



Affluence Funds

September 2020

Invest Differently

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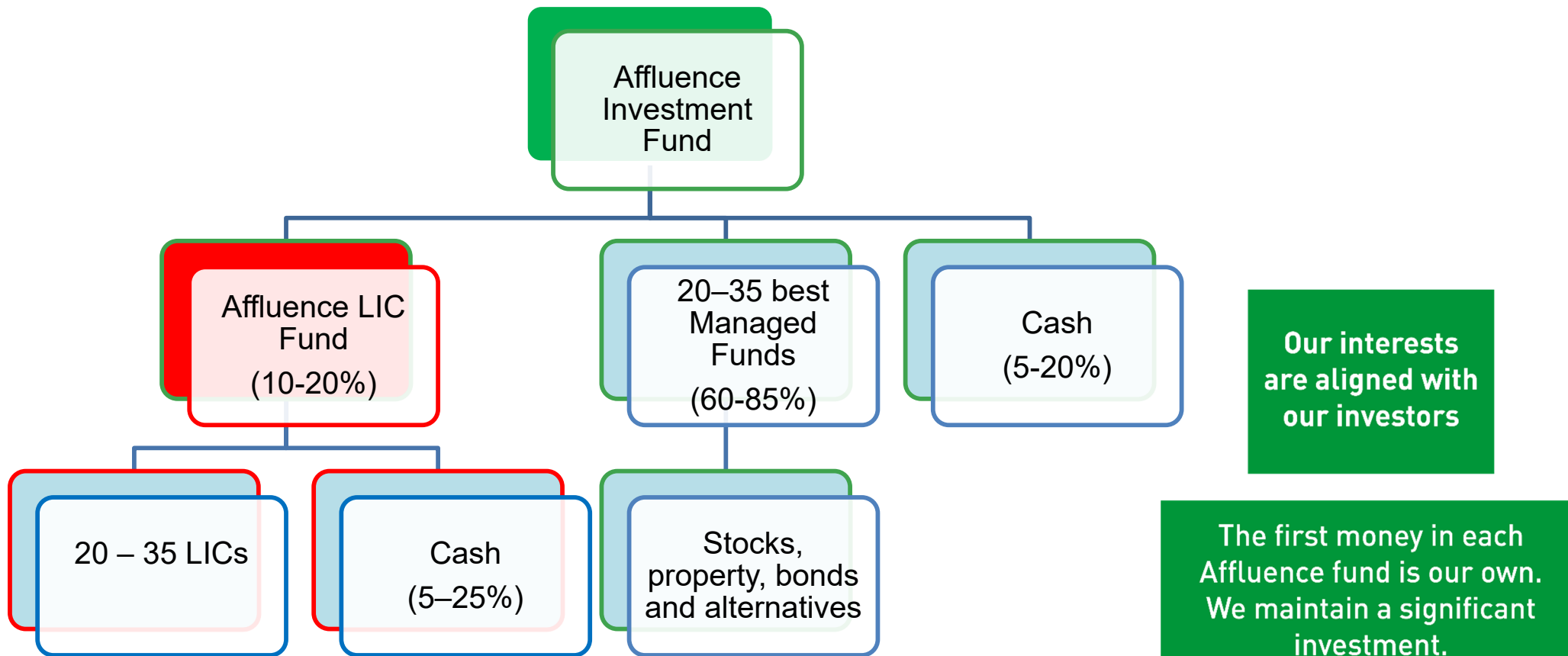
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The Affluence Funds



- Our Funds target regular income and long-term capital growth by investing with boutique fund managers and LICs in Australia.
- Affluence Funds Management is 100% owned by directors & staff.
- The investment team have worked together for 15 years.

Our interests are aligned with our investors

The first money in each Affluence fund is our own. We maintain a significant investment.

We charge only a performance fee and cap other costs of running Affluence Funds at 0.25%p.a.



Affluence LIC Fund (ALF)

ALF is an unlisted fund, formed in 2016 after we identified an opportunity to take advantage of discounts and other inefficiencies in the ASX Listed Investment Company (LIC) sector.

