



Affluence LIC Fund

October 2019

Invest Differently

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The Affluence LIC Fund

The Affluence LIC Fund is an unlisted managed fund. It was formed in 2016 after Affluence identified an opportunity to take advantage of discounts and other inefficiencies in the ASX Listed Investment Company (LIC) sector.

The Fund was initially open only to Wholesale clients. In August 2019, the Fund was opened to all investors for the first time.

The Affluence LIC Fund is the only Fund in Australia that invests exclusively in LICs. This investment strategy has a limited capacity.

Why Invest in the Affluence LIC Fund?

- **The Fund can provide you with a unique combination of benefits:**

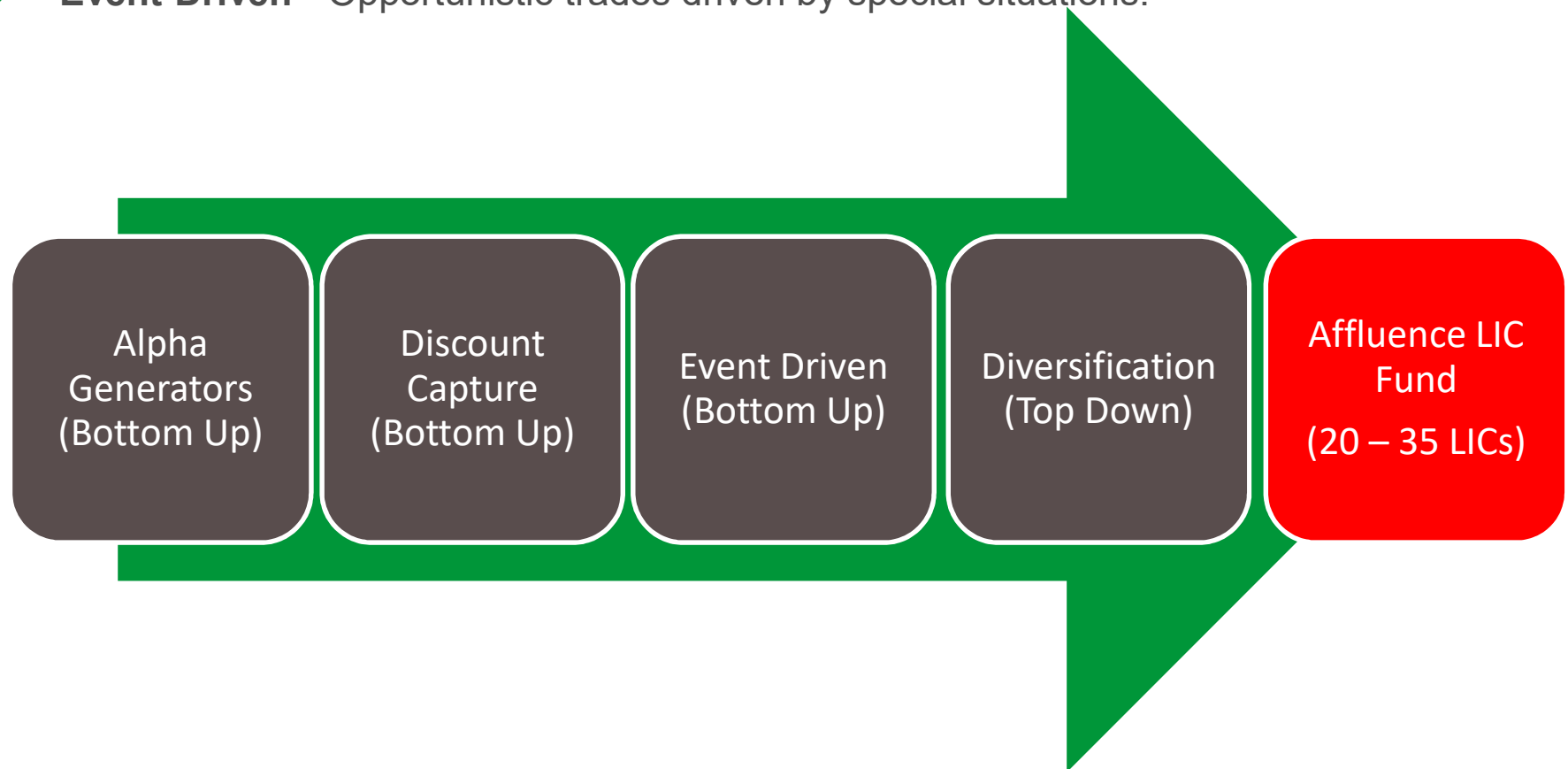
- **An extra way to add value** - The Affluence Discount Capture strategy aims to generate additional returns for the Fund by taking advantage of LICs trading at unusually large discounts to NTA. Right now, those discounts are substantially higher than average. The average discount for the Affluence LIC Fund portfolio is currently over 15%.
- **Regular income** - Quarterly distributions, targeting a minimum 5% per annum. Since commencing, the Fund has paid cash distributions in excess of 6% per annum, plus some franking credits.
- **A specialised focus** - An actively managed portfolio of more than 20-35 LICs that can complement your other equity investments. We concentrate mostly on small to medium sized LICs, where mispricing is more common.
- **Quality and diversity** - The Affluence LIC Fund portfolio includes some of Australia's best investment managers, and a range of alternative investment strategies.
- **Strong returns, lower volatility** - Returns since the Fund commenced have averaged approximately 10% per annum, with more consistency than the Australian share market.
- **Alignment of interests** – we coinvest in the Fund with you. We only charge fees based on Fund performance, with no fixed management fees. We will close the Fund to new investors when we reach investment capacity.



