



Quarterly Update: Patience is a virtue

August 2023

Invest Differently

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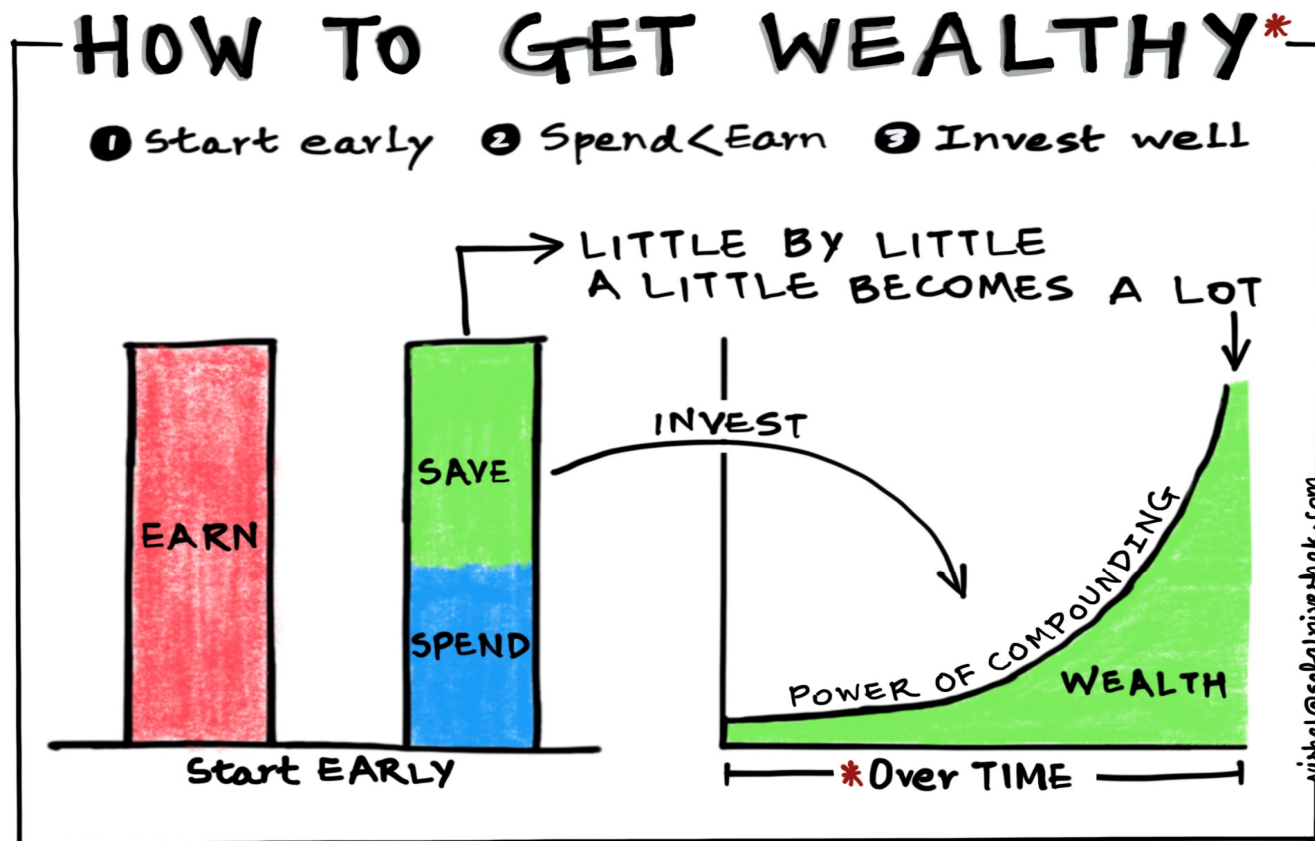
Current information in relation to each Affluence fund is available at <https://affluencefunds.com.au>.



Affluence Funds are focused on investor outcomes

○ All our Funds target:

- Better than average returns - over three years and longer.
- Regular income - at least 5% per annum, paid monthly or quarterly.
- Smoother returns - to help limit the impact of market downturns.



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 Funds – Outperformance over 3, 5 and 7 years

Returns to 31 July 2023	Asset Class	1 Year	3 Years	5 Years	7 Years
Affluence Investment Fund	Diversified	7.1%	9.2%	6.6%	7.0%
Vanguard Growth ETF	Diversified	7.9%	6.9%	6.1%	6.7%
Vanguard Balanced ETF	Diversified	4.4%	3.6%	4.3%	4.8%
Affluence LIC Fund	Equities	5.9%	14.2%	10.2%	10.6%
ASX200 Accumulation Index	Equities	11.7%	12.0%	7.5%	8.4%
Affluence Small Companies Fund	Small Equities	9.3%	16.2%	9.8%	8.8%
ASX Small Ords Accumulation Index	Small Equities	0.8%	5.9%	3.2%	5.1%

Performance data is calculated assuming the reinvestment of distributions and is expressed net of fees and costs, excluding the buy-sell spread. Performance includes distributions and changes in unit prices, but not franking or other tax credits. Returns for periods over 1 year are annualised. Past performance is not indicative of future performance. Current performance data is available at <https://affluencefunds.com.au>.

- Affluence Investment Fund
 - Multi asset diversification via great fund managers and discounted asset plays.
- Affluence LIC Fund:
 - Quality LIC managers, discount capture and special situations.
- Affluence Small Company Fund:
 - Value focused ASX small caps via talented managers and direct holdings.



How Affluence Funds are different, and what it means for you

- Access to a core portfolio of boutique managers and differentiated investment strategies.
 - Boutiques have less FUM & better investor alignment. Many are closed to new investors.
 - Differentiated strategies can help with diversification and reduce volatility.
- Supplemented with some specialised investments in areas within our circle of competence.
 - Discounts and other opportunities in Listed Investment Companies (LICs).
 - Listed and unlisted property, with a focus on asset quality and mispricing opportunities.
 - Other discount capture and contrarian opportunities, particularly in listed small caps.
- Targeting reduced volatility, particularly during market corrections.
 - A smoother ride means less worries when markets are bumpy.
- Targeting monthly or quarterly distributions at a minimum 5% per annum.
 - Regular income is very important to many investors. Can be paid in cash or reinvested.
- Alignment of interests between Affluence and investors.
 - We get paid only for performance. Affluence staff co-invest in all Affluence Funds.



Market Outlook: Patience is a virtue.

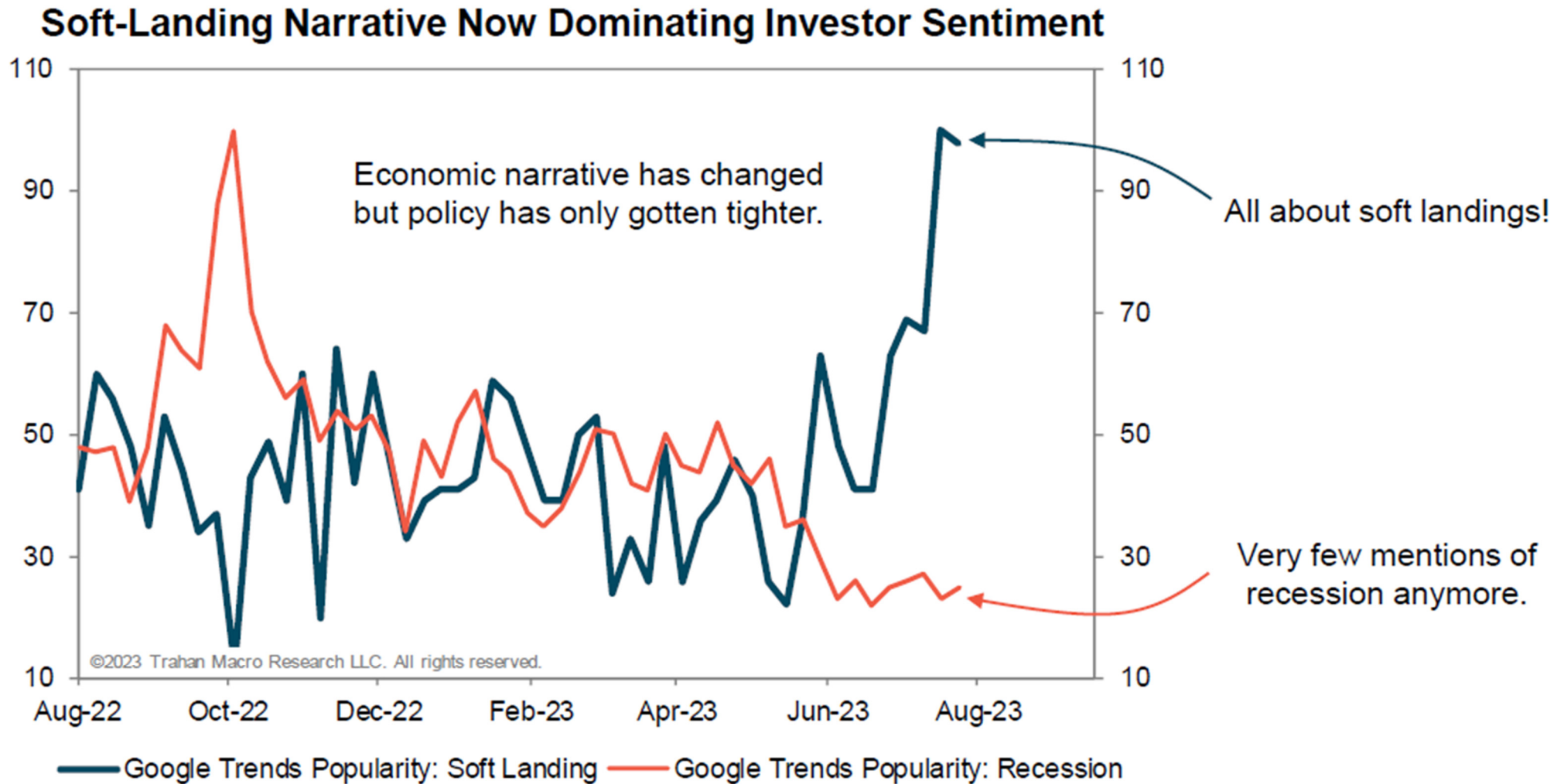
A soft landing is now fully priced into markets. We believe it will be worse than expected, particularly in the northern hemisphere.

Despite this negative macro view, we are already seeing a range of very attractive investments in areas such as resources, value stocks, small caps, discount asset plays and fixed interest. We are adding regularly and selectively in these areas.

We continue to carry more cash than usual, in anticipation of more opportunities emerging later this year and into 2024. We believe patience will be rewarded.

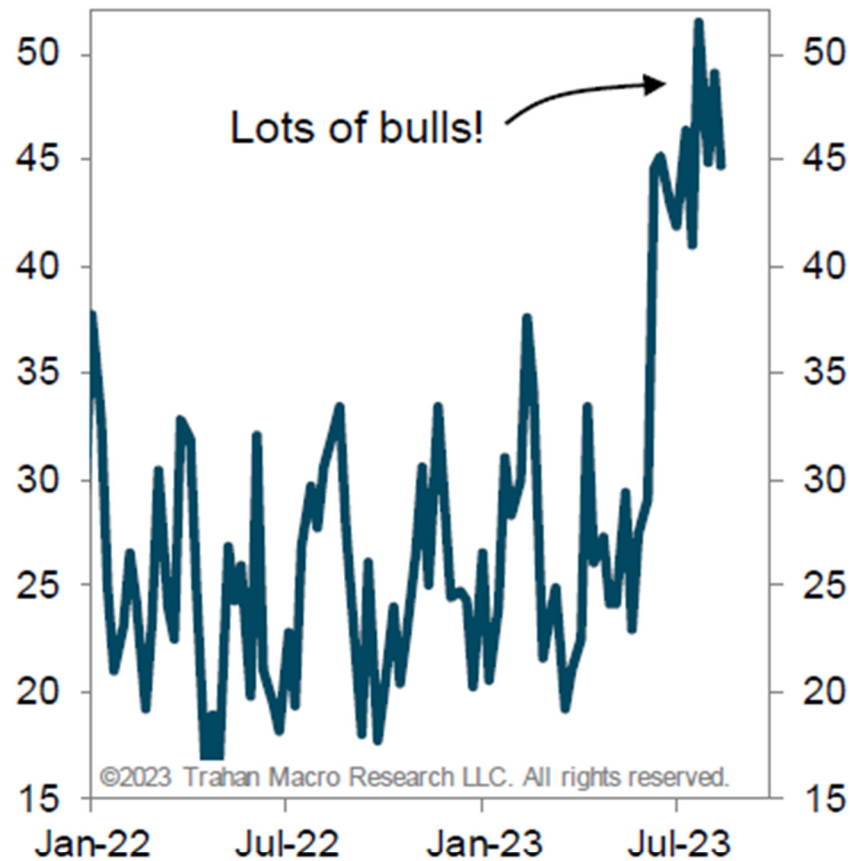
The charts in this section explain our thinking in more detail.

A (very) soft landing is now consensus, and fully priced in.



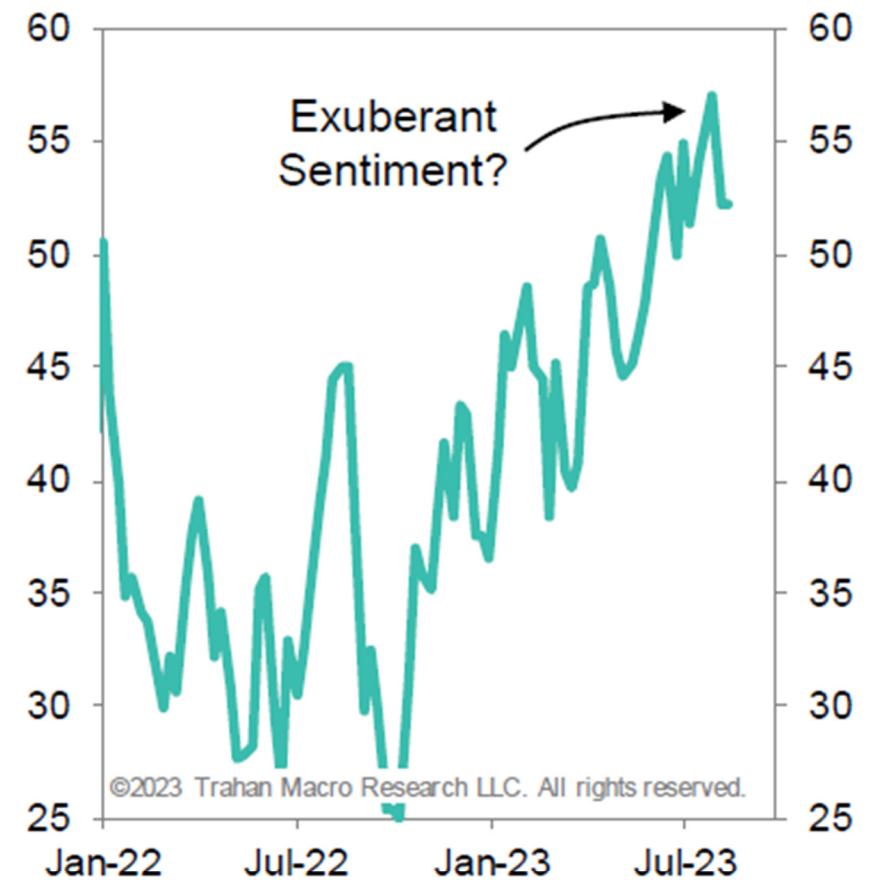
US investors have loaded up on stocks – a contrarian sign?