We believe ALF is the only fund available that invests exclusively in Australian LICs. ALF is a limited capacity strategy.

Why LICs?

- **Access outstanding fund managers.**

- The overall quality of LIC managers is much higher than unlisted funds.
- We expect active managers to be able to perform strongly in this environment.

- **Choice of asset classes and investment strategies.**

- A wide array of equity LICs are available, including many that focus on global shares.
- Alternative investment strategies such as long/short, absolute return, market neutral.
- Alternative assets including private equity, infrastructure and agricultural commodities.
- A range of LITs have emerged that invest in investment and non-investment grade debt.

- **Liquid, but not necessarily efficient.**

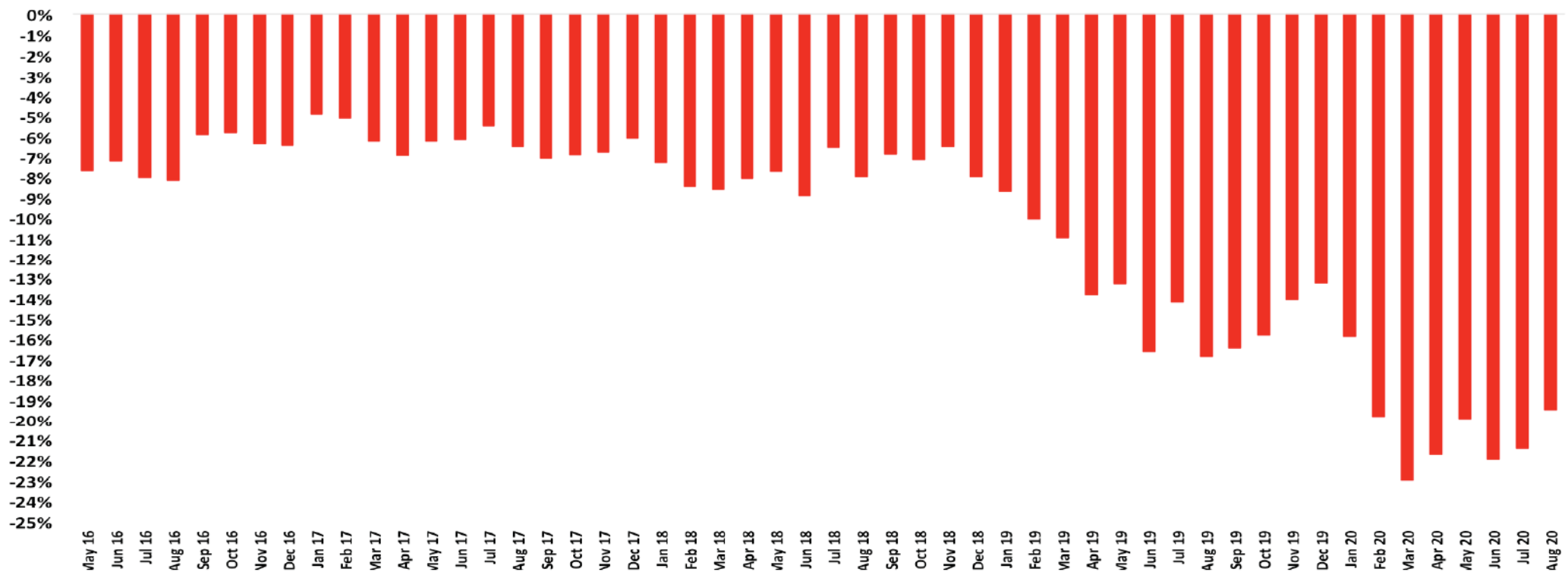
- Being listed means LICs are easy to trade and provide flexibility, BUT
- LICs can trade far above or below intrinsic value (NTA). This differentiates them from Managed Funds and ETFs, and this is the greatest source of opportunity.



