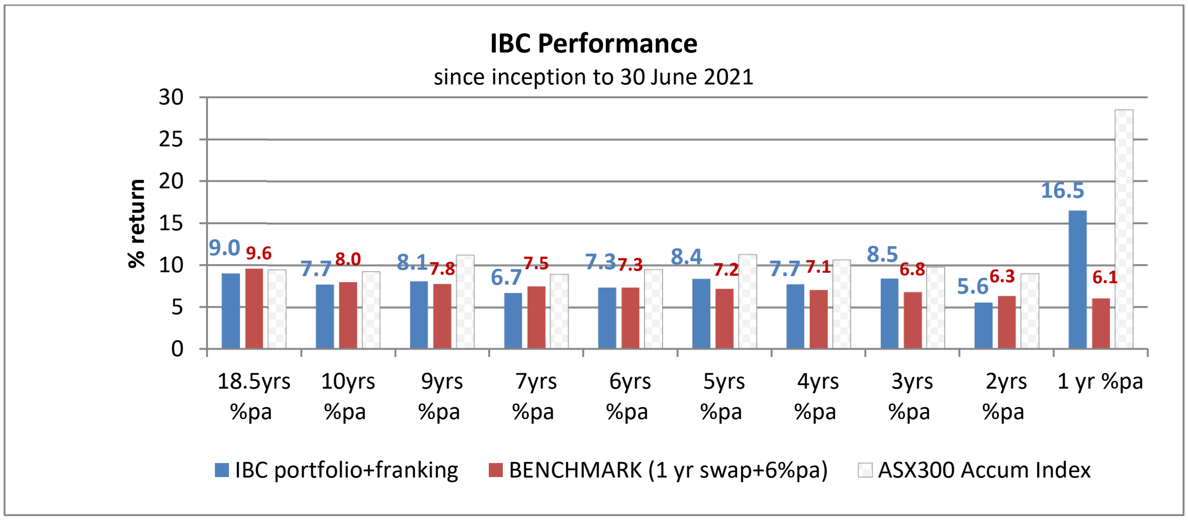
Investment Manager Report –financial year to 30 June 2021

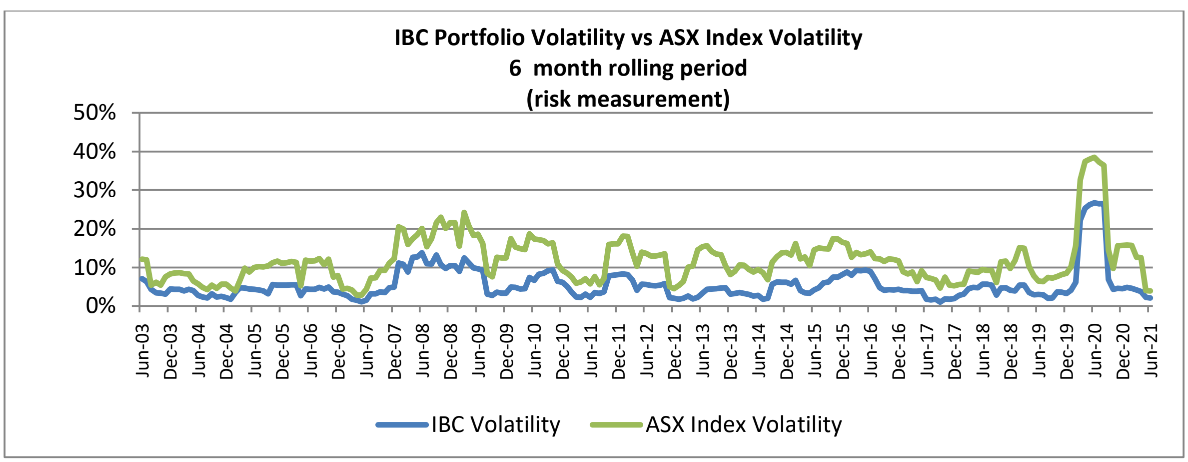
The manager's focus is to deliver consistent returns and a high fully franked dividend yield from the portfolio. IBC's performance benchmark is the 1-year swap rate plus 6% per annum.

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 recorded a loss of $1.26m (2.1% of the portfolio) from rolling to higher option strike prices. Option premium losses were more than offset by higher unrealised stock gains. The calculation of the portfolio's current running yield of 5.7% excludes option income because realised option premiums are highly variable from year to year.

IBC recorded a good portfolio return of 16.5% over the financial year outperforming its benchmark return of 6.1%. Since inception, over 18.5 years including two crisis periods (GFC & Covid-19) the portfolio achieved a return of 9.0%pa with risk measured in terms of volatility approximately 56% of equity market risk.