Retail!



— AAI Bullish Sentiment (%)

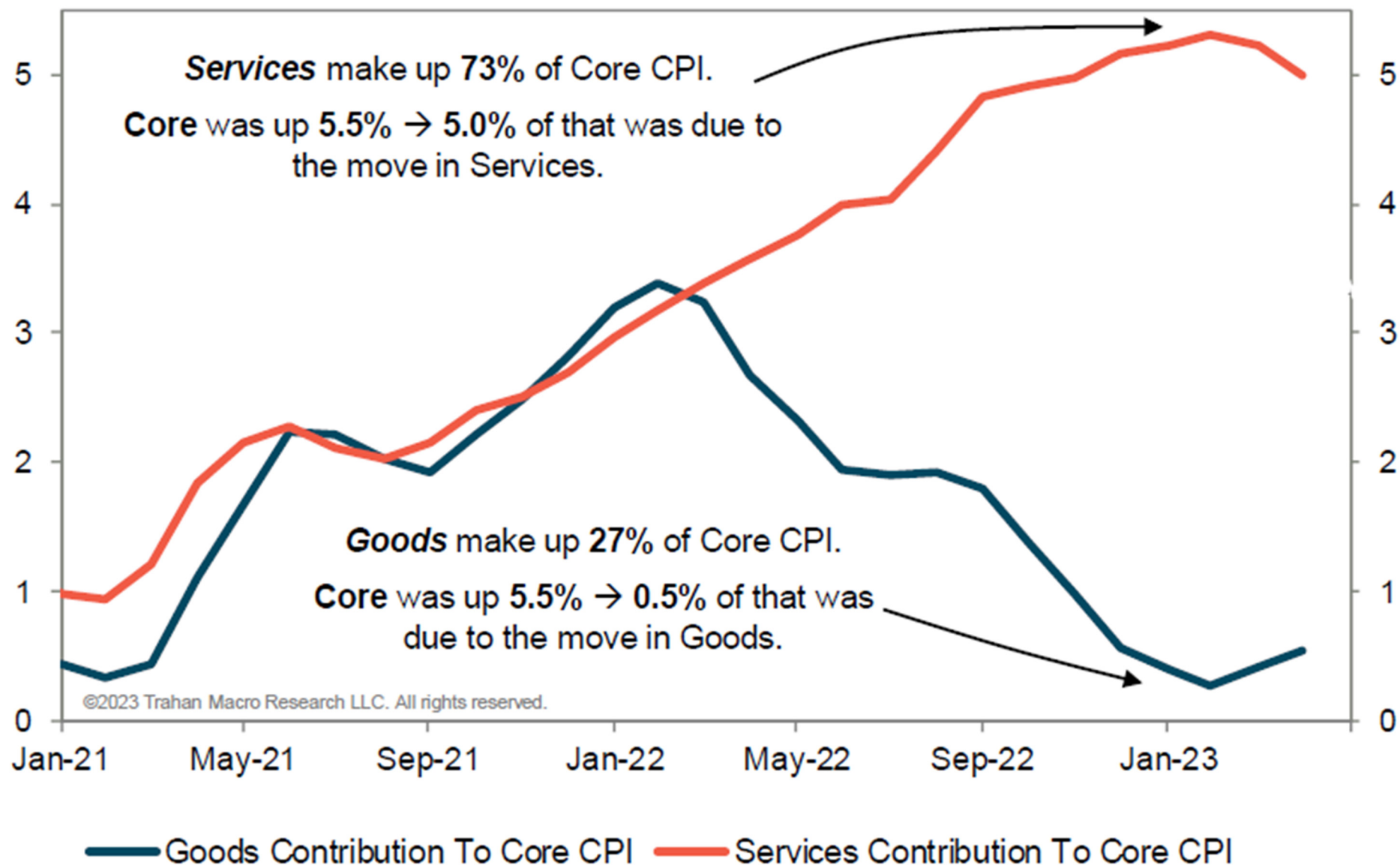
Advisors!



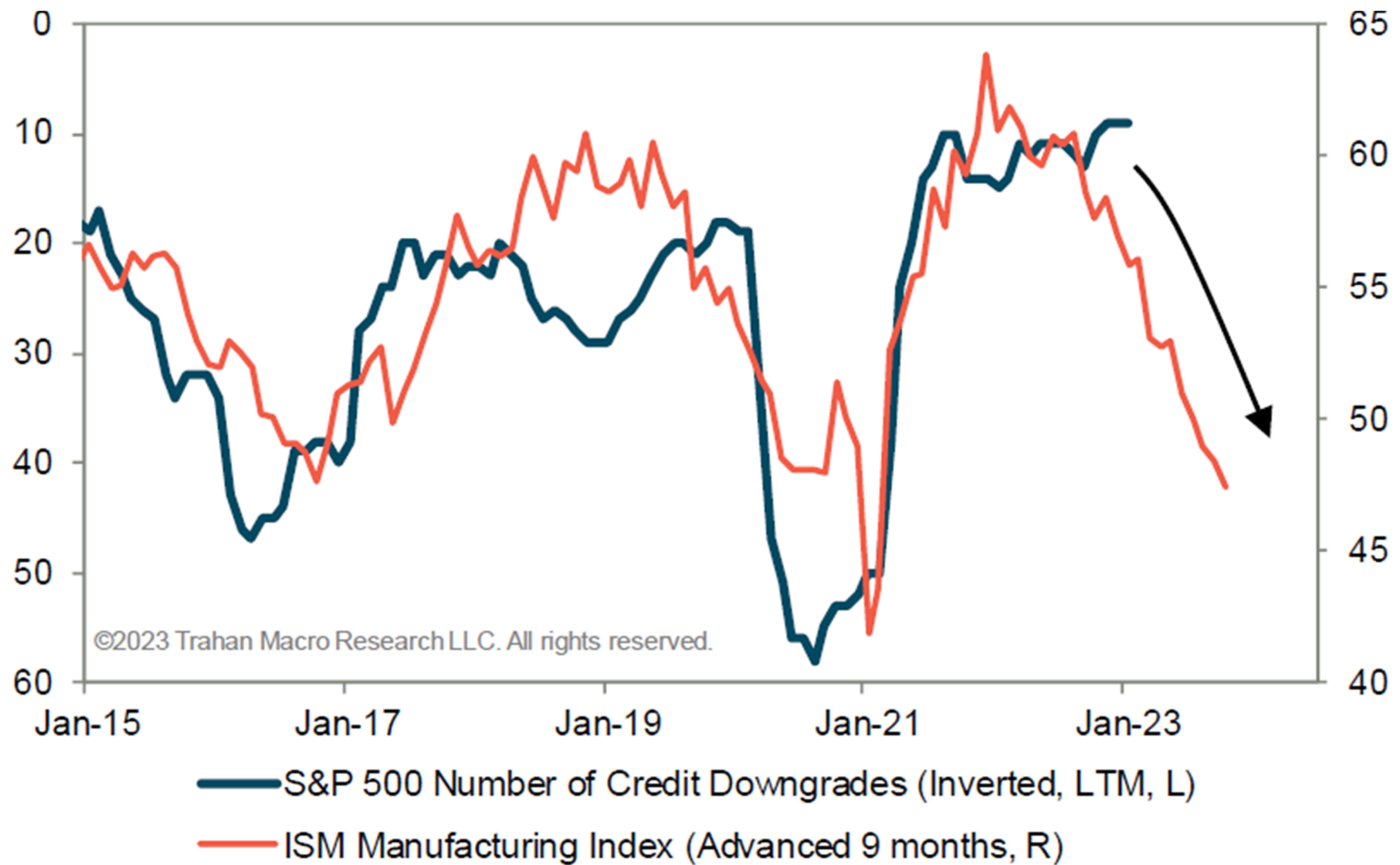
— Investors Intelligence Sentiment: Bullish (%)



Services inflation sticky (wages). Goods inflation turning up.

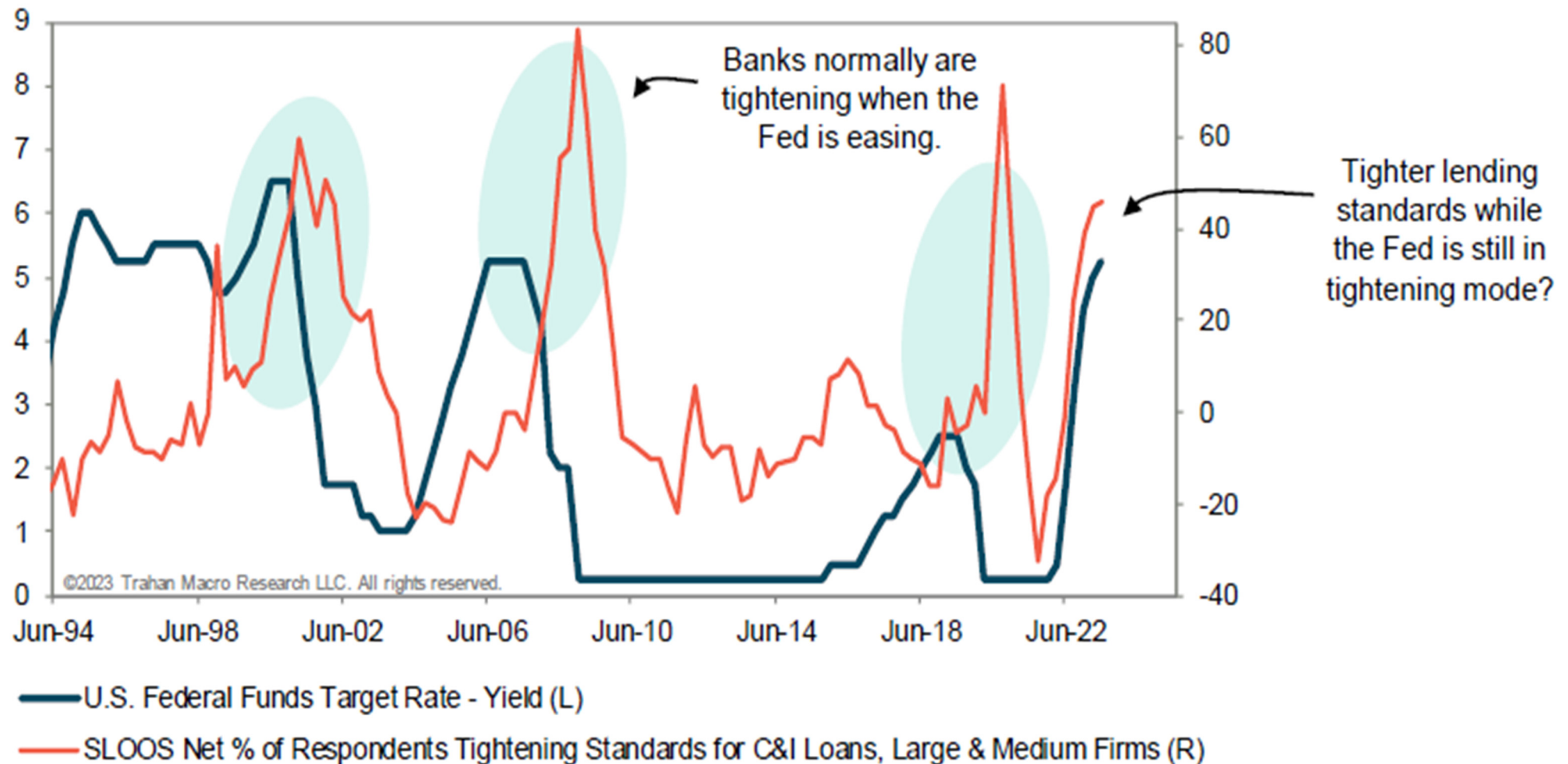


Leading indicators continue to worsen – it's not over



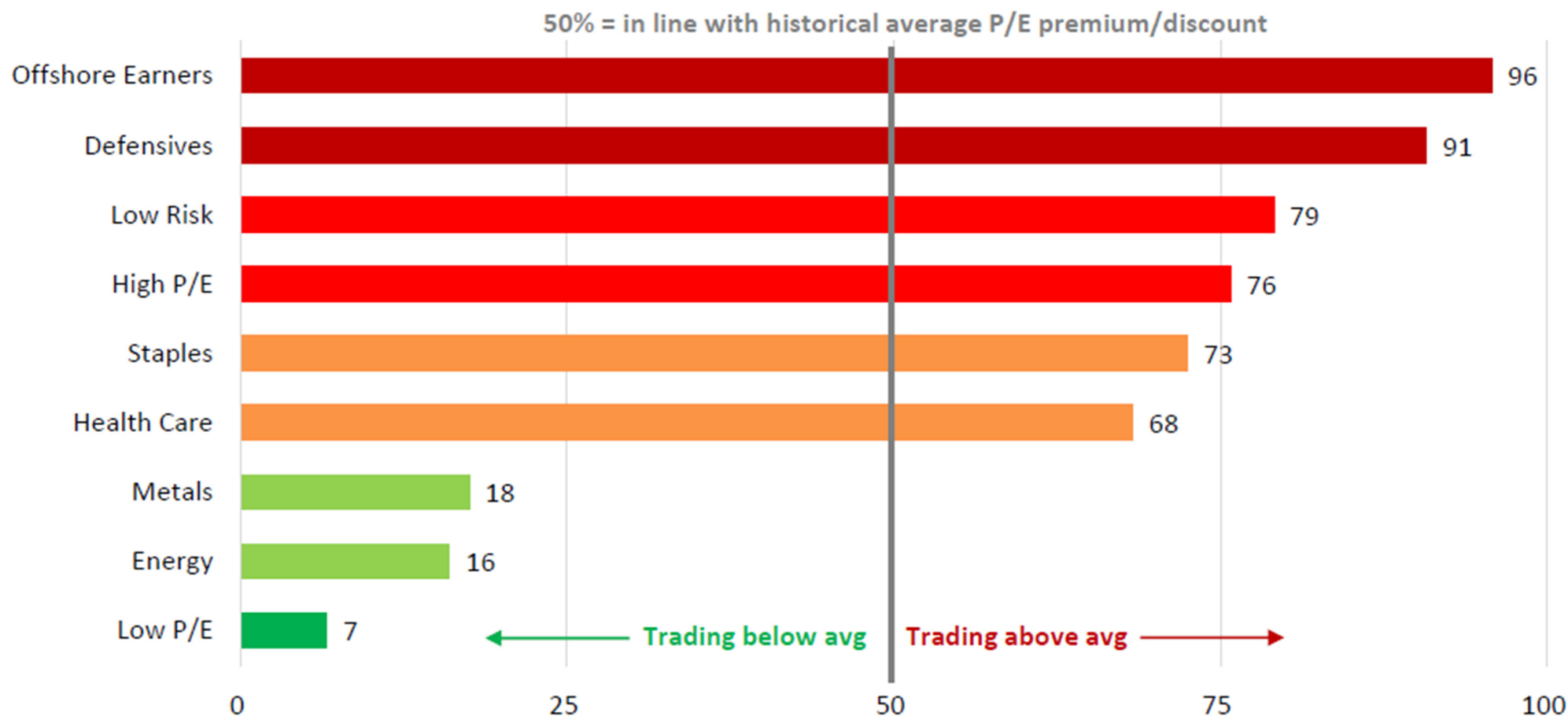
In the US, a credit squeeze has started

Bank Lending Standards Are Typically At Their Worst After Rate Hikes



Despite the macro, we are already finding exceptional value

ASX 200 valuation premium of selected sectors/factors relative to historical ranges 12m forward P/E vs. 10-year range (percentile rank versus history)