How the Affluence LIC Fund Invests

- We target:

- **Alpha Generators** - Top quality LICs, with active managers that can outperform.
- **Discount Capture** - LICs trading at unusually large discounts.
- **Event Driven** - Opportunistic trades driven by special situations.



In LICs, bigger is NOT better

ASX	Company	1 Yr	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs
AFI	Australian Foundation Investment Company	7.7%	9.7%	8.5%	5.8%	9.7%	6.8%
ARG	Argo Investments Limited	7.5%	6.8%	8.5%	5.7%	10.2%	6.4%
MLT	Milton Corporation Limited	8.1%	7.7%	9.1%	6.8%	10.6%	7.7%
ASX	ASX 200 Index	12.5%	13.2%	11.9%	9.5%	11.0%	8.1%

Source: Affluence. Performance of three largest LICs (including dividends) over 10 years to 30 September 2019.

- **About one third of all LIC money is invested in the three largest LICs:**

- There is limited chance of outperformance over the medium to long term.
- They have underperformed the ASX200 over the past 10 years.
- They offer little in the way of diversification.

- **They do have one redeeming feature:**

- They can be resilient in downturns, as they can move from a discount to a premium.

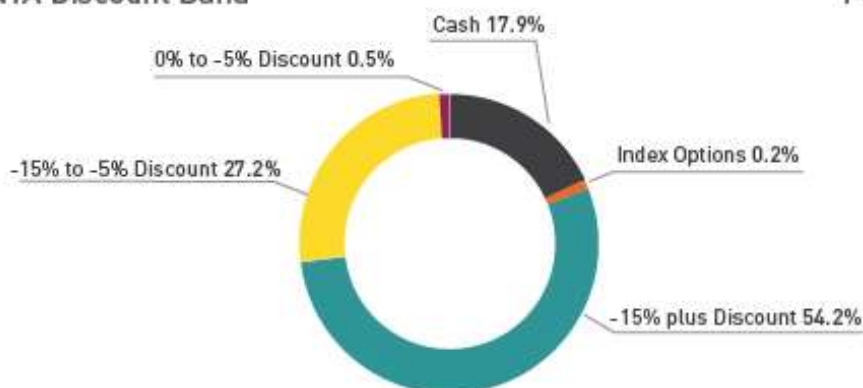
Usually, we prefer to look elsewhere in the LIC sector.

We typically focus on small and medium sized LICs where mispricing is more common and the value-add potential can be greater.