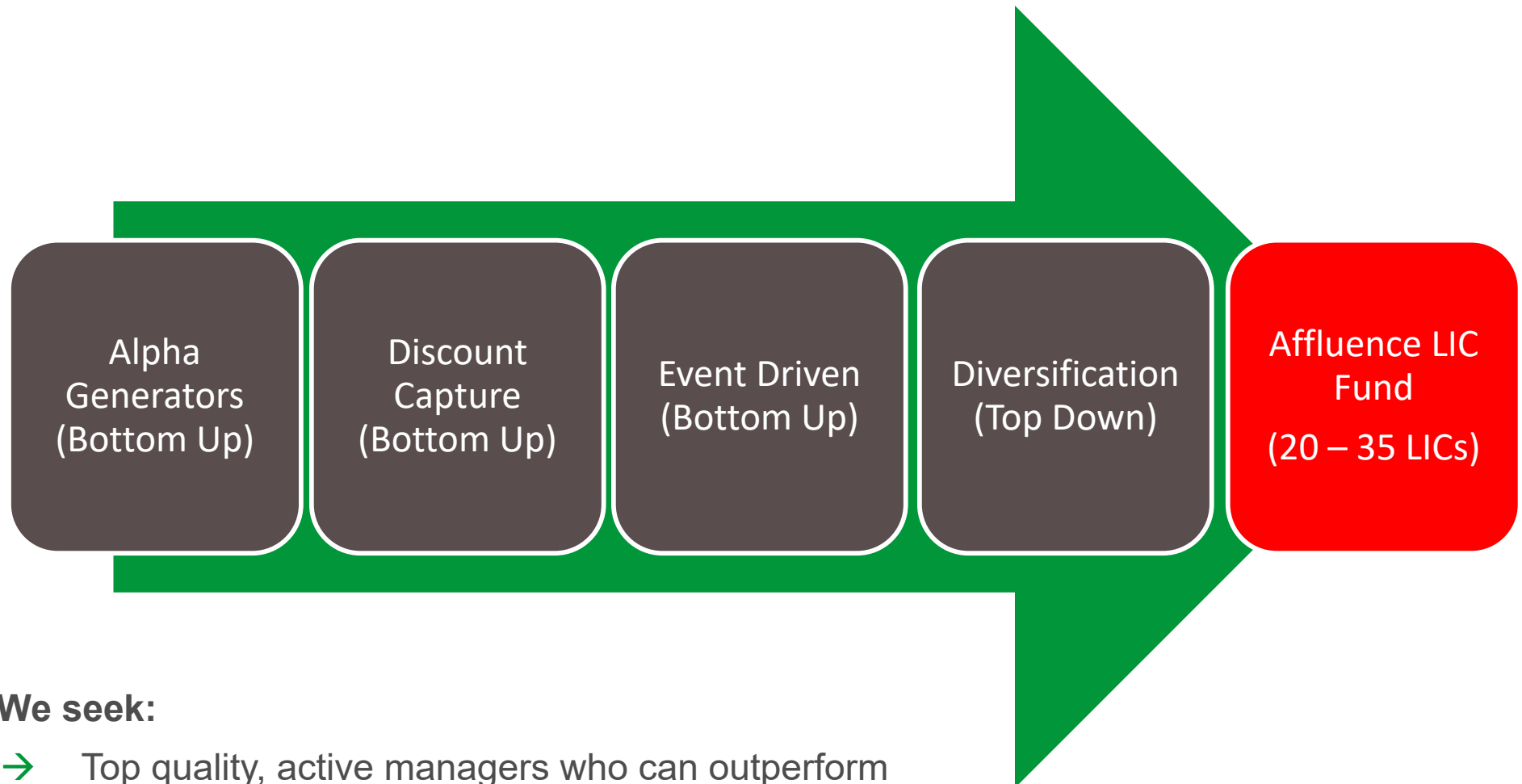
Why invest in LICs now? Two big reasons.

- Recent market falls provide an attractive entry point.
 - The ASX200 remains more than 15% below the peak earlier this year.
- Average NTA discounts are much higher than usual.
 - ALF Portfolio discounts averaged 6% - 8% from inception to late 2018. Now 19 - 20%.