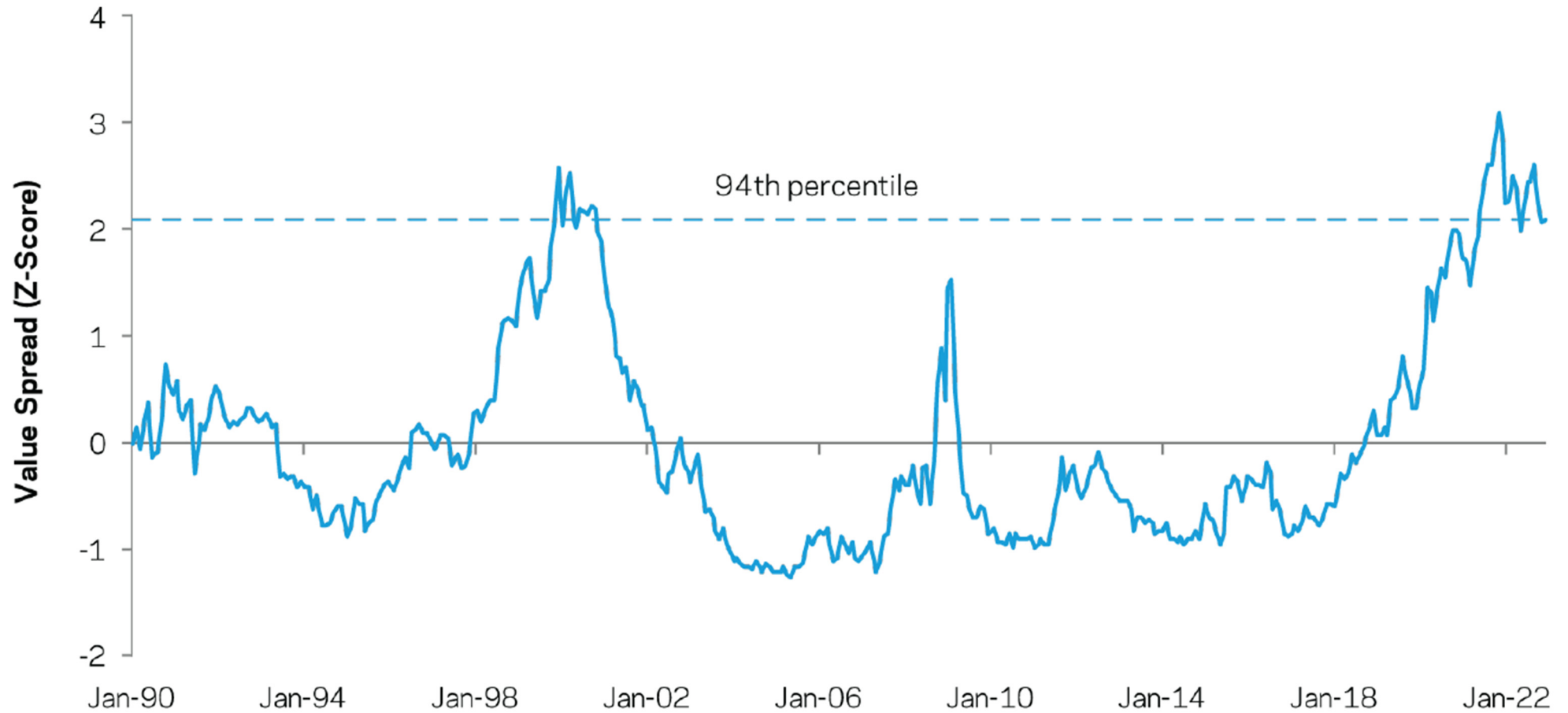
Source: L1 Capital, Goldman Sachs, Factset.



Value's comeback vs growth is only just getting started

Global Value Spreads

Hypothetical AQR Industry-and-Dollar-Neutral All-Country Value Portfolio^{3, 4}



Source: AQR. Data to 31 December 2022.



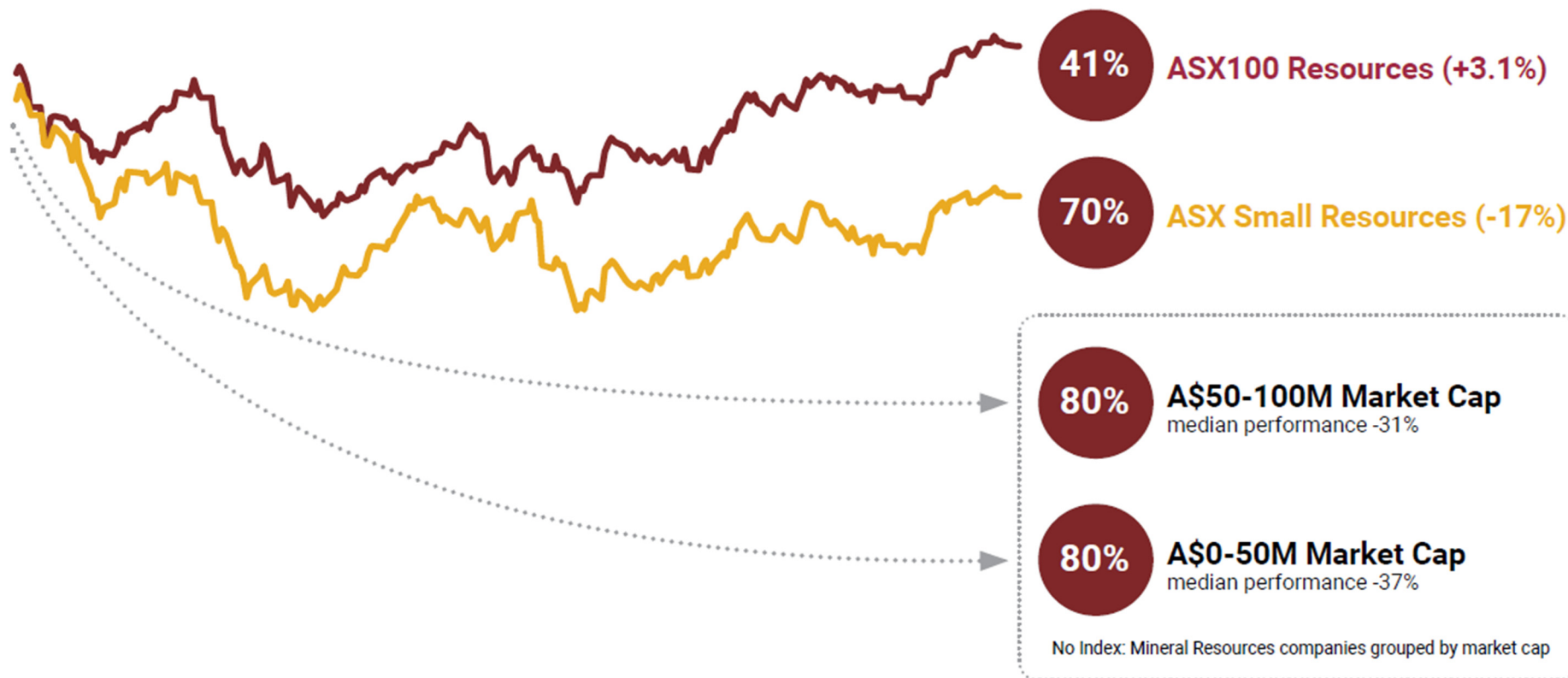
Small resources companies are exceptionally cheap targets

19 April 2022 – Present

Miners: big, small and micro

% of co's in
group with
negative
performance

**Performance since
19 April 2022**
market peak



Performance of ASX100 Resources and ASX Small Resources indices versus median performance of Mineral Resources companies capitalised between \$0-\$50M market capitalisation, and \$50-\$100M market capitalisation brackets in April 2022, also showing the % of companies in each group that have posted a negative share price performance in that time.

Data source: IRESS

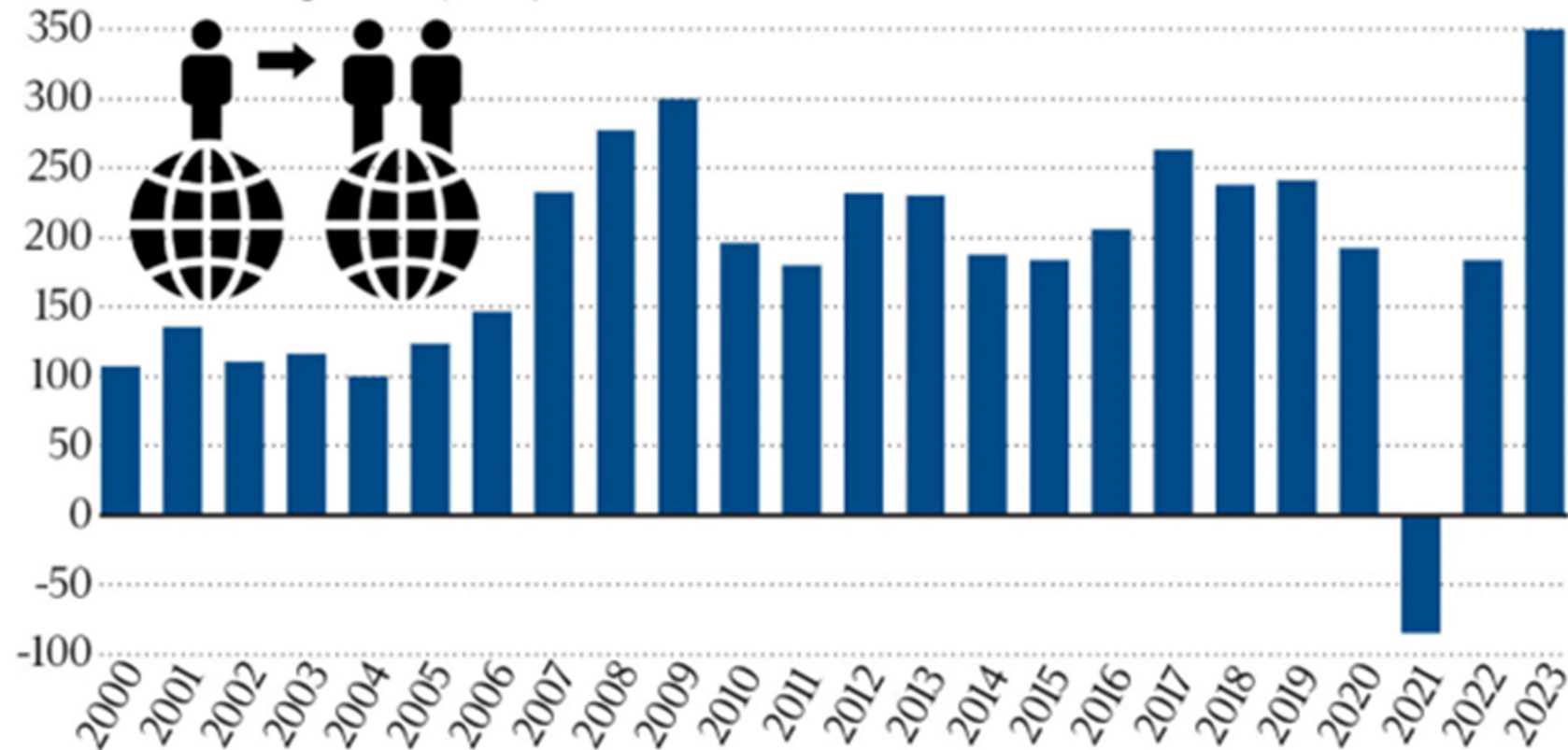


Migration is proving to be a significant shock absorber for Australia

REBOUND IN ARRIVALS

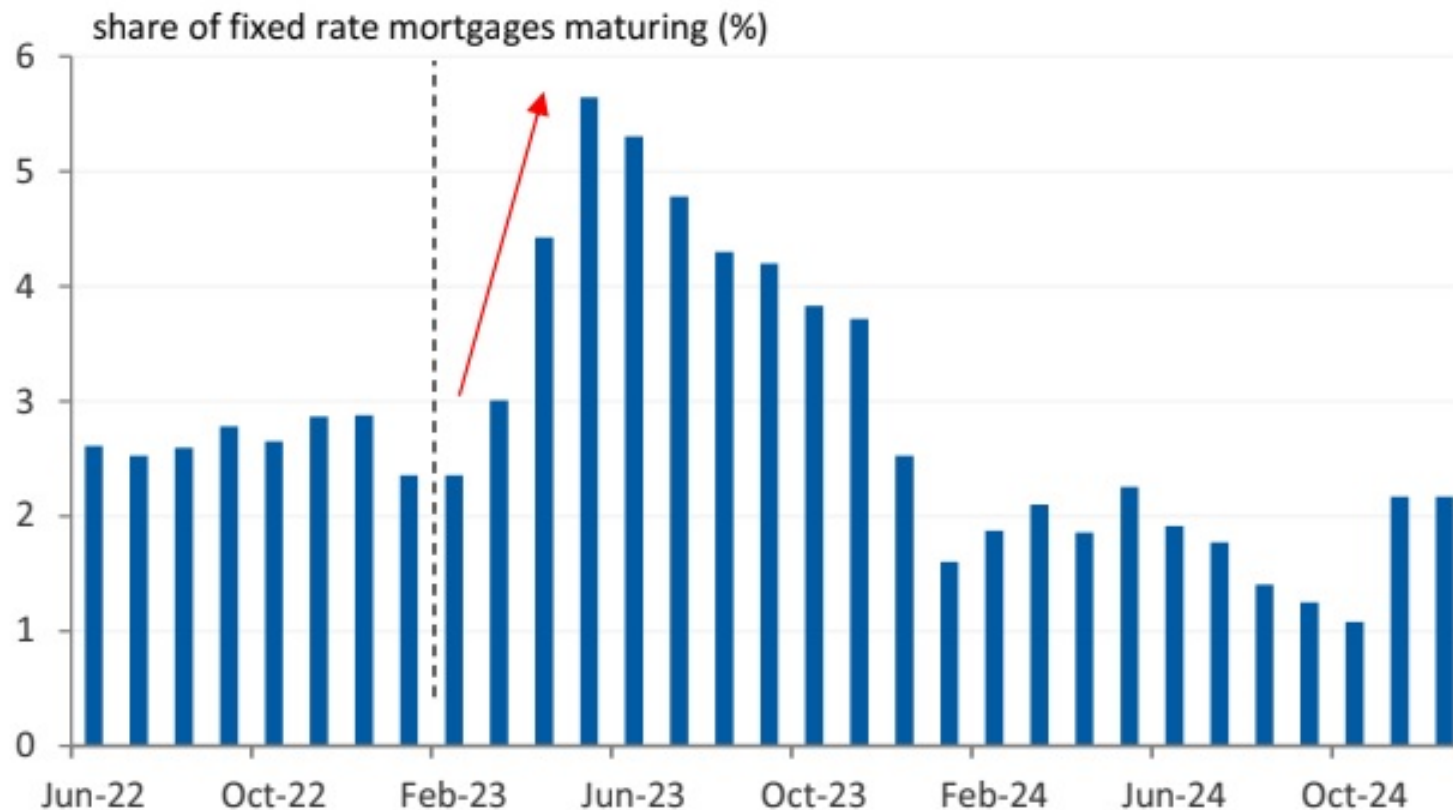
Source: ABS, Treasury

Net overseas migration (000s)



But the great fixed mortgage reset is not even halfway done.

