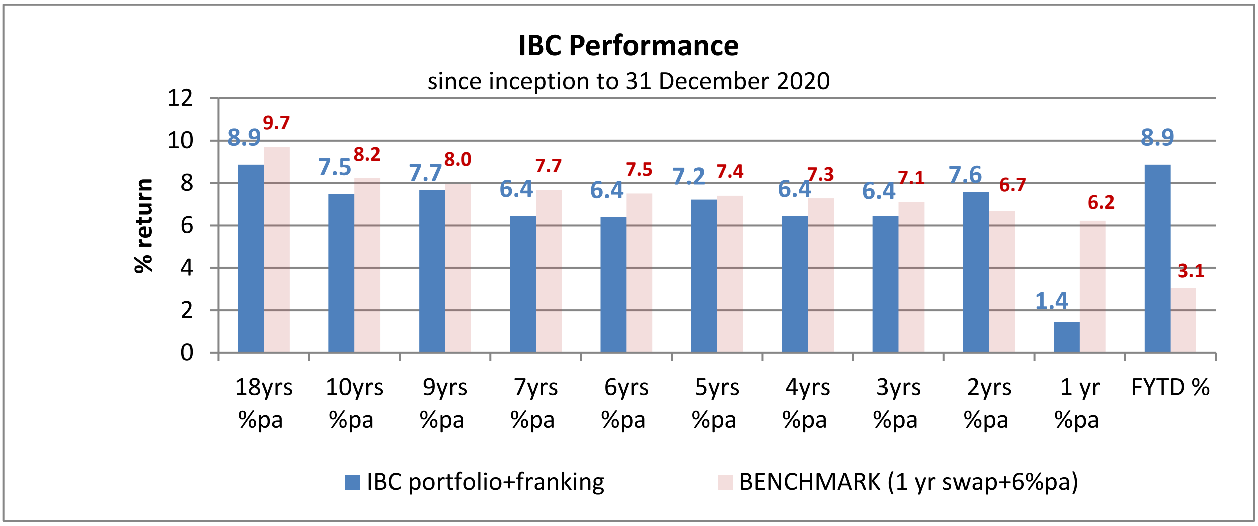
Investment Manager Report –half year to 31 December 2020

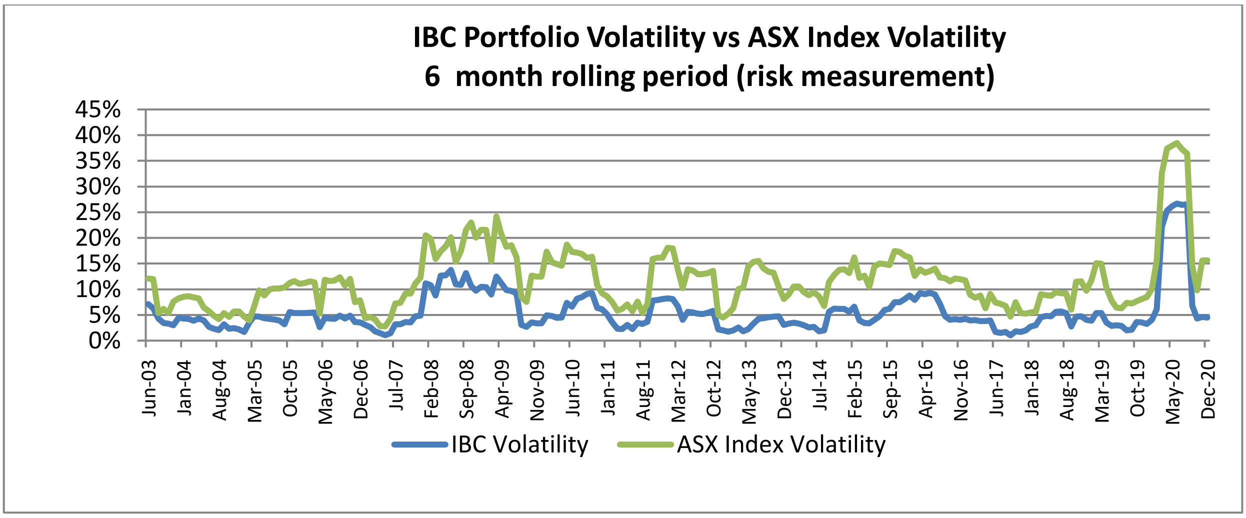
The manager's focus is to deliver consistent returns and a high fully franked dividend yield from the portfolio. IBC's performance benchmark is the 1-year swap rate plus 6% per annum.