Affluence LIC Fund Portfolio - Discount to NTA History



How we construct the Affluence LIC Fund portfolio



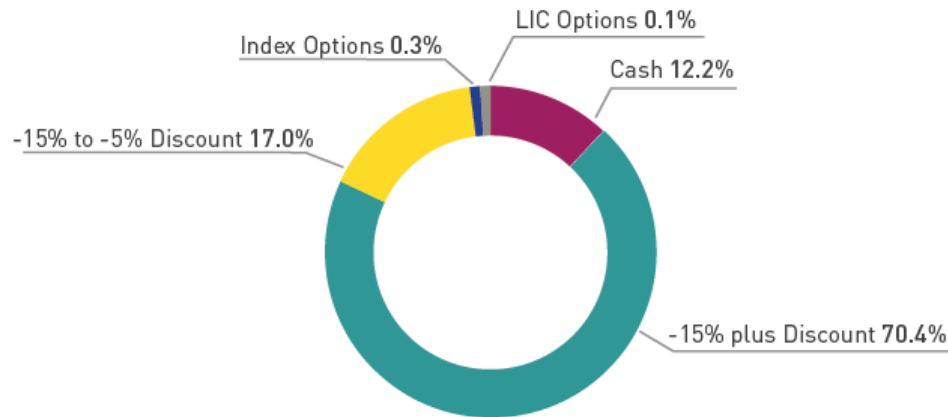
- **We seek:**

- Top quality, active managers who can outperform
- LICs trading at abnormally large discounts; and
- Opportunistic trades driven by special situations.

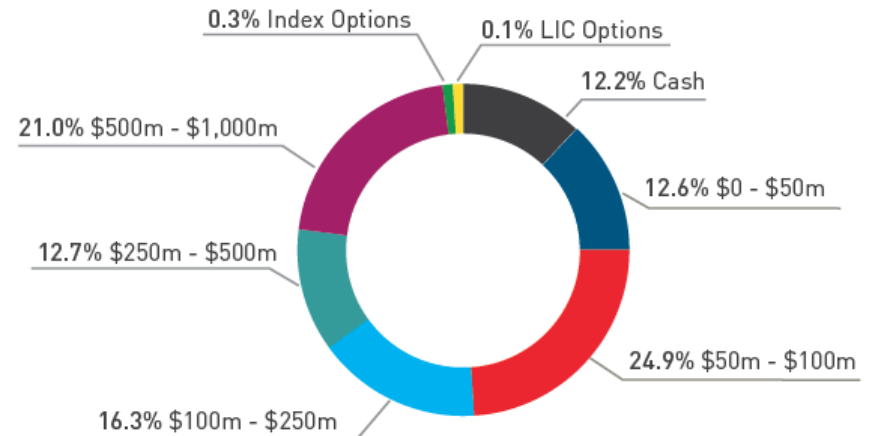


The result – a portfolio of 23 LICs (August 2020)

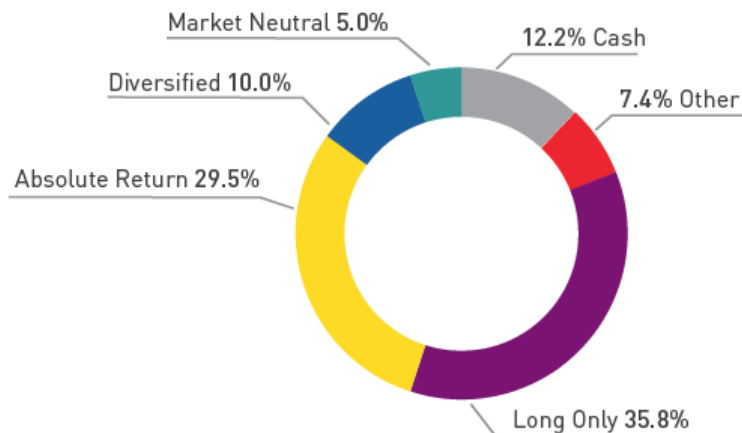
NTA Discount Band



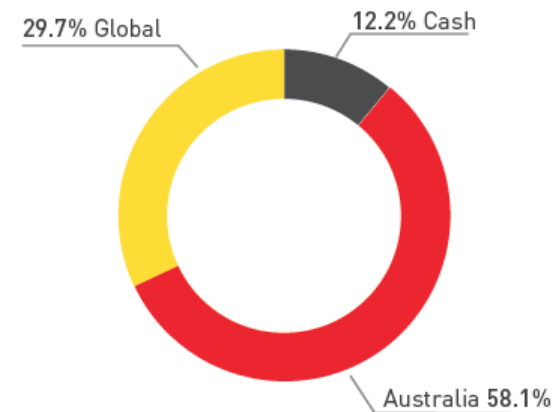
Portfolio by Market Cap



Equities Strategy



Geographic Exposure



Diversified by size, investment strategy, discount band and geography.