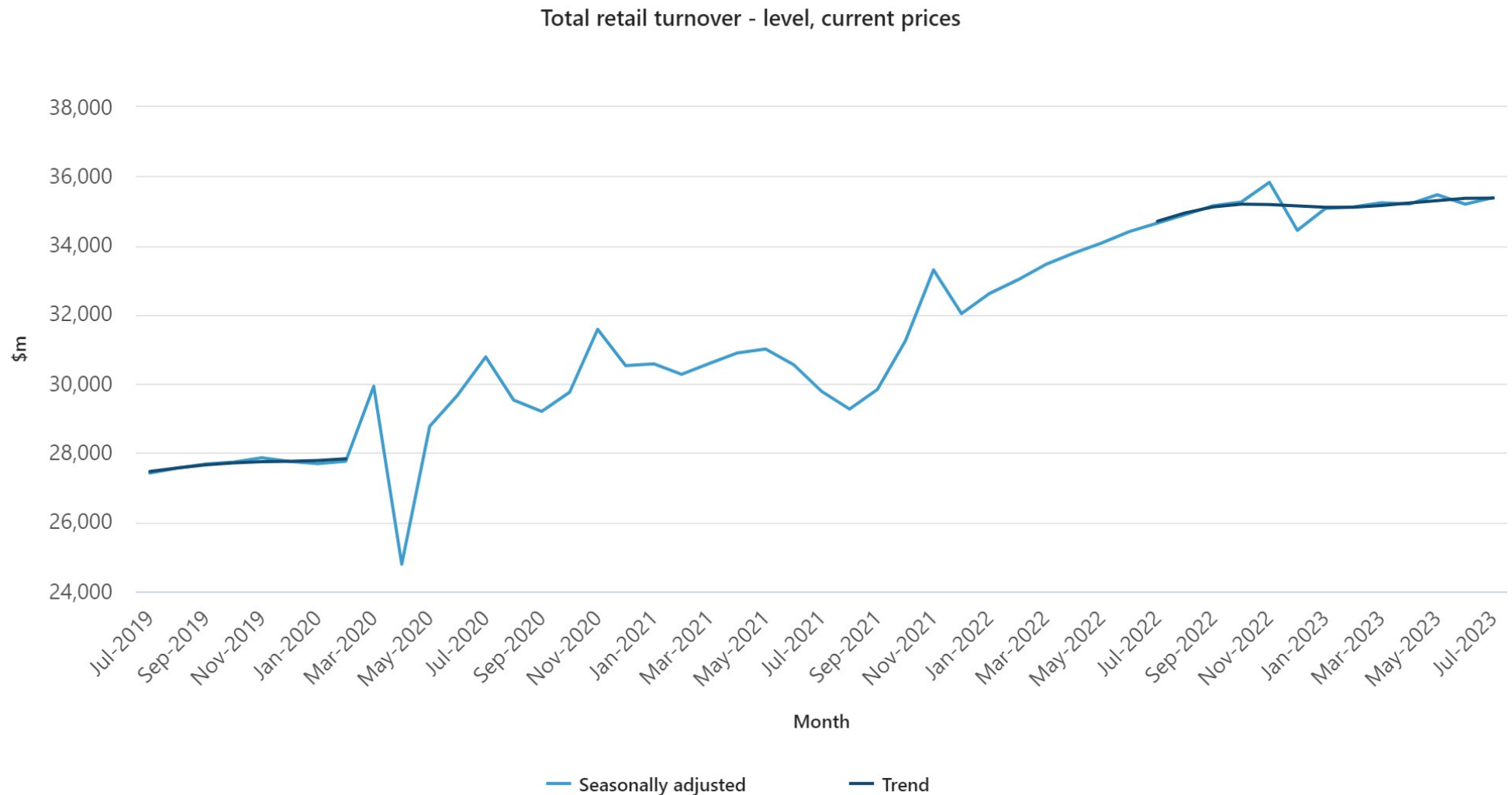
Exhibit 5: Fixed rate maturities accelerate noticeably in 2Q23



Source: RBA, Morgan Stanley Research



Pandemic cash dwindling. Consumer spending slowly rolling over.



Source: Australian Bureau of Statistics, Retail Trade, Australia July 2023



There will be more opportunities. Patience will be rewarded.

- **Leading indicators are not good** – a very soft landing priced in, but it will likely be worse.
- **Earnings risk** – forecasts remain too optimistic, especially in the northern hemisphere.
- **US credit issues** – bank deposits remain under pressure. Falling real estate isn't helping.
- **Value is back** – high interest rates mean cash flow and earnings yield will be more attractive.
- **Commodities are back** – even if a recession occurs, resources can still do very well.
- **Inflation remains sticky** – wage increases will keep inflation above targets until at least 2025.
- **Commercial property in trouble** – this probably has 12-18 months more to go.
- **What we like** – Cash, fixed interest, small value, discounted assets, uncorrelated strategies.
- **What we're adding** – Credit strategies, selected LICs and REITs.
- **What we're avoiding** – US equities, expensive quality, loss makers, direct property.
- **Where returns are improving** – Cash, fixed interest/credit, value stocks.

Affluence Funds have outperformed when the growth style dominated.

We are extremely well positioned to take advantage of the return to value.



Affluence Investment Fund Portfolio

AIF is an unlisted, all-weather fund, combining our portfolio construction expertise with access to 30+ talented boutique managers and other investments. With monthly distributions and a focus on differentiated investment strategies, AIF can be a very useful portfolio diversifier.

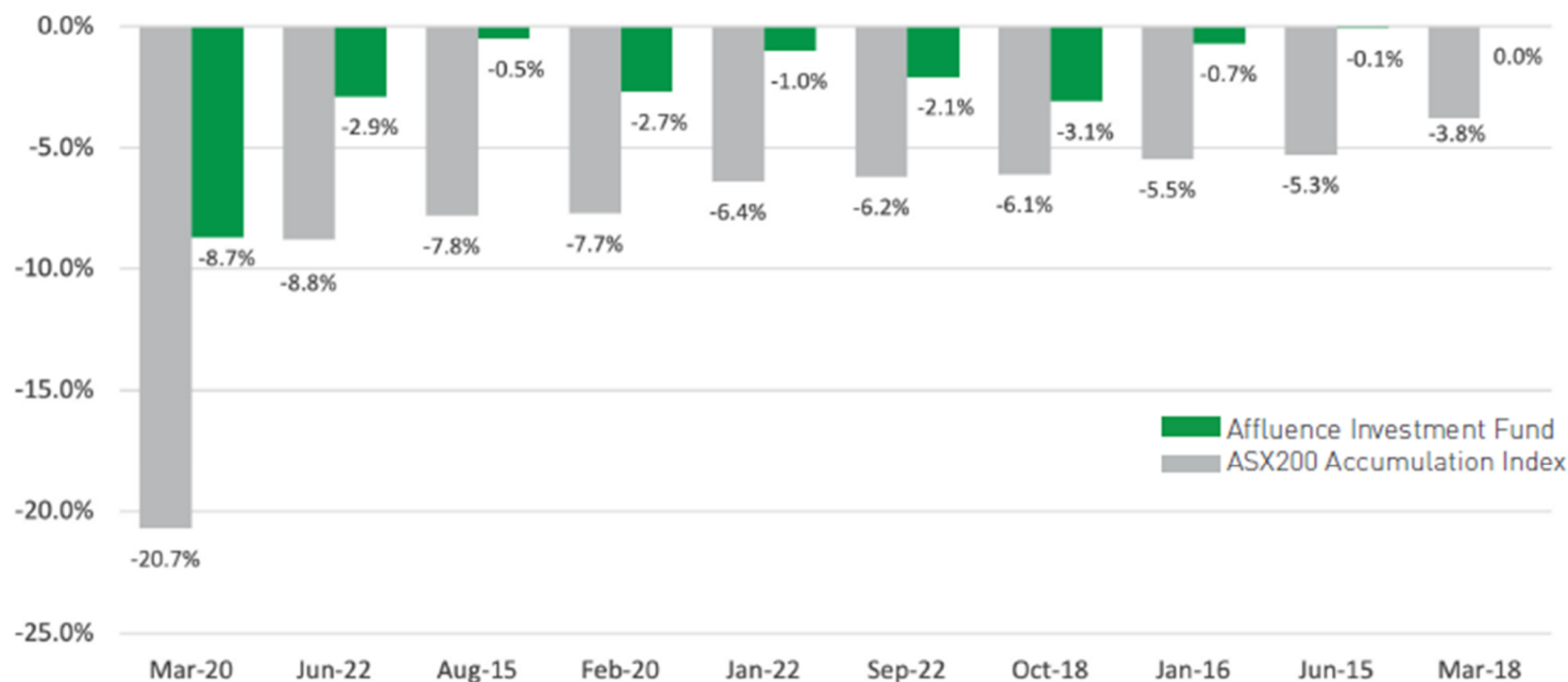
Our investment mandate is very wide. We seek to skew the portfolio towards the asset classes that we feel are cheapest, and to the themes we think are most likely to impact markets over the next few years.

So, what do we own right now? Read on to find out.

Equity-like returns, with one third beta and very low volatility

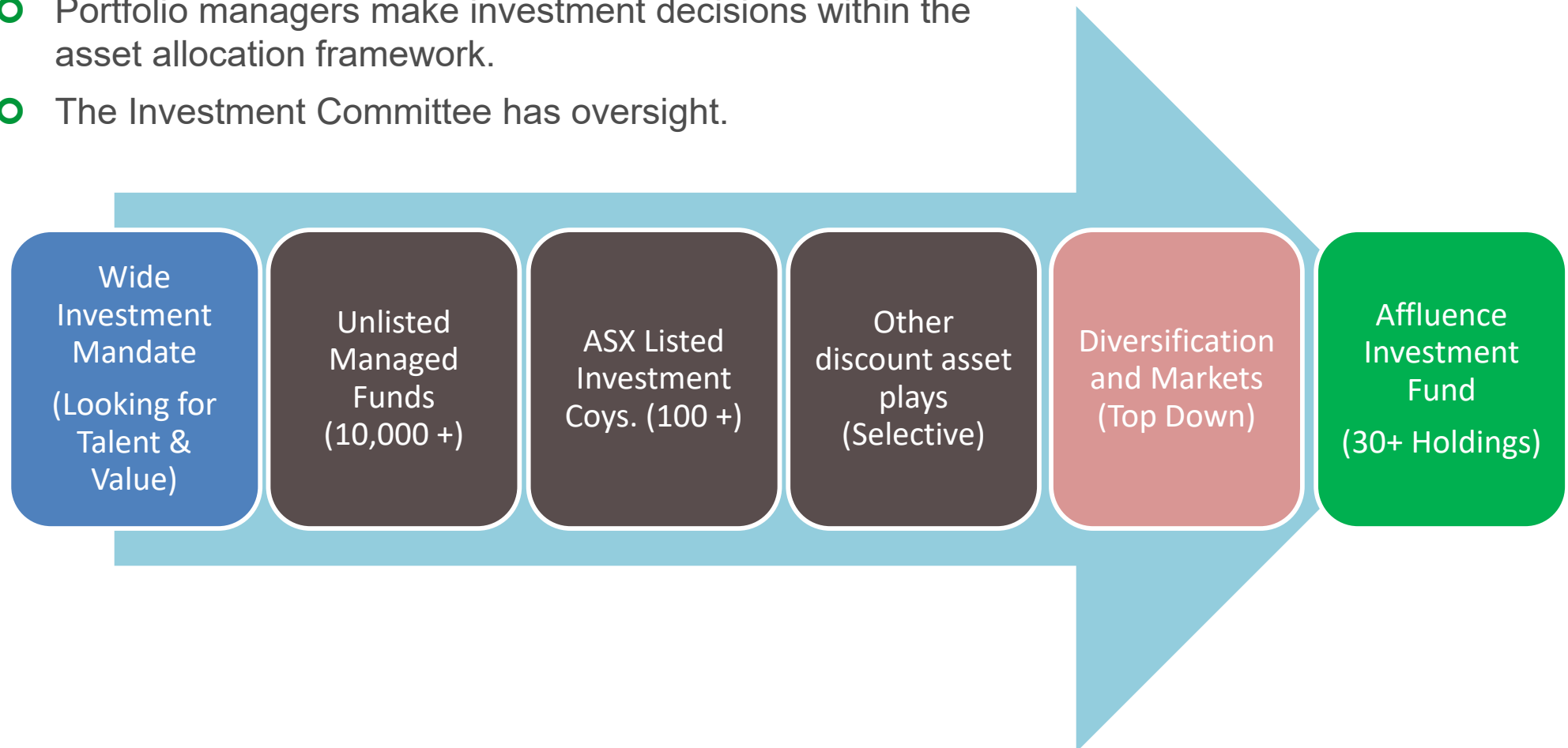
AIF Returns	7.8% pa	ASX200 Returns	8.2%pa
AIF Volatility	5.7%	ASX200 Volatility	14.3%
AIF Sharpe Ratio	1.0	AIF Sortino Ratio	1.5
Correlation to ASX200	0.79	Beta vs ASX200	0.32
AIF Positive Months	76%	Down Capture v ASX200	13%

AIF has outperformed in all 10 worst months for the ASX200 since inception:



