

Affluence Investment Fund

Fund Report - June 2019



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Fund Commentary

The Affluence Investment Fund increased by 0.8% in June, with the benchmark increasing 0.6% (inflation plus 5% per annum). After a difficult calendar year 2018, the Fund has made a solid start to 2019 with returns of 5.2% over the last 6 months. While the Fund has lagged the extraordinary recovery in equity markets over this period, we remain very optimistic about the future potential in the portfolio. Since commencing in December 2014, the Fund has returned 7.7% per annum. This has included 6.6% per annum monthly distributions to investors and an 1.1% per annum increase in the unit price of the Fund. Over that same period, the Fund has outperformed our benchmark of 6.8% per annum (inflation plus 5% per annum).

Our largest positive contributors in June included our position in the US Masters Residential CPUs (up 14%), the Baker