IBC's focus on income generation and capital preservation from a balanced portfolio structure has delivered very good risk adjusted returns compared to the equities market over the longer term. The portfolio recovered strongly from the pandemic sell off last year to record a return well in excess of the absolute return benchmark in the 2021 financial year.



Portfolio

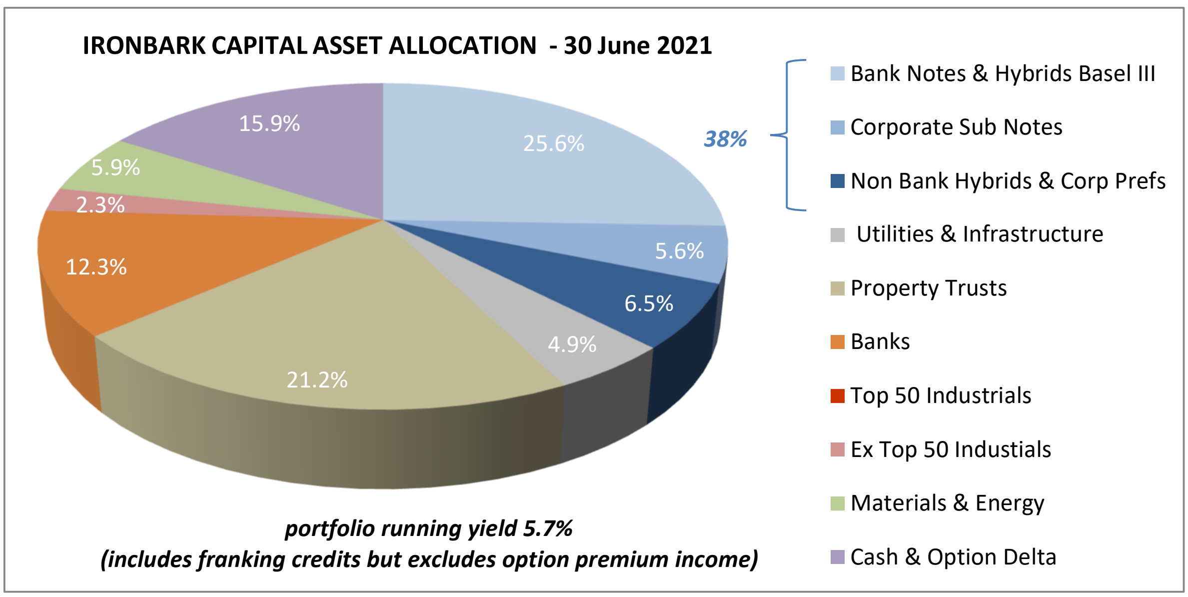
The portfolio is structured with an emphasis on income through yield orientated securities (hybrids and corporate bonds, utilities, property trusts) and buy & write positions in Banks, BHP, Telstra and other leading companies. The portfolio's running yield was 5.7% inclusive of franking credits but excluding 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 26 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 38% of the portfolio was held in hybrids and corporate bonds and 18% in buy & writes in Banks, Telstra, and BHP. The balance was represented by 21.2% in property trusts, 2.3% in mid-cap and small companies, 4.9% in utilities and 15.9% held in cash & option delta.

Asset allocation reflects a cautious stance.



Portfolio Performance-financial year to 30 June 2021

The portfolio recorded a good return of 16.54% for the financial year, increasing 7.1% in the June half and 8.9% in the December half period.

Hybrids and corporate bonds representing around 38% of the portfolio gained 7.9% with more than half of the return driven by margin compression. Average bank hybrid margins compressed over the year from around 3.7% to around 2.2%. Major bank capital positions remained strong and new issuance was largely replacement securities. The portfolio benefited from the early redemption of NAB Income Securities (NABHA) that returned 12.7%. The portfolio participated in successful sub debt issuance by Ampol and Ausnet marking the return of investment grade corporate sub debt carrying a higher margin for partial equity credit.

Regulated utilities exposure through Spark Infrastructure (SKI) was increased to 4.9% of the portfolio. SKI retuned 10.1% over the year and subsequent to June, SKI received a takeover bid at a 30% premium. Our preference for the stability offered by regulated utilities proved beneficial compared to losses experienced by utilities exposed to electricity generation markets.

Property trusts holdings performed well gaining 17.1%, representing 21% of the portfolio. Upward property revaluations for the 6 months to June and bond yield compression supported gains. Property revaluations in the six months to June were strongest for industrial that rose 12%, followed by long WALE trusts +9%, neighbourhood retail +5% and office +3%. The portfolio was weighted towards long wale and industrial trusts.

Buy & writes were focused on the banks and BHP. These stocks lead the market rally with gains of over 40%. Good returns from buy & writes were delivered of 27% even though call option writing constrained the upside.