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 to date, realised option premium income was a loss of -$90,700 (0.15% of the portfolio) as positions were rolled to higher strike prices. The calculation of the portfolio's current running yield of 5.4% excludes option income because realised option premiums are highly variable from year to year.

IBC recorded a portfolio return of 8.87% over the half year outperforming its benchmark return of 3.06%. Since inception, over 18 years including two crisis periods (GFC & Covid-19), the portfolio achieved a return of 8.9%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 higher returns per unit of volatility(risk) compared to the equities market. Over 10 years, IBC's return was 7.40%pa with 7.3% volatility compared to the ASX 200 Accumulation Index return including franking credits of 9.46%pa with 13.6% volatility. The portfolio demonstrated defensive qualities particularly during large drawdowns in the equities market in early 2020 and produced a 1year return to December 2020 slightly shy of the equities market return with 65% of equity market risk.



Portfolio

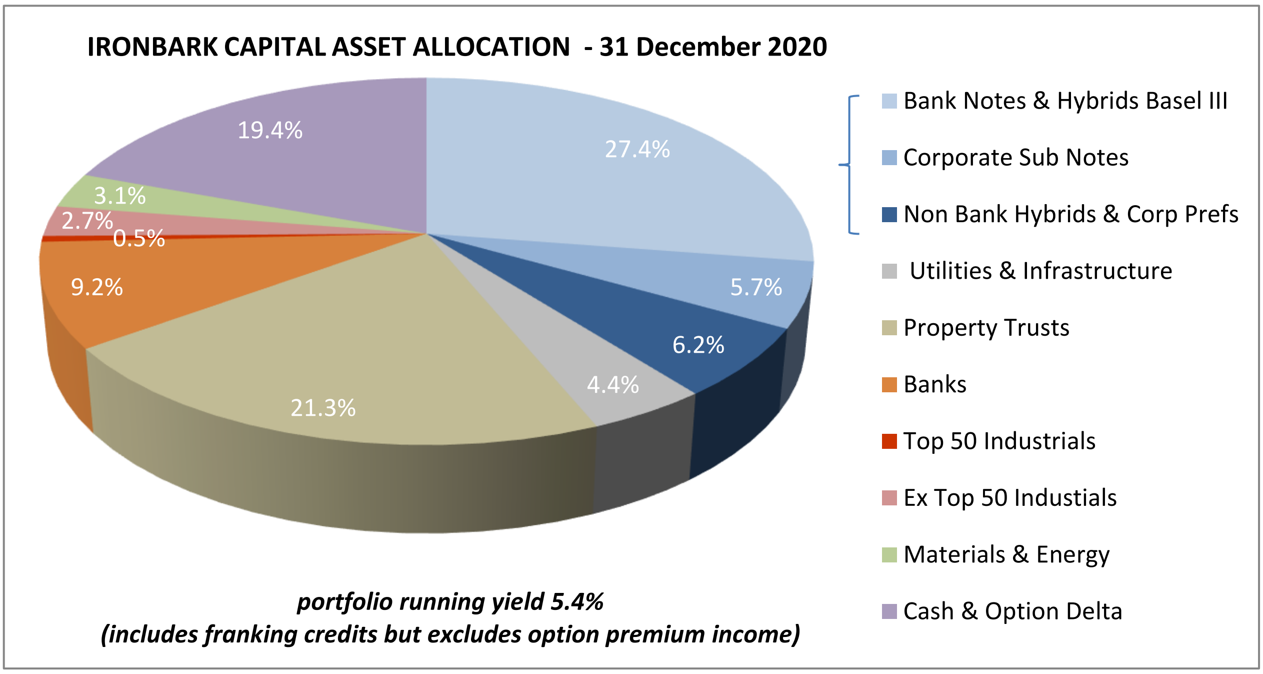
The portfolio is structured with an emphasis on income through yield orientated securities (hybrids and corporate bonds, utilities, property trusts) and buy & write positions in Banks, BHP, Telstra and other leading companies. The portfolio's running yield was 5.4% inclusive of franking credits but excluding 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 13% in buy & writes in Banks, Telstra and BHP. The balance was represented by: 21.3% in property trusts, 2.7% in mid-cap and small companies, 4.4% in utilities and 19.4% held in cash & option delta.

Asset allocation reflects a cautious stance.