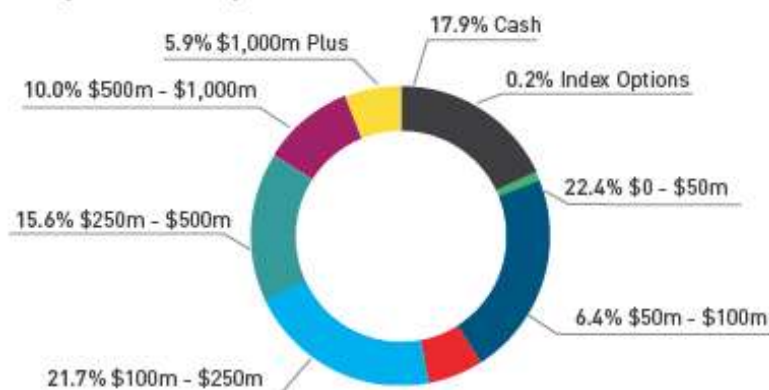


The Affluence LIC Fund Portfolio Is Very Diverse

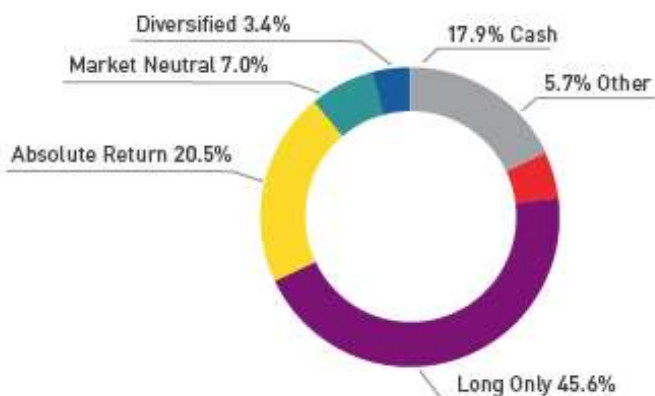
NTA Discount Band



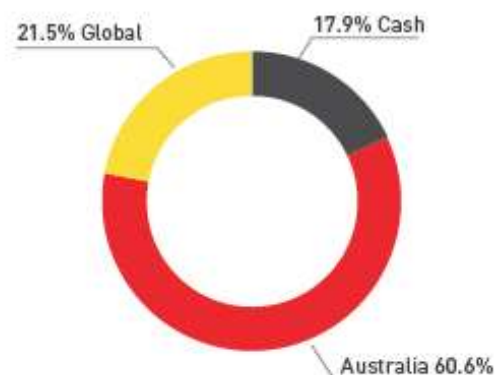
Portfolio by Market Cap



Equities Strategy



Geographic Exposure

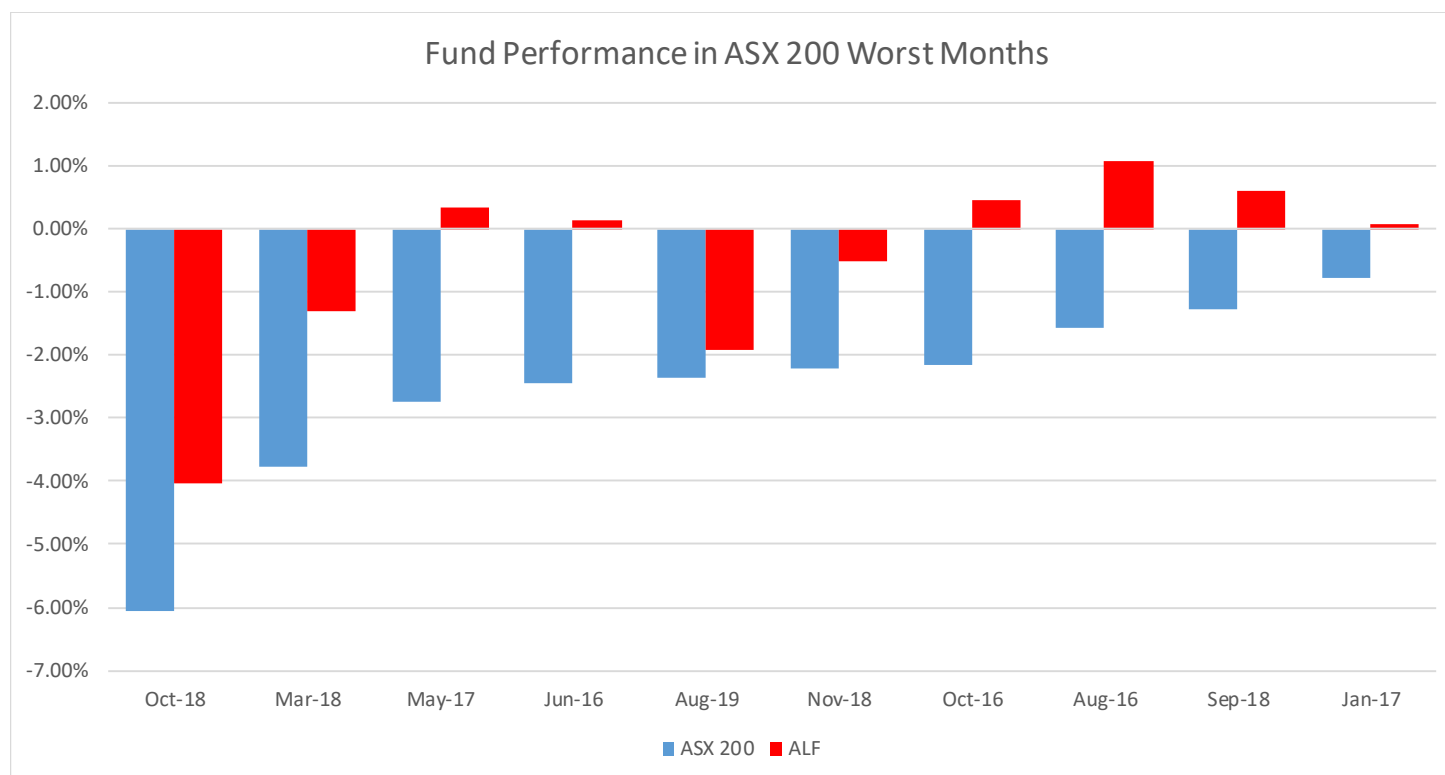


Visit our website and register as an Affluence Member to see more detail about the current portfolio, including top holdings and profiles of LICs we own.



Strong returns with less volatility than the ASX

- Since commencing in May 2016, the Fund has returned approximately 10% per annum.
- This has been achieved with much lower volatility compared to the market. Fund volatility since commencement is 5.8%, compared to the ASX 200 Index of 9.1%.
- The Fund has outperformed in all 10 worst months for the ASX 200 Index since the Fund commenced. ASX200 Index correlation of 0.7 and beta of 0.4 since inception.



The Fund Incorporates our unique Discount Capture Strategy

○ Discount capture is a way to add extra returns above the market

- Discount capture occurs when you purchase an LIC at an above average discount to NTA, and profit when the discount to NTA reduces.
- There is no one correct discount to NTA for LICs. Each LIC is different and must be assessed on its merits.
- Discounts can change for many reasons. Many of these are unrelated to the market, therefore discount capture can be a source of uncorrelated extra return.
- The LIC sector has relatively limited attention from institutional researchers and professional investment managers. This provides more opportunities for mispricing than in other areas of the stock market.