Our Discount Capture strategy can add significant value

○ 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.
- The right discount is different for each LIC. It depends on a range of factors.
- 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.
- LICs get limited attention from professional researchers and investment managers. This provides more opportunities for mispricing than in other areas of the market.

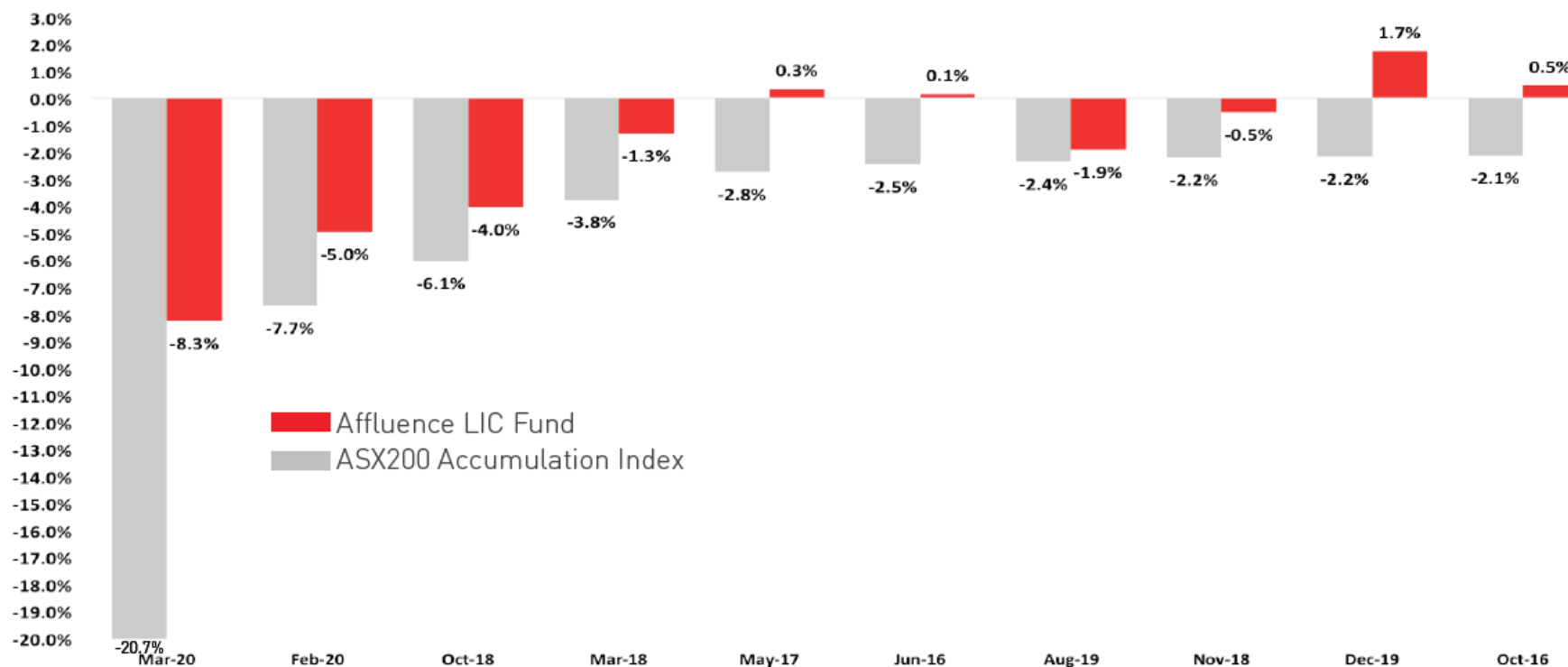
○ Identifying and executing discount capture is intensive:

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



The Affluence LIC Fund has performed well in down markets

- During the 10 largest monthly falls in the ASX200 Accumulation Index since the Fund commenced, ALF outperformed in all 10 months and delivered positive returns in 4.
- The total downside for ASX for the 10 months was -52% vs -18% for ALF.
- Downside capture during the worst month for the ASX200 (Mar-20) was just 40%.