How we construct the Affluence Investment Fund portfolio

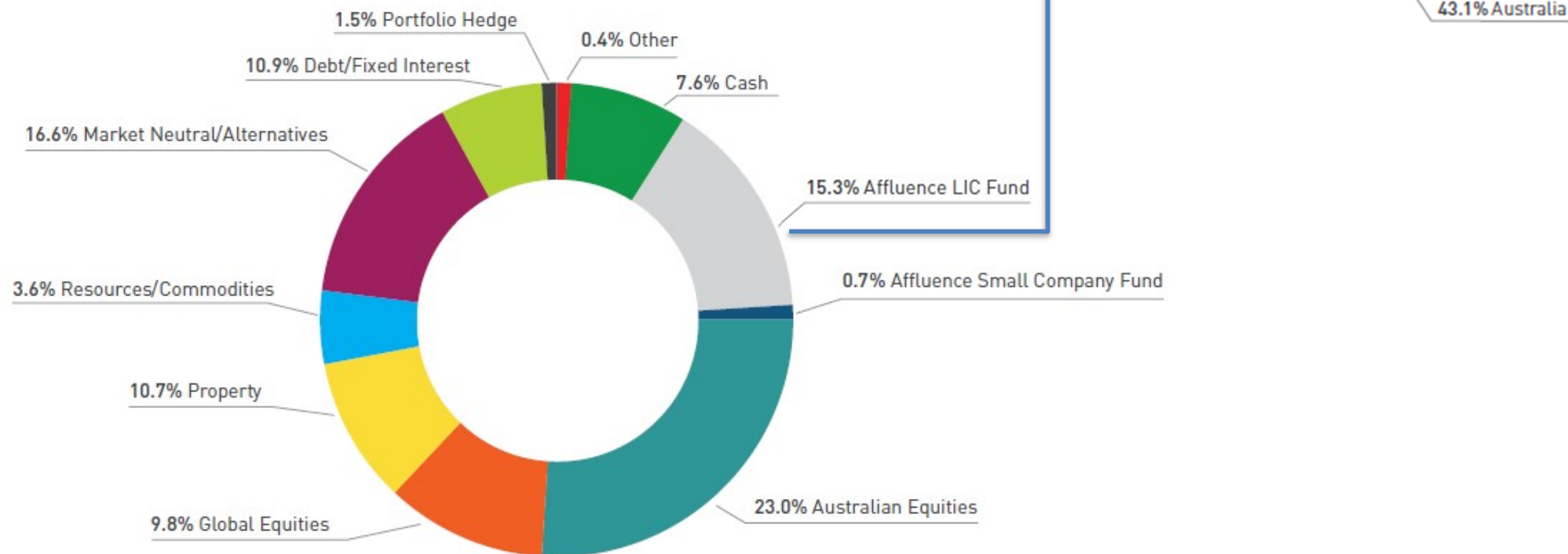
- We are free to find the best investment opportunities regardless of structure, including unlisted managed funds (wholesale/retail), mandates, LICs and other discounted asset plays.
- We overlay our views on market valuations and our diversification goals to produce a portfolio of 30+ investments.
- Portfolio managers make investment decisions within the asset allocation framework.
- The Investment Committee has oversight.



Current asset allocation

Recent activity:

- Increasing allocation to credit at 8%+ yields.
- Actively managing cash and hedges as markets move.
- Selectively adding discount capture opportunities
- Realising profits on some listed REITS and debt LITs.

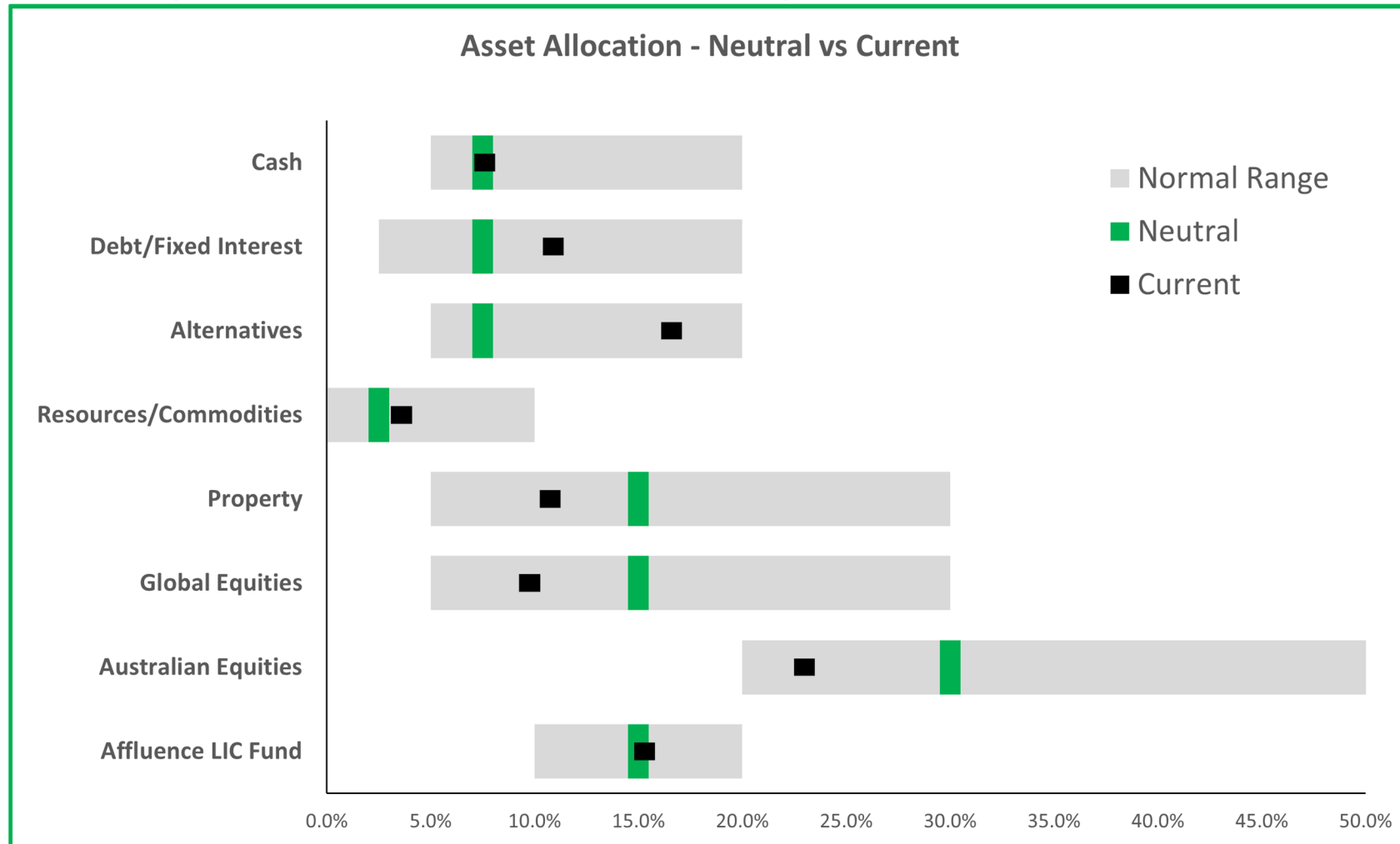


Data at 31 July 2023. Underlying funds are categorised based on their dominant asset class/strategy.



Current asset allocation vs normal ranges

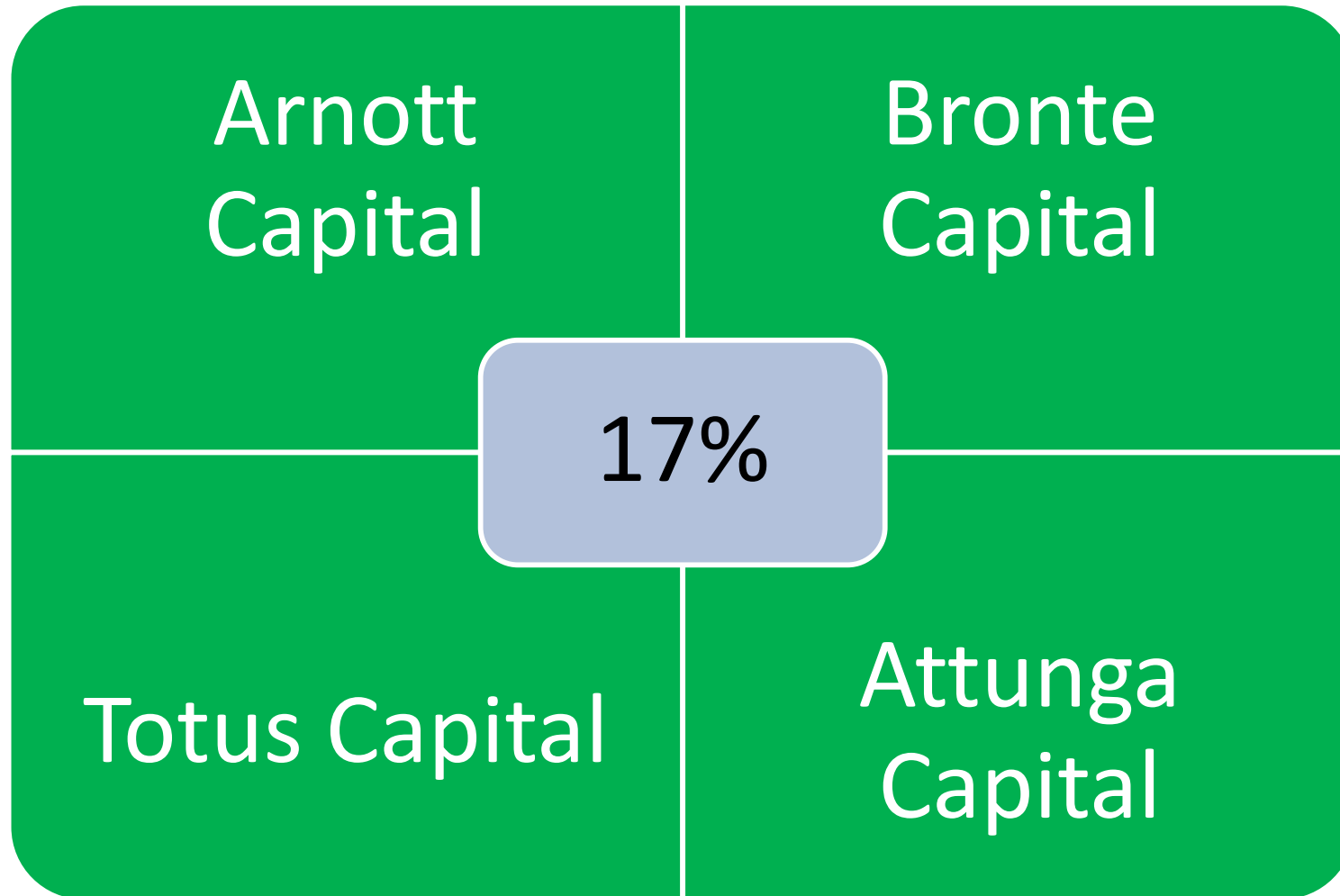
- Overweight fixed interest, alternatives, value managers and absolute return strategies.
- Underweight property, US stocks and ASX large cap equities.



Data at 31 July 2023. Underlying funds are categorised based on their dominant asset class/strategy.



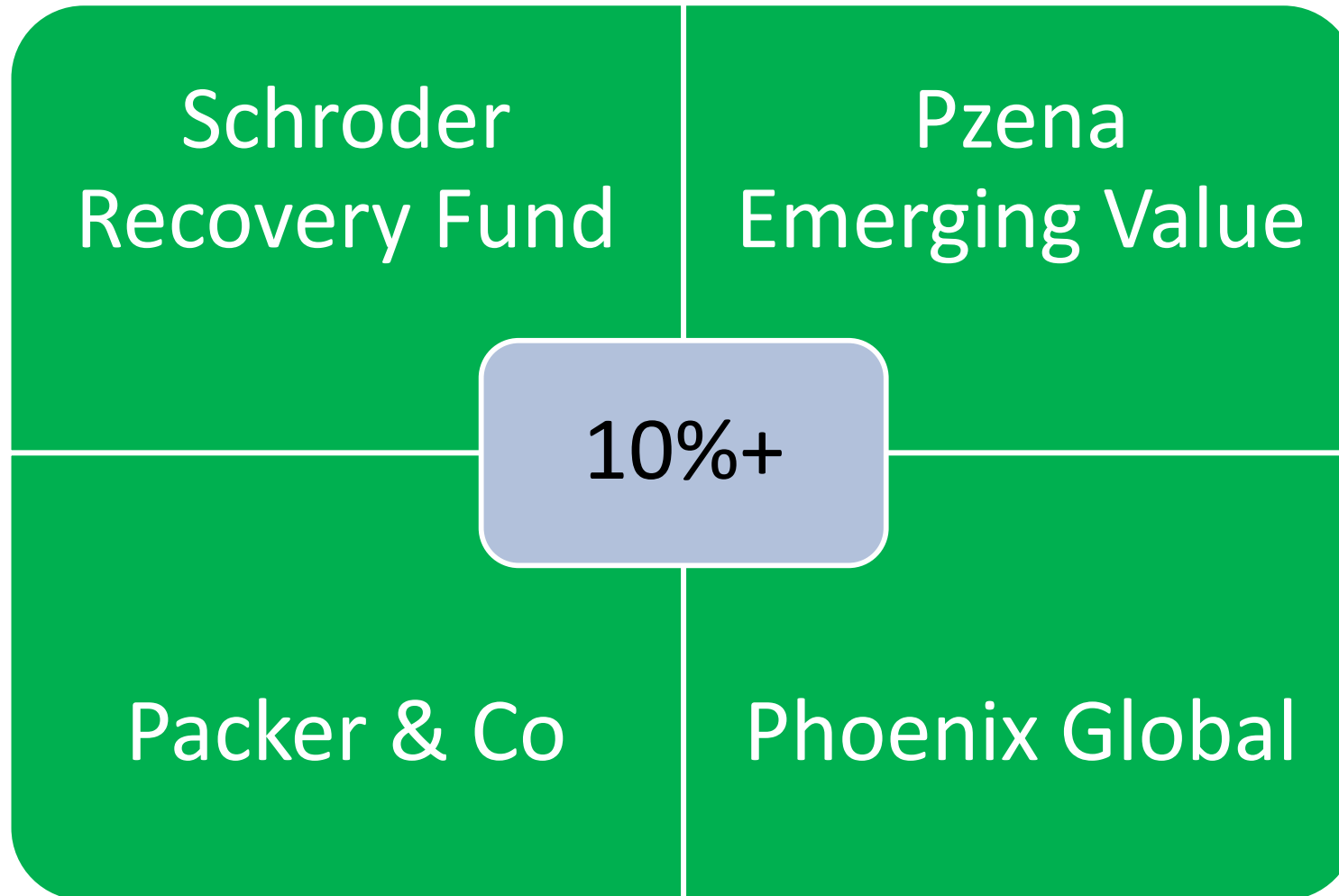
Alternatives Portfolio: Dominated by all-weather performers



Named investments represent the largest holdings for this sector of the portfolio. Percentage includes all direct and indirect exposures.