Portfolio Performance-financial year to 31 December 2020

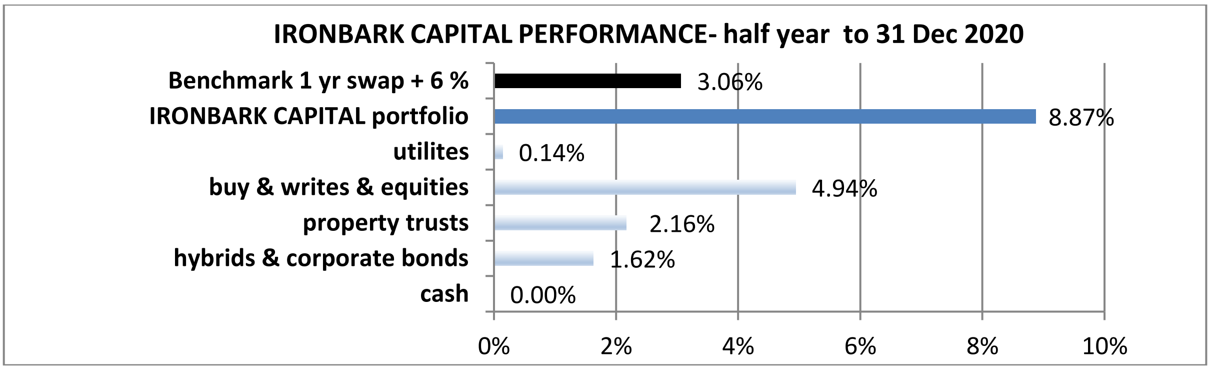
The portfolio recorded a return of 8.87% for the half year compared to the benchmark return of 3.06% and the equities market return of 13.73%. Portfolio volatility compressed substantially to 4.5% (approximately 30% of ASX Index volatility).

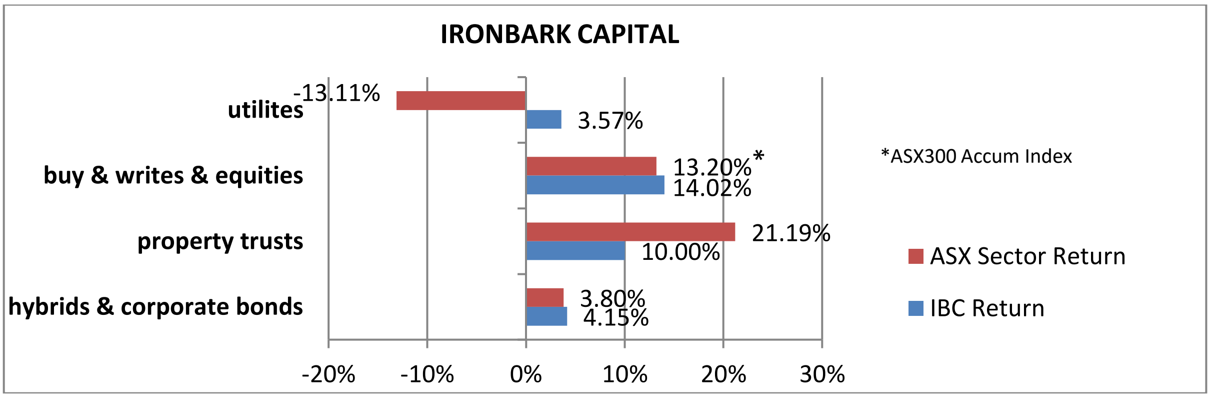
Equities and buy & writes returned 14.0% largely represented by the banks and BHP that gained 15% and 21% respectively. Written call options constrained the returns. By the end of the quarter portfolio cash exposure was 19.4% from a rise in option delta of 6%.

The emphasis in property trusts on long WALE REITS produced returns of 10.0% with higher bond yields dampening gains. The property trust sector, up 21%, was led higher by a rebound in retail facing trusts, of which the portfolio has minimal exposure.

Utilities returned 3.6% against sector losses of -13.1%. Emphasis on the cashflow certainty of regulated utilities such as Spark Infrastructure helped produce the good return.

Hybrid and corporate bond holdings continued to perform well with a return of 4.2%. NABHA rallied 10.4% from the early redemption of the $2bn perpetual issue on the 29 January. Hybrid new issuance, largely replacement securities, all traded at premiums on listing: WBC (5 yr, 320bps), NAB (7 yr, 350bps), BOQPF (6.5 yr, 380 bps). The portfolio participated in the new issuance of listed hybrids and unlisted subordinated notes issued by Ampol (6yr, 360bps) and AusNet (5yr, 310bps). A new listed Mutual Capital Instrument (MCI) was also purchased. The MCI was issued by Australian Unity and is a form of preferred equity for mutuals, created specifically to access permanent capital without losing mutual entity status. The Australian Unity perpetual MCI was attractively priced at a 5% fully franked fix yield or 7.14% grossed up.





KAPLAN FUNDS MANAGEMENT