Beta vs ASX200 = 0.46

Down Capture = 27%

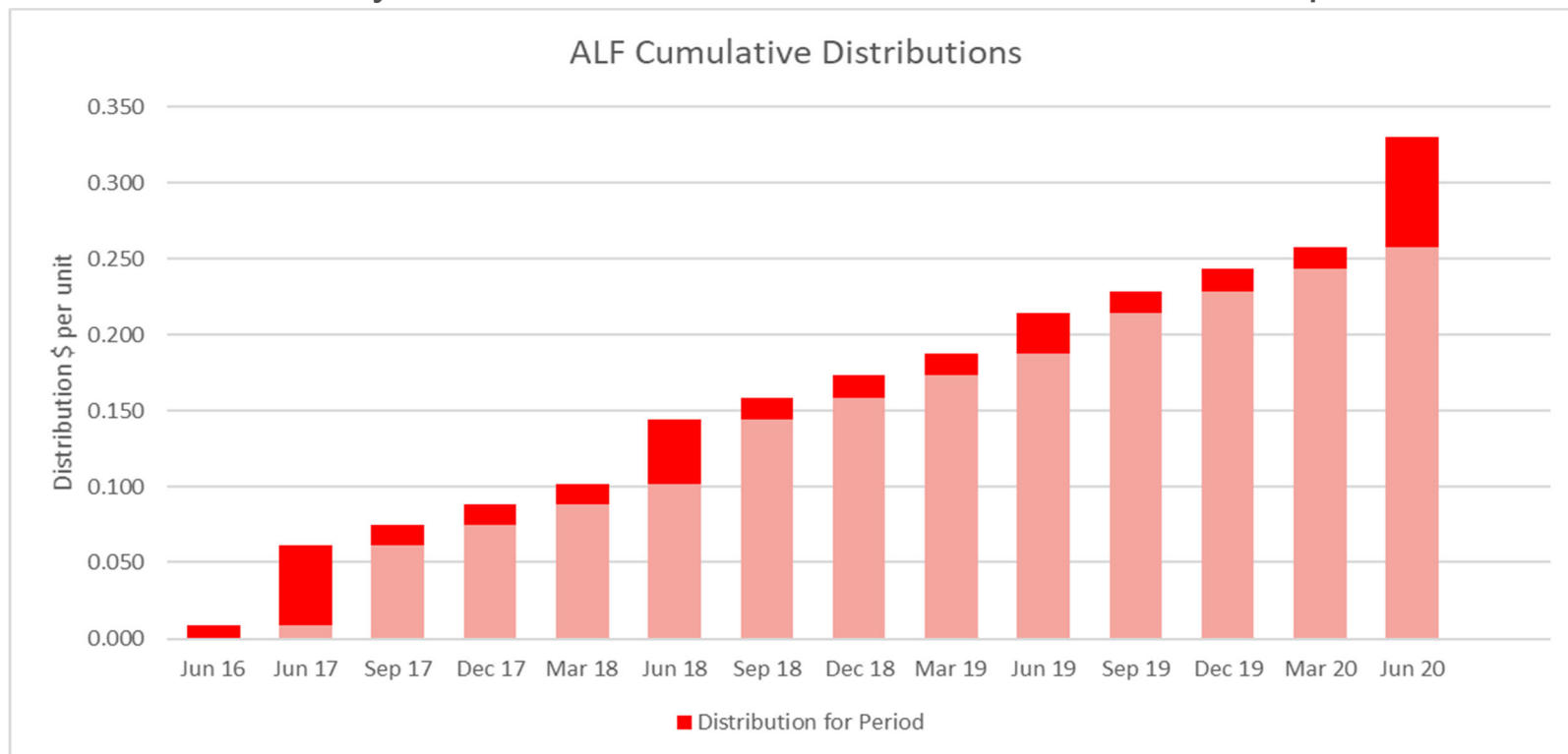
Correlation to ASX200 = 0.75

Positive return months = 71%



The Affluence LIC Fund targets 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 7.3% 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 objectives and outcomes