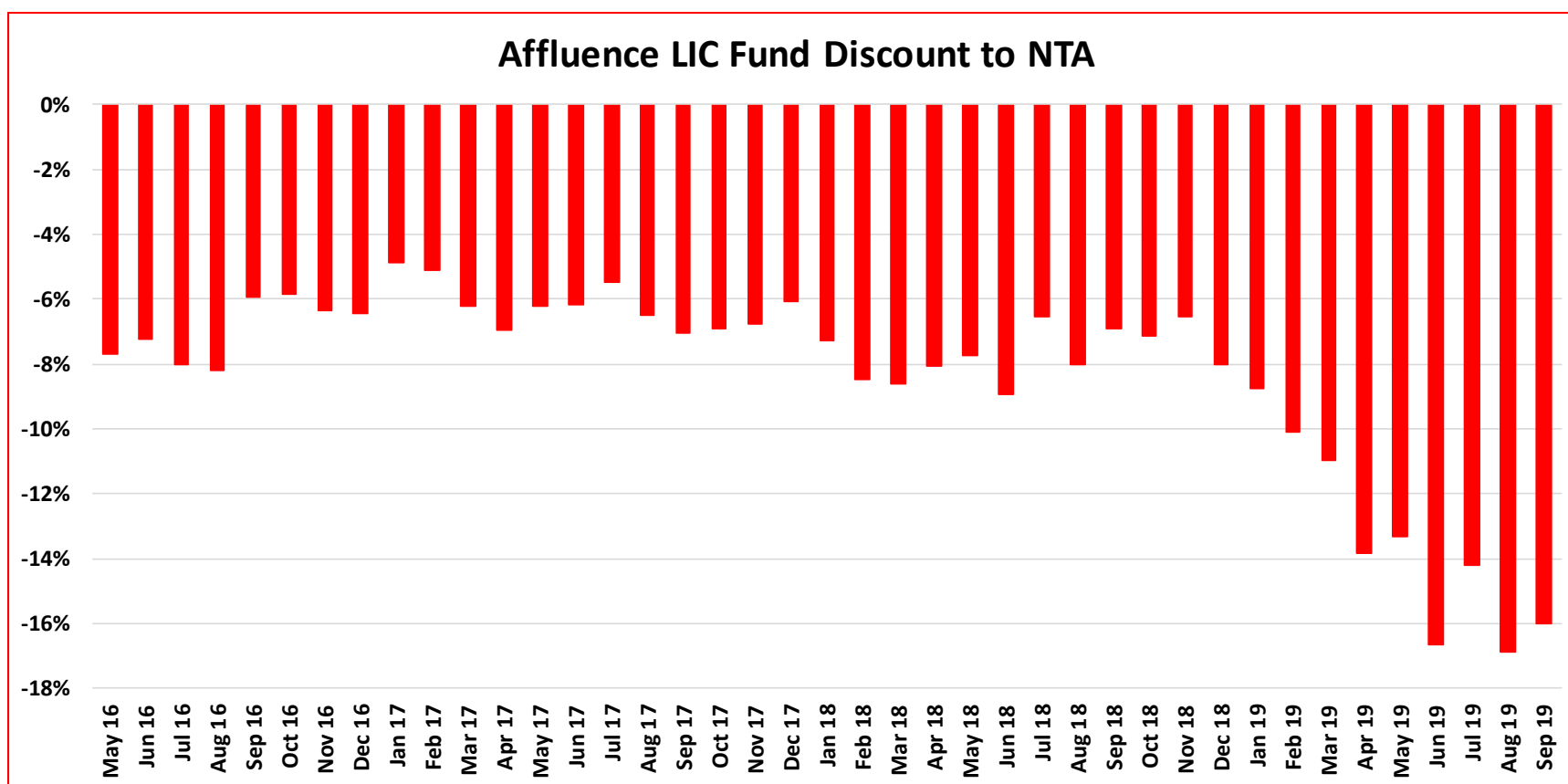
○ Identifying and executing discount capture is intensive:

- It requires constant monitoring and modelling of each LIC to identify opportunities.
- It is not a “set and forget” investment strategy, as things can change quickly.
- Affluence use a proprietary model to track LIC holdings, NTAs, discounts and premiums in real time. This enables us to act quickly as opportunities occur.



LIC Discounts Are Particularly Attractive Right Now

- The average discount to NTA of the Affluence LIC Fund portfolio is currently over 16%.
- We expect this discount to normalise over time, providing additional return potential.
 - Affluence, as well as activist and deep value investors are increasing their LIC holdings.
 - Pressure from investors is leading to mergers, wind-ups and other corporate activity.



How We Decide the Right Price to Buy LICs

- **We measure NTA consistently for all LICs we track**
 - After tax on realised gains, before tax on unrealised gains (unless portfolio is being sold).
- **We consider the NTA vs Share Price history over time**
 - We are continuously updating our estimates and comparing them to the historical average for each LIC.
- **The right discount depends on many factors. Here are some common patterns:**
 - Last years outperformers usually trade at premiums...but performance can be cyclical.
 - High dividend yields can cause high premiums...but watch out if it unwinds.
 - New LICs tend to trade OK for a while, then not so well, then better.
 - Large LICs and regular dividend payers trade at narrower discount/premium bands.
 - LICs investing globally tend to trade at higher discounts.
 - LICs investing in unlisted assets can trade at higher discounts.
 - Smaller LICs and those with concentrated portfolios can trade at higher discounts.
 - Some LICs are quite thinly traded. Watch the buy/sell spread and be patient.



