

CHAIRMAN'S ADDRESS 7 NOVEMBER 2014

In my address today I would like to deal briefly with the recent Ironbark Capital (IBC) investment experience and then deal with a further three issues that will impact on the future operations of IBC.

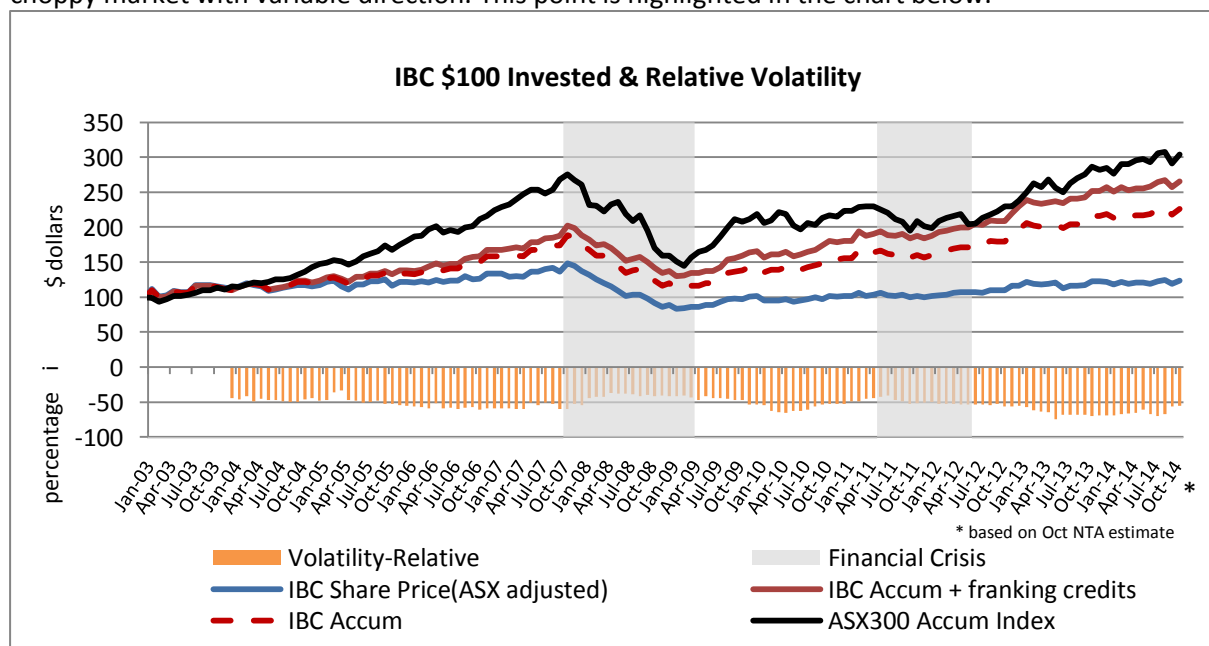
1. The recent buoyant equity market conditions and the impact on investment performance

As forewarned at last year's AGM, the strong local equity market performance forecast would almost certainly see IBC investment performance lag the ASX Index because of its capital protection strategies of the buy-write option strategy and hybrid investment portfolio. So it came to pass. The ASX 300 Accumulation Index advanced 17.25% in FY2014. The IBC investment portfolio increased in value by 12.36%pa. This was a credible risk adjusted investment performance as the volatility or risk in the IBC portfolio was 2.9 compared to the ASX index volatility of 8.9.

The IBC performance reflects the portfolio's balanced structure and income emphasis. Preservation of shareholder capital continues to be paramount and the markedly lower volatility of the IBC portfolio means that the embedded risk is less than the market. Over the longer term of more than a decade since inception, the IBC investment performance is less than 1% per annum behind ASX 300 accumulation index of 9.79% per annum but with less than half the ASX Index 300 volatility.

In the current financial year to date to October, the preliminary performance numbers indicate the IBC portfolio has increased by 0.84% compared to the ASX Index increase of 3.68%. In that period ASX Index 300 volatility has spiked to 17.1 and IBC volatility has also lifted to 8.3.