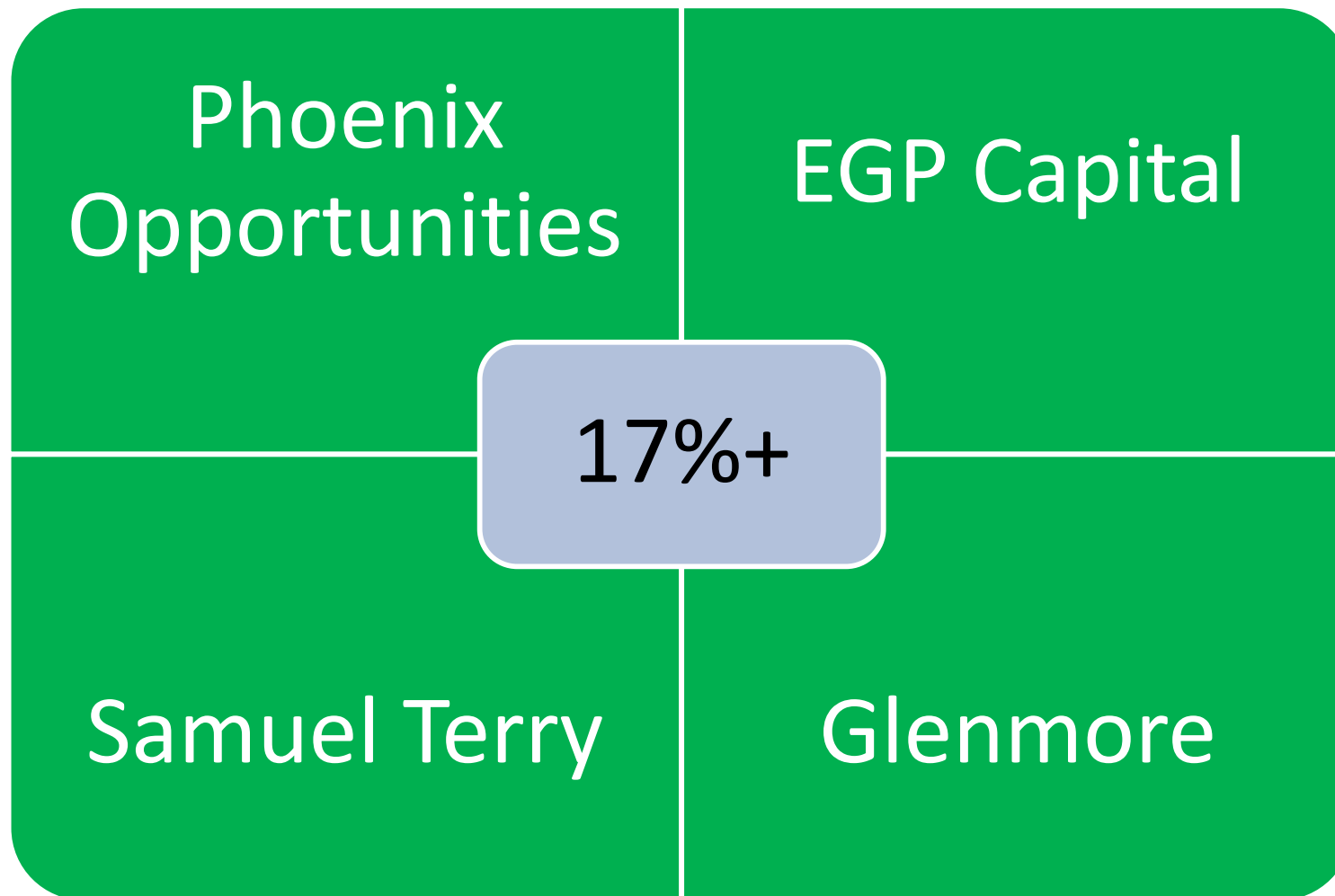
Global Equities: Strong value bias



Named investments represent the largest holdings for this sector of the portfolio. Percentage includes all direct and indirect exposures.



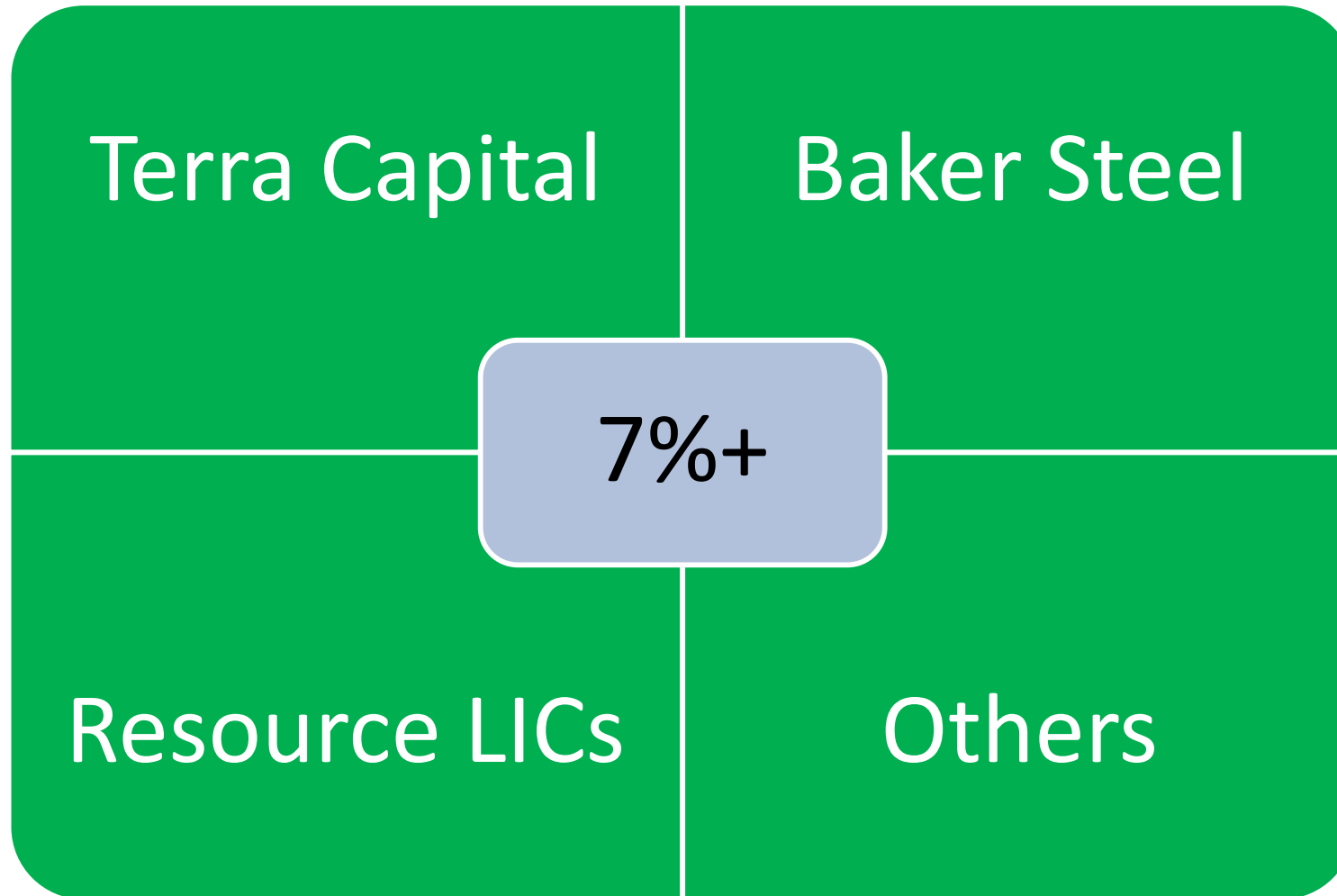
ASX Small Caps: There's value in value



Named investments represent the largest holdings for this sector of the portfolio. Percentage includes all direct and indirect exposures.



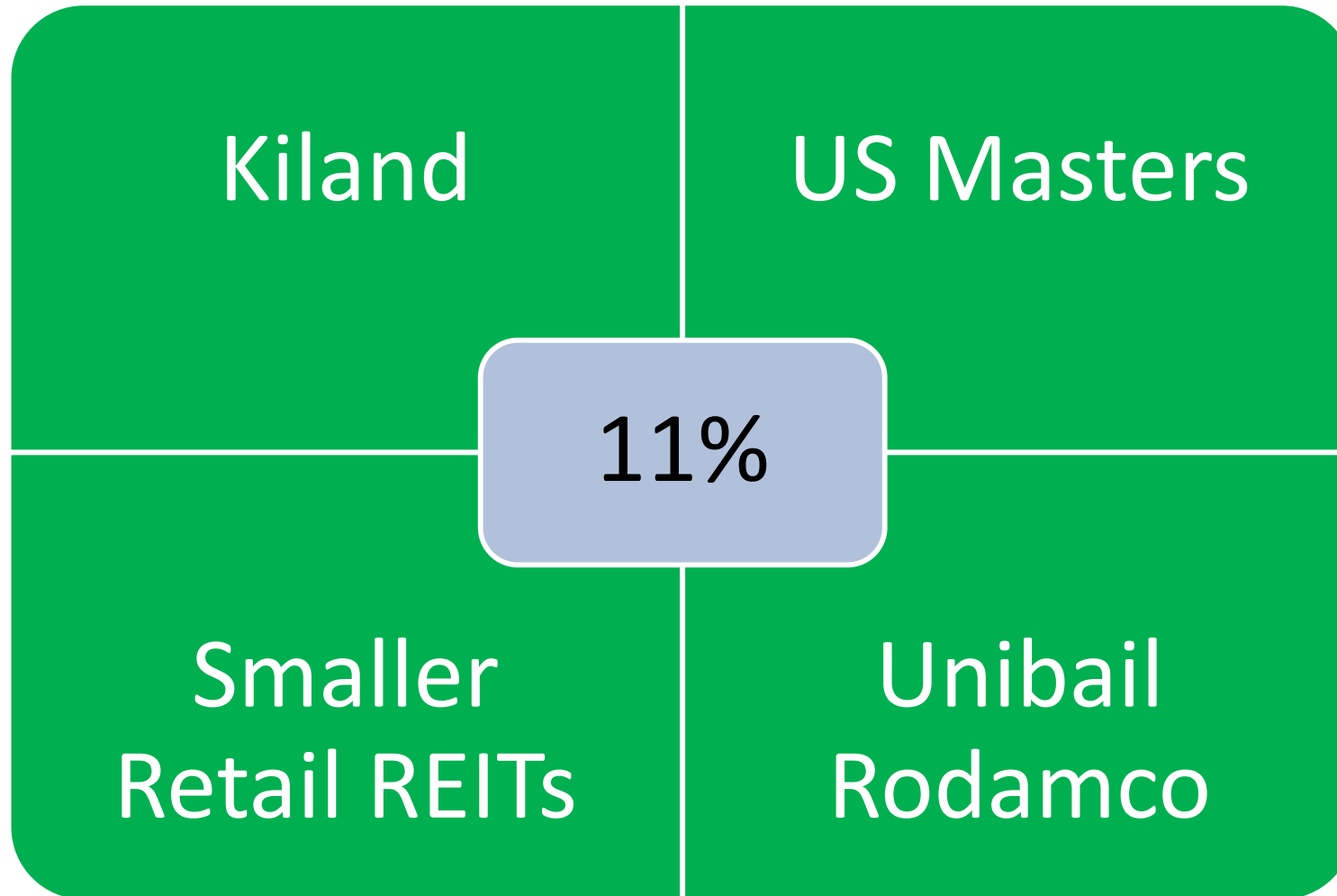
Resource Equities: Includes energy and precious metals



Named investments represent the largest holdings for this sector of the portfolio. Percentage includes all direct and indirect exposures.



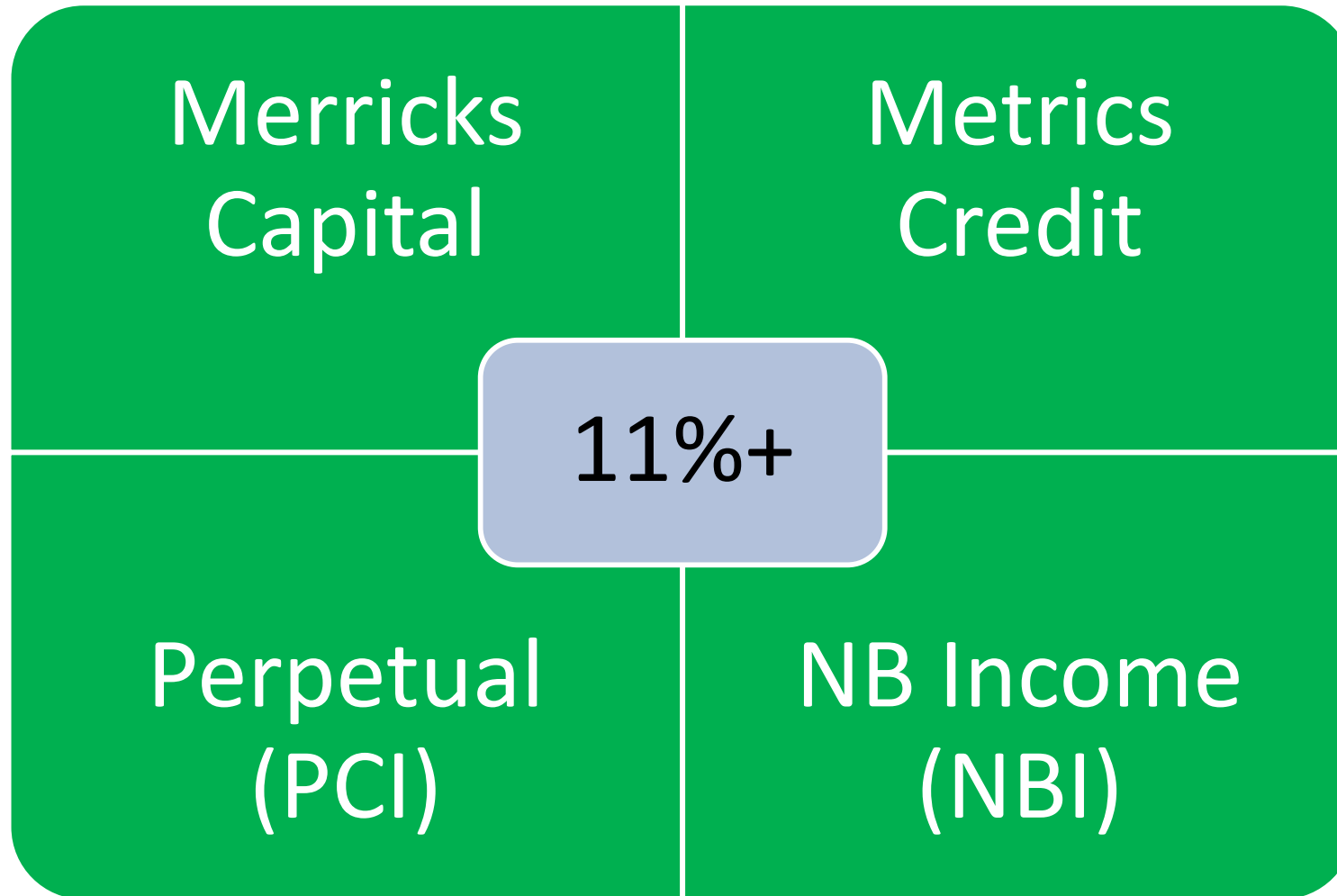
Property Portfolio: Discounted REITs + Agriculture



Named investments represent the largest holdings for this sector of the portfolio. Percentage includes all direct and indirect exposures.



Fixed Interest: Quality yield and discounted LITs



Named investments represent the largest holdings for this sector of the portfolio. Percentage includes all direct and indirect exposures.