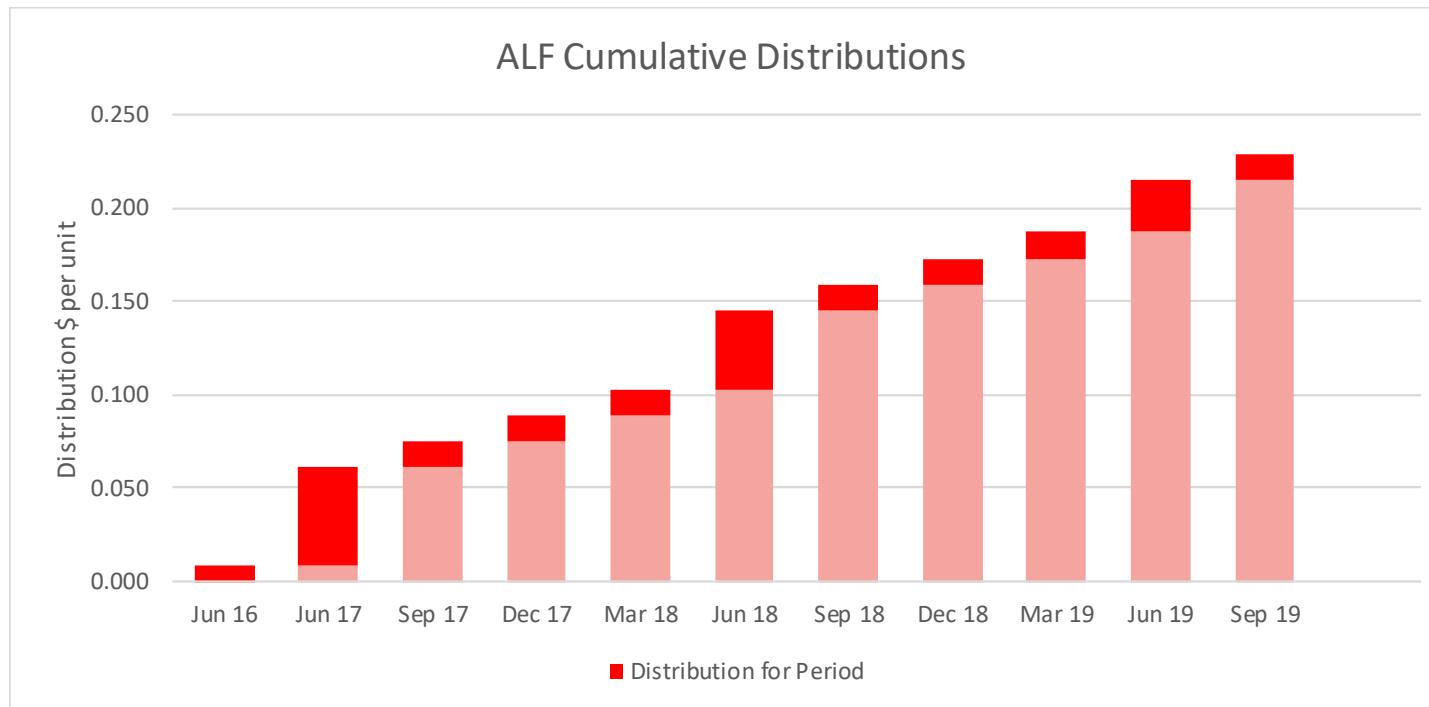
LICs - Great Managers and a Variety of Investment Strategies

- **There are many outstanding fund managers running LICs.**
 - Some managers can only be accessed via their LIC. Others may provide an unlisted option, but many have high minimum investments or are closed to new investors.
 - The quality of LIC managers is much higher than unlisted funds. While many active LIC managers have underperformed, we expect them to recover strongly in the future.
 - The relatively fixed pool of capital held by an LIC is an advantage for many types of investment strategies and can help to improve overall returns.
- **There are a wide range of asset classes and investment strategies to select from.**
 - Historically LICs were largely limited to long only investment in Australian shares. Today there is a wider array of LICs available, including many that focus on global shares.
 - A range of LICs incorporate alternative investment strategies such as long/short, absolute return, market neutral.
 - There are ways to access alternative assets including water rights, private equity and other private assets and fund of funds.
 - More recently, a range of new LICs (LITs) have emerged that invest in investment grade and non-investment grade debt.



The Affluence LIC Fund pays regular distributions

- **The Fund aims to provide investors with a minimum distribution of 5% per annum.**
 - Distributions are paid to investors approximately 10 days after the end of each quarter.
- **The Fund has exceeded this objective historically:**
 - Since inception, the Fund has paid cash distributions averaging over 6% per annum.
 - In addition franking credits received from LIC investments are passed through in full at the end of each tax year. These can add an additional 0.5% to 1% per annum.