Stated simply, buy-write option based investment strategies together with significant hybrid exposures are least effective in a strong equity market. They are most effective in a bear market or a choppy market with variable direction. This point is highlighted in the chart below.





2. The expected fully franked dividend distributions in FY 2015

IBC's capacity to pay fully franked dividends continues to depend on the accumulation of franking credits and income generation. IBC distributed fully franked dividends of 2.25 cents per share in FY14.

In June 2014, IBC announced a 2 cents per share fully franked dividend payable in December 2014, as corporate profits created the opportunity to do so. All shares currently on issue will participate, including the 15.5 mill new shares following the successful rights issue. IBC dividends are declared on an irregular basis as profits permit, but they will be paid twice a year at the end of December and June to be most cost efficient.

Directors consider the most likely total fully franked dividend to be paid in the current financial year will be 3 cents per share. There are a number of caveats in that dividend forecast including that equity markets continue to perform well. The underlying yield on the investment portfolio adjusted for franking is 6.7% and that level is consistent with the dividend forecast.

3. Finalisation of the Review of Investment Management Fees

The Directors in conjunction with the fund manager, Kaplan Funds Management (KFM) have reviewed the Investment Management Agreement which had been in place for over a decade. We have reaffirmed that the investment style of protecting shareholders' capital through a low volatility investment strategy continues to be a priority in managing the IBC portfolio. The aspirational investment return target of 1% per month or 12 %per annum remains intact.

In relation to the investment management fee, a reduced rate of 0.40% pa will apply from the start of the next financial year.

The Directors believe that performance fees are an important tool to align the interests of the key stakeholders, the IBC shareholders and KFM, the fund manager. Accordingly the performance incentive methodology has been adjusted from an ASX relative benchmark to absolute return alternative.

It will be calculated by reference to the one year interest swap rate plus 6%. KFM will be entitled to 15% of the outperformance above this annual benchmark. The investment return will include the benefit of franking received in the calculation. Based on the current one year swap rate the absolute return hurdle would be approximately 9%. A high water mark will apply within each 3 year reset period.

The performance fee benchmark will be reset and applies for the current financial year. Based on the IBC investment portfolio year to date performance, no fee would presently be payable.

4. IBC Share Buy Back

Two years ago IBC put in place a mechanism for IBC shareholders to be given the opportunity to obtain the underlying NTA value of their shares through a share buy-back if that resolution was supported by majority of shareholders. The major shareholder and the IBC directors stated their intention to support the resolution but reserved their position as to whether they tendered any or all their shares into the buy back. Subject to shareholder support the buy back is to be undertaken prior to June 2015.

At the close of the current financial year IBC shareholders will be given access to the full NTA of their shares through a buy back offer. We anticipate shareholders will reserve their decision to participate for some or all their shareholding until much closer to the offer date. However in the absence of massive participation by the larger shareholders in that offer it is expected that IBC will continue to operate as an ASX listed investment company (LIC) in the following financial year.

When shareholders approved the amendment to the IBC Constitution in 2011, the resolution contained the following details:

Aim - Buyback implemented on or around 30 June 2015.

1. Directors to assess ability of IBC to effect transaction and obtain appropriate advice.
2. Convene meeting of members (in March/April 2015) to authorise implementation of "realisation transaction" i.e. selective buyback of shares off-market.
3. If approved, implement the buyback process with offers closing during June 2015.

The Company Secretary is currently formulating a detailed timetable to give effect to the resolution. Shareholders will be advised as soon as this proposed timetable is completed.

The Directors consider that the proposed buy back offer to IBC shareholders is a very effective way to provide liquidity to IBC shareholders at the full NTA of their shares. Accordingly, the Directors have now adopted as a policy to offer the buy back at regular three year intervals in the future. This policy will assist to positively influence the share price to fully reflect the NTA per share between share buyback events.

This concludes my address and I will now hand over to our investment manager, Sam Kaplan to discuss the outlook for equity markets and investment performance.

Michael Cole
Chairman