Affluence LIC Fund Portfolio

ALF is an **unlisted fund**, created 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 unlisted fund available that invests exclusively in Australian LICs. ALF is a limited capacity strategy.

Affluence LIC Fund - #2 of 733 multi asset funds over 5 years

Selections:

Australian Managed Investments

Mixed Asset

Clear

Number of funds returned: 733 | Performance Criteria

Fund Overview		Discrete Performance		Calendar Performance		Ratings		My Custom Tab					
Rank	Fund Name	Asset Class	FE fundinfo Crown Fund Rating	FE fundinfo Risk Score	Entry	Exit	Currency	1 m (%)	3 m (%)	6 m (%)	1 y (%)	3 y p.a. (%)	5 y p.a. (%)
1	Samuel Terry Absolute Return Group A Dis AUD	MA	-	<div>-</div>	16.70	16.87	AUD	1.54	2.99	24.58	41.87	25.41	15.83
2	Affluence LIC	MA	<div>★★★★★</div>	<div>53</div>	1.25	1.26	AUD	2.09	0.67	1.26	5.83	14.22	10.26
3	Morningstar Multi-Asset All Growth Z	MA	-	<div>-</div>	0.98	0.99	AUD	3.93	5.32	9.26	19.78	17.31	8.64
4	BT Mercer Indexed High Growth Fund	MA	<div>★★★★★</div>	<div>89</div>	1.18	1.18	AUD	2.67	4.06	6.51	11.47	11.95	8.23
5	Vanguard High Growth Index NAV ETF	MA	<div>★★★★★</div>	<div>82</div>	-	-	AUD	2.53	4.95	7.21	11.33	10.39	7.79
6	Vanguard Diversified High Growth Index ETF	MA	-	<div>83</div>	57.86	57.86	AUD	2.54	4.35	7.22	11.34	10.39	7.79
7	Vanguard High Growth Index	MA	<div>★★★★★</div>	<div>82</div>	1.76	1.76	AUD	2.52	4.33	7.20	11.31	10.37	7.77
8	DDH Aggressive Growth	MA	<div>★★★★★</div>	<div>82</div>	0.77	0.77	AUD	2.50	4.54	9.09	13.33	11.90	7.54

Source: FE Data at 31 July 2023.

- Affluence LIC Fund has the highest Crown Rating and lowest Risk Score of the top 10 funds.
- The #1 fund is no longer open for investment.



Unique strategy with significant alpha and much lower volatility.

ALF Returns 11.1%pa

ALF Volatility 8.8%

ALF Sharpe Ratio 1.0

ALF Sortino Ratio 2.0

ALF Positive Months 70%

ASX200 Returns 9.1%pa

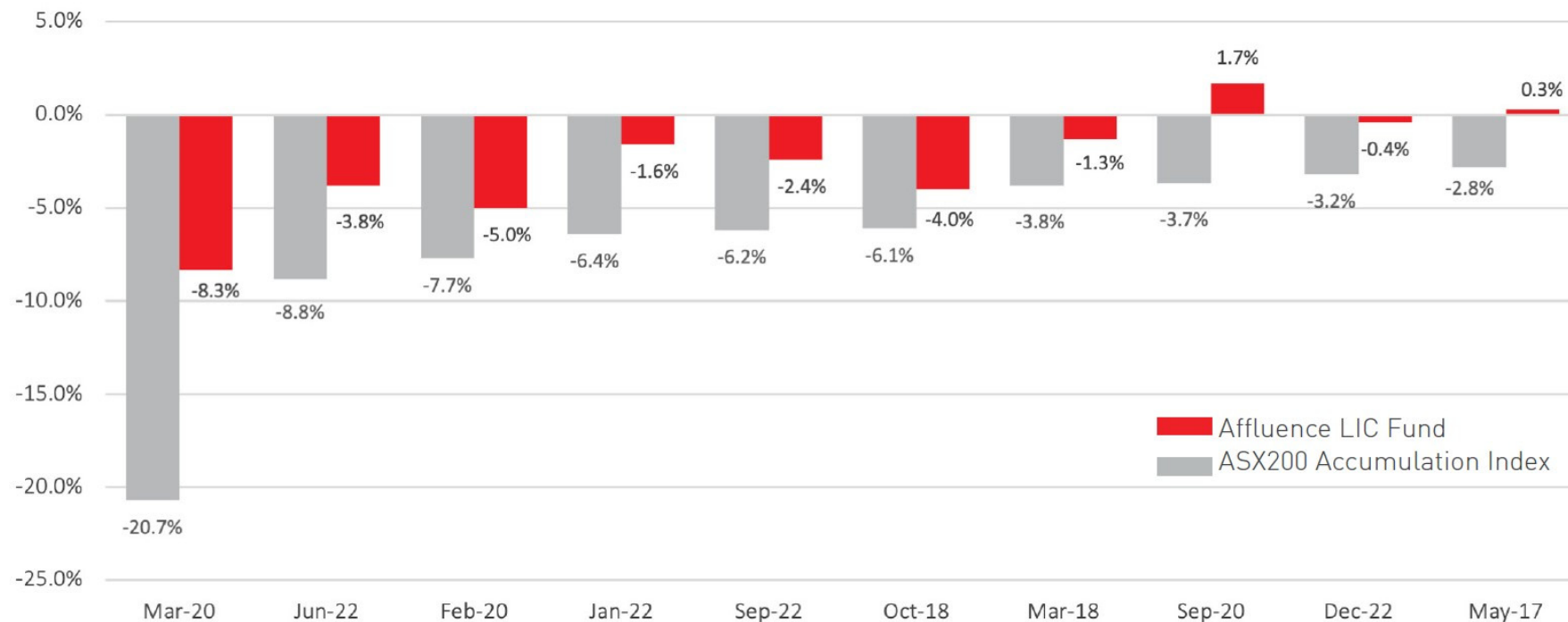
ASX200 Volatility 14.3%

ALF Correlation to ASX200 0.75

ALF Beta vs ASX200 0.46

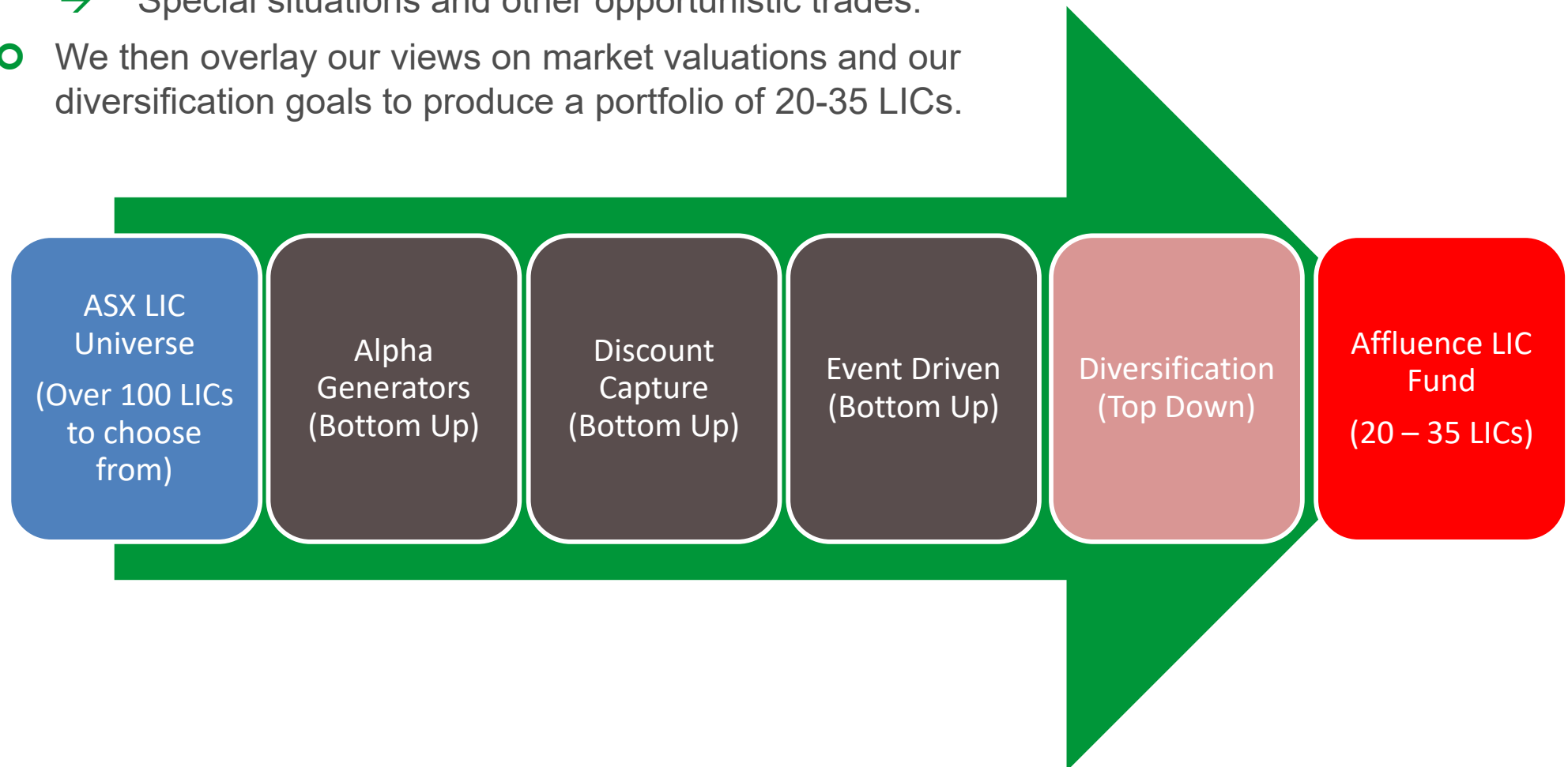
ALF Down Capture v ASX200 23%

ALF has outperformed in all 10 worst months for the ASX200 since inception:



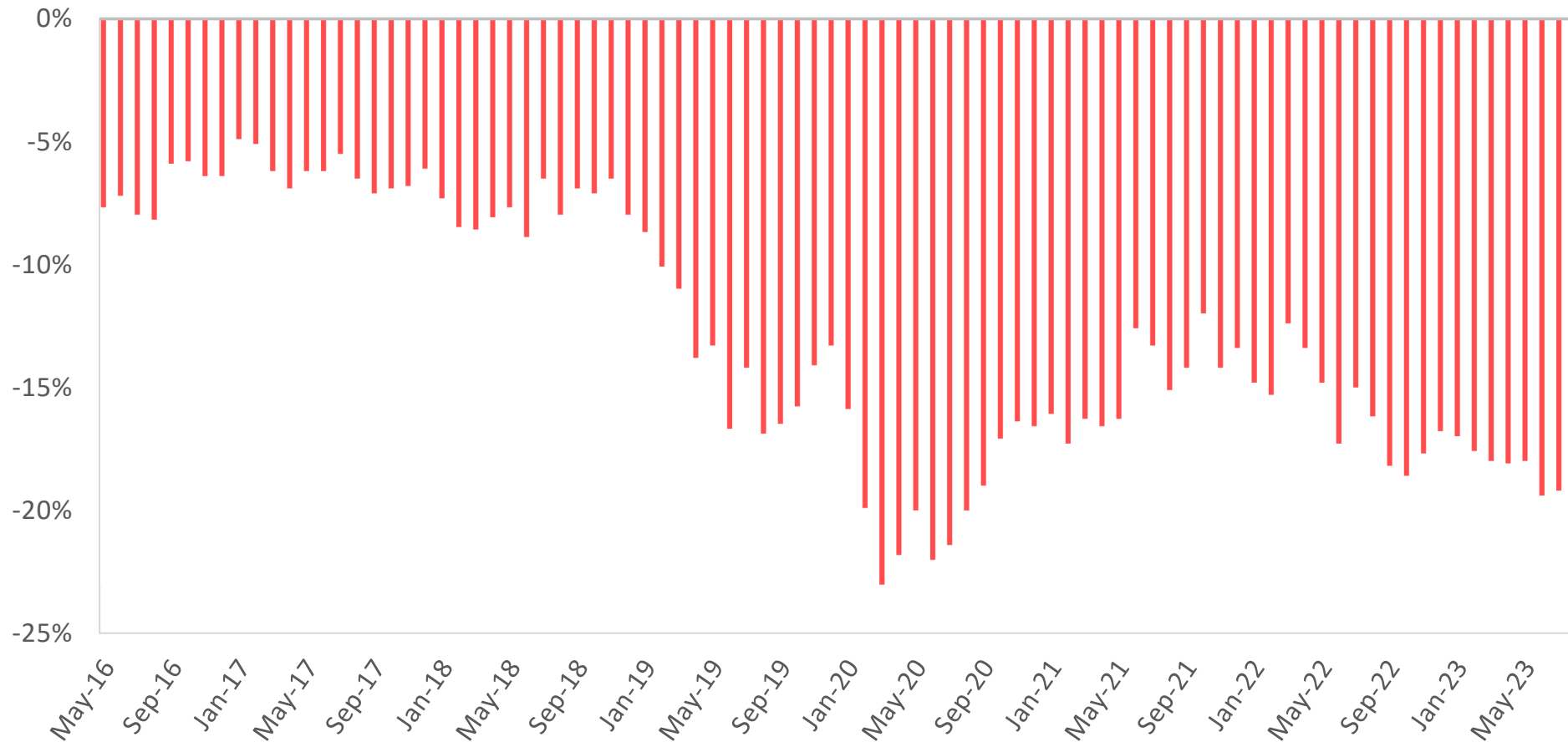
How we construct the portfolio for the Affluence LIC Fund

- We identify LICs with one or more of the following features:
 - Top quality, active fund managers who can outperform.
 - Priced at an abnormally large discount to NTA.
 - Special situations and other opportunistic trades.
- We then overlay our views on market valuations and our diversification goals to produce a portfolio of 20-35 LICs.