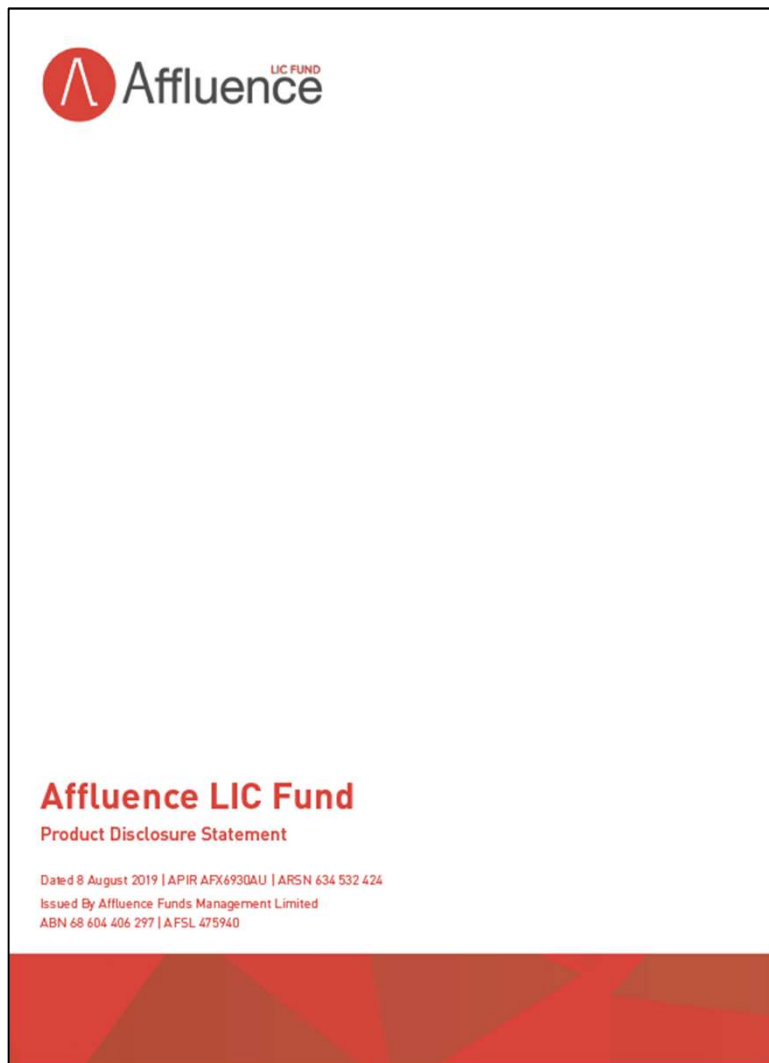


Affluence LIC Fund Summary

Fund	Affluence LIC Fund (APIR AFX6930AU)
Strategy	ASX Listed Investment Companies
Fund Type	Registered Managed Investment Scheme
Applications & Redemptions	Monthly, on the last business day.
Minimum Application	Minimum \$20,000 initial investment. Minimum \$1,000 additional investment.
Distributions	Quarterly. Targeting 5% per annum. Distributions are not guaranteed.
Fixed Management Fee	Nil
Performance Fee	12.5% of positive performance. High water mark.
Administration Costs	Capped at 0.25% pa of net assets.
Buy/Sell Spread	+/- 0.10%
RE and Manager	Affluence Funds Management
Custodian	Perpetual Corporate Trust Limited
Registry	Boardroom Pty Limited



How to Invest in The Affluence LIC Fund



- Download and read the Product Disclosure Statement (PDS) from our website: <https://affluencefunds.com.au/alf/>
- Applications and withdrawals are accepted monthly. The cut-off is the last business day of each month. Minimum application \$20,000.
- Complete the relevant application form attached to the PDS or apply online through our website.
- Send your application and any required identification documents to the Fund registrar for processing and pay your application amount via cheque or electronic transfer.
- Add to your investment monthly from \$1,000.
- To find out more, visit our website, email invest@affluencefunds.com.au or call us on 1300 233 583 to speak directly with one of the Affluence Team.



Thank You For Your Time



Investor Services

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