Fund Objective	Result	As at 31 August 2020
Total annualised returns in excess of the ASX 200 Accumulation Index over rolling 3 year periods	✓	Since inception, the Fund has returned 10.0%pa, exceeding returns from the ASX200 by 2.3%pa. LIC discounts are currently well above normal levels.
Access to a diversified portfolio of ASX Listed Investment Companies	✓	ALF holds 20 - 35 LIC's. Most LICs invest in Australian and global stocks, with some exposure to other asset classes. Diversified by investment style & strategy.
Deliver volatility of returns less than that of the ASX200	✓	Since inception, the Fund volatility of returns has been 9.2% compared to the ASX 200 at 14.8%.
Minimum distribution yield of 5% per annum, paid quarterly.	✓	Distributions have averaged 7.3% pa since inception plus some franking credits. Distributions are paid quarterly.

Fund Performance

To 31 August 2020	1 Month	1 Year	2 Years	3 Years	4 Years	Inception	Volatility
Distributions	0.0%	11.4%	8.6%	8.5%	7.6%	7.3%	
Change in Unit Price (Capital Growth)	4.8%	1.7%	(2.1%)	0.5%	1.3%	2.7%	
Affluence LIC Fund Total Returns	4.8%	13.1%	6.5%	9.0%	8.9%	10.0%	9.2%
ASX200 Accumulation Index (AI)	2.8%	(5.1%)	1.7%	6.1%	7.0%	7.7%	14.8%
Performance compared to ASX200AI	2.0%	18.2%	4.8%	2.9%	1.9%	2.3%	

Total returns are net of fees and costs (excluding buy-sell spread) using the mid prices and assume the reinvestment of distributions. Returns of more than 1 year are annualised. Inception date is 3 May 2016. Past performance is not indicative of future performance.

Performance information is for the period from commencement of the Fund in May 2016 until August 2020. Past performance, including distributions, is not indicative of future performance. Current performance data is available on our website at www.affluencefunds.com.au/alf/.



Affluence LIC Fund Summary

- **Quality and diversity** - The Affluence LIC Fund portfolio provides access to many exceptional investment managers and a range of alternative investment strategies.
- **Specialised focus** - The actively managed portfolio of 20-35 LICs can complement your other equity investments. We focus on small to medium LICs, where mispricing is more common.
- **An extra way to add value** - The Discount Capture strategy aims to generate additional returns for the Fund by taking advantage of LICs trading at unusually large discounts to NTA.
- **An attractive entry point** – Markets remain well below the highs of early 2020, and LIC discounts are significantly higher than average.
- **Regular income** - Quarterly distributions, targeting 5% per annum. Since commencing, the Fund has paid cash distributions in excess of 7% per annum, plus some franking credits.
- **Strong returns, lower volatility** - Returns since the Fund commenced have exceeded those of the Australian share market (ASX200 Index), with more consistency.
- **Alignment of interests** – We co-invest in the Fund. We only charge fees based on Fund performance. We will close the Fund to new investors when we reach investment capacity.

An exceptional entry point, combined with ways to add extra value provides the potential to deliver very attractive returns over the next few years.



What next?

○ Learn more about our funds:

- Visit <https://affluencefunds.com.au/funds/> to get information on the Fund including the PDS, other fund documents, performance, monthly updates and portfolio analysis.

○ Invest with us:

- Read the PDS for the relevant fund and consult your financial advisor.
- Apply online or download application and other forms from our website.
- Minimum initial investment \$20,000. Minimum additional investment \$1,000.
- Applications and withdrawals are accepted monthly.

○ Subscribe to our monthly eNews:

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- Investment educational content to build your knowledge.
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