The LIC Fund portfolio NTA discount at 31 July was over 19%

Affluence LIC Fund Portfolio – Discounts to NTA History



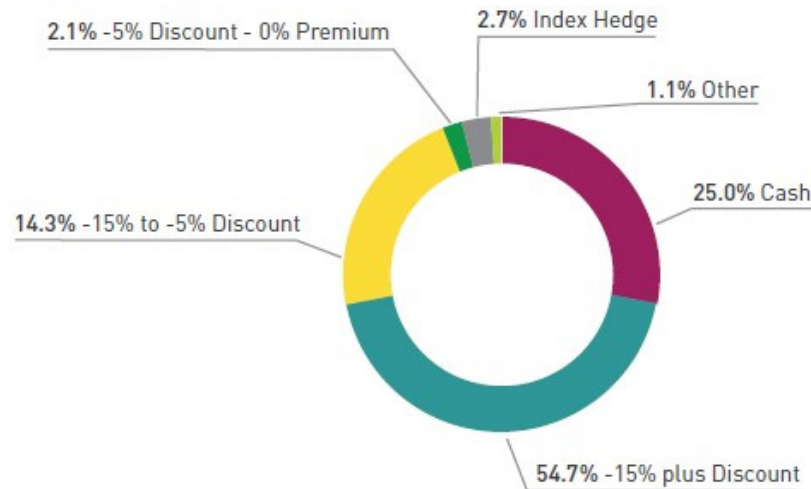
Larger discounts create outsized opportunities

NTA discount at purchase	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	40.0%
Potential upside back to NTA	5.3%	11.1%	17.6%	25.0%	33.3%	42.9%	66.7%

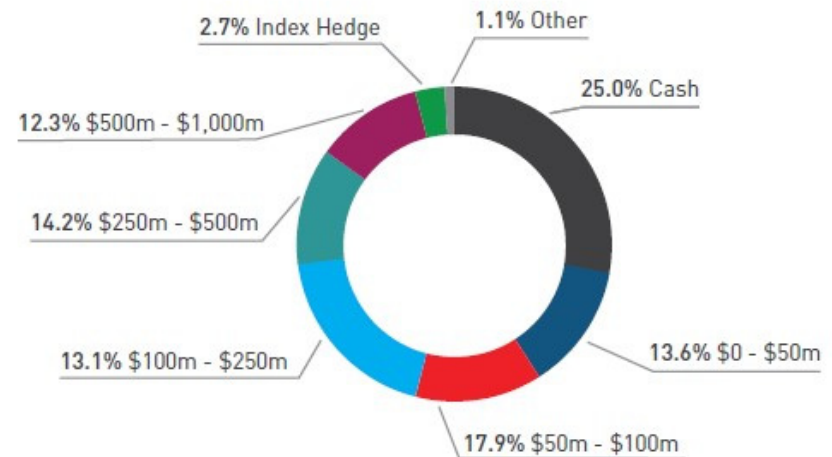


The current portfolio – 25+ LICs, surprisingly well diversified

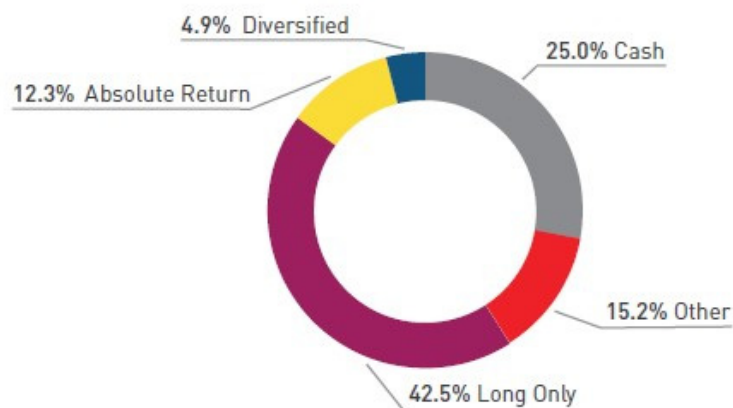
NTA Discount Band



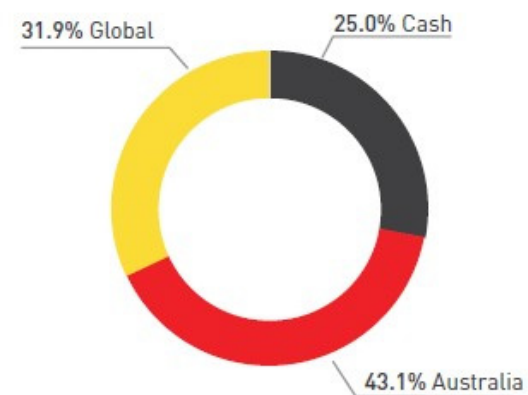
Portfolio by Market Cap



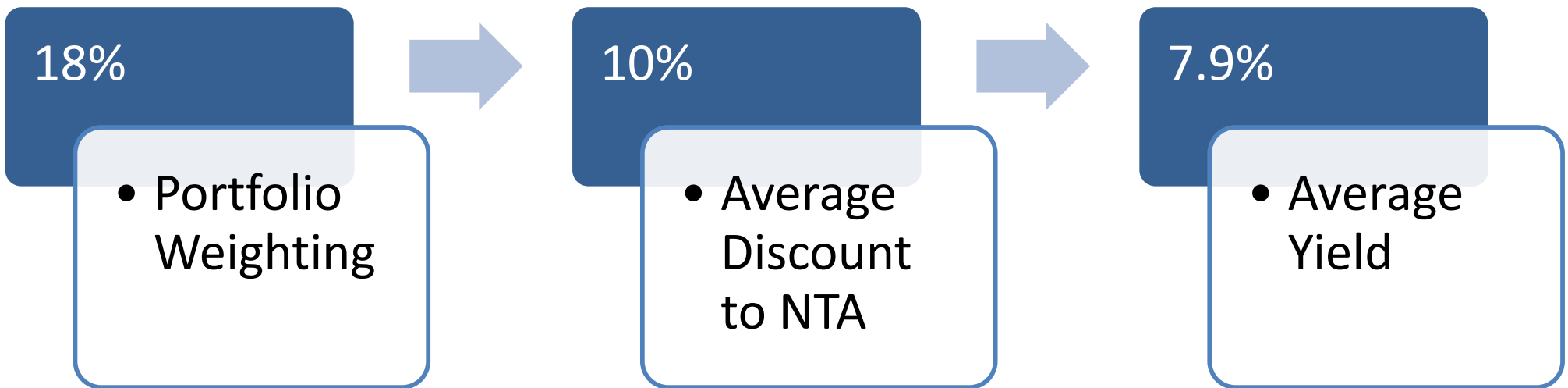
Equities Strategy



Geographic Exposure

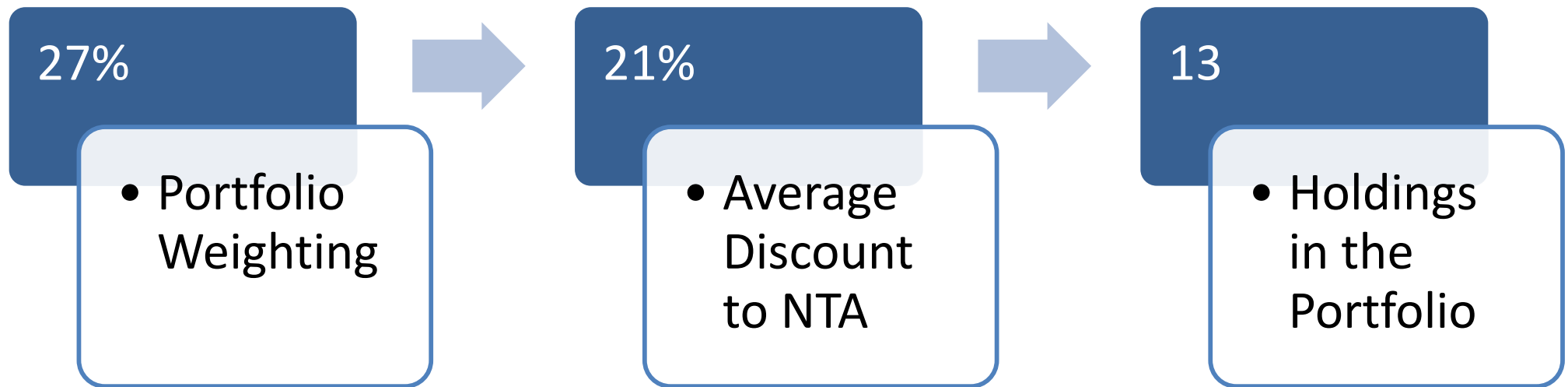


Fixed Interest: Debt LITs and Convertible Notes



- There are 15-20 debt LITs and LIC convertible notes listed on ASX.
- LIT strategies range from investment grade Australian debt to high yield global credit.
- Most of the time we don't own them as the risk vs return proposition is not attractive enough.
- Currently, these debt LITs are trading at above average discounts to NTA.
- In some cases the underlying debt securities are also at attractive discounts to par.
 - We can buy quality debt securities with two levels of discount.

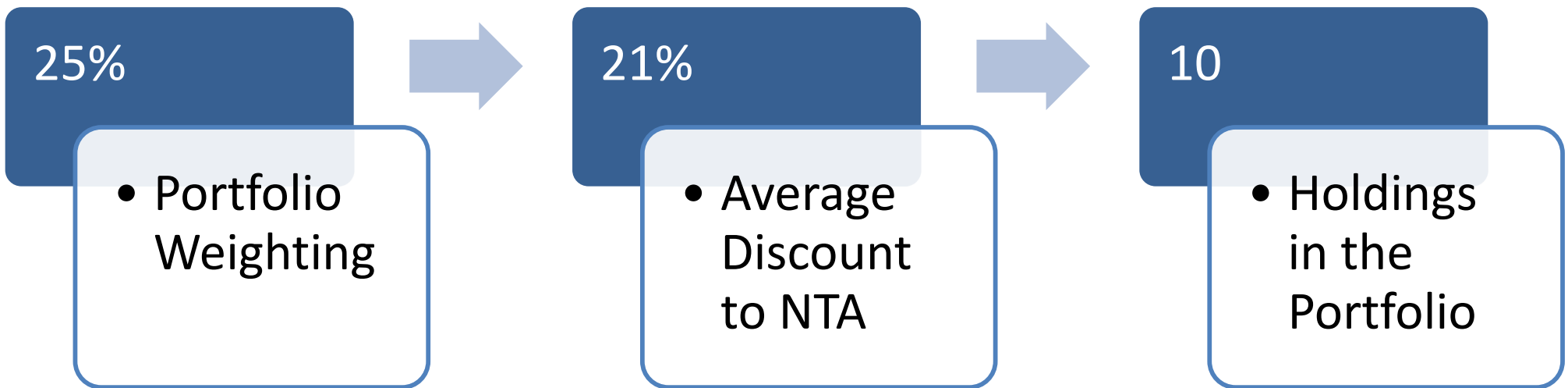
Aussie Equity LICs: Diversified, with a small cap and value bias



- Currently 13 LICs across a range of strategies and styles.
- Many holdings have a small and mid cap bias.
 - More opportunity for alpha in these sectors.
 - Significantly cheaper than large-cap. Small ords index remains well down against ASX200 since January 2022.
- Portfolio has a value bias.



Global Equity LICs: Discounts and opportunity



- We have a reasonable weighting to global equities, due to discounts and value, but
 - We remain cautious on US equities and believe the market remains vulnerable.
 - We have hedged out most direct US equities exposure.
- Access to a range of underlying assets including equities, private equity, and resources.
- Several holdings have potential catalysts to unlock NTA discounts (e.g., delisting, corporate action, activist shareholders).
- The combination of some hefty market falls (reduced NTA), expanded discounts and potential catalysts can potentially lead to very good returns over the next 2-3 years.



Affluence Small Company Fund

The Fund invests directly and indirectly in a wide range of ASX small caps.

With a strong value bias, the Fund has significantly outperformed in recent periods. We believe there is exceptional opportunity embedded in the current portfolio.

The Fund continues to be available only to wholesale and sophisticated investors for now.

Why small caps? Why now?

- Small Ords have significantly underperformed the ASX200 since early 2022. Small Cap value stocks were already cheaper than average prior to that date.
- The portfolio now shows exceptional value.
- While not immune to market falls, we are excited by the return potential over 3-5 years.
- The portfolio comprises our best ideas in the small caps space. Typical allocation:
 - 50-70% unlisted funds with a small cap focus run by exceptional managers.
 - 10-30% LICs.
 - 10-30% direct listed small caps.
 - 0-20% cash.
- The portfolio has a strong value bias:
 - The majority of unlisted funds in the portfolio are focused on value investing.
 - LICs are generally trading at significant discounts to underlying value
 - Direct small cap holdings are focused on value situations e.g., discounted asset plays, fund managers and simple operating businesses on low PE ratios.



Key portfolio holdings

- The best of all small caps, regardless of structure.

Unlisted Funds

Samuel Terry Absolute Return Fund

Phoenix Opportunities Fund

Centennial L18 Fund

Phoenix Global Opportunities Fund

Terra Capital Natural Resources Fund

LICs

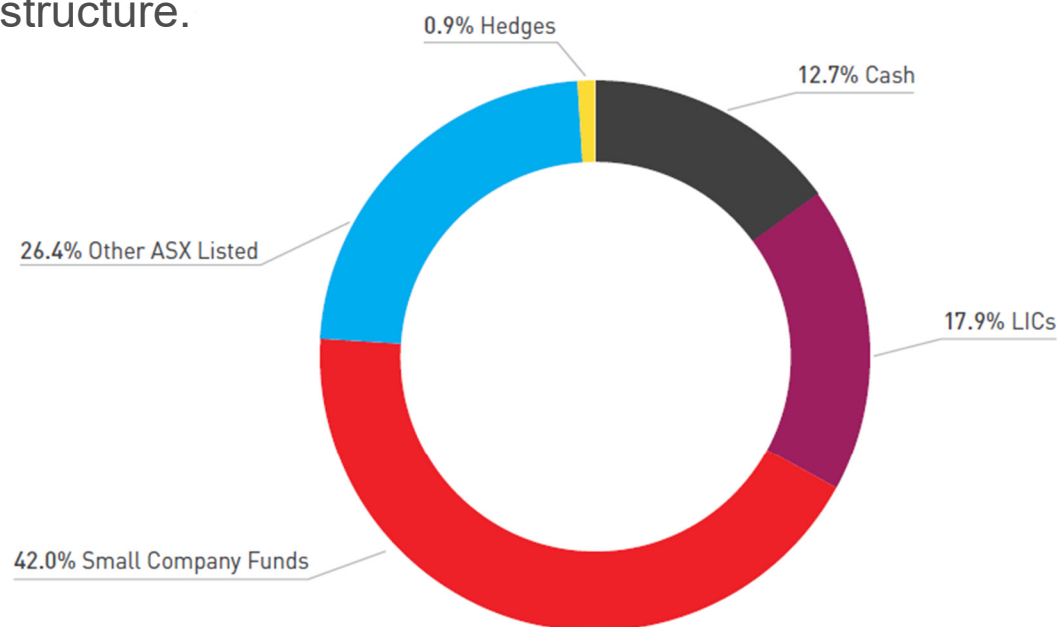
CD Funds I, II, III

Lion Selection Group

Thorney Opportunities

Thorney Technologies

NGE Capital Limited



Direct Investments

Kiland

Midway Limited

US Residential Fund

Perpetual Limited

Duxton Farms



What next?

- Learn more about our Funds.
 - Visit <https://affluencefunds.com.au/> to get more information including fund documents, performance reports, monthly updates and portfolio analysis.
 - Got a question? Call us on 1300 233 583, or email invest@affluencefunds.com.au.
- Considering an investment?
 - Read the PDS/TMD or IM for the Fund. Consult your financial advisor if you have one.
 - Apply online or download application and other forms from our website.
 - The minimum initial investment is \$20,000. Minimum additional investment is \$1,000.
 - Applications and withdrawals are accepted monthly.
- Not ready to invest yet? Subscribe to our monthly eNews.
 - Visit <https://affluencefunds.com.au/> to subscribe.
 - We send just one email per month.
 - Fund updates, investment ideas and other things we find interesting.
 - It's 100% free and you can unsubscribe at any time.



Thank you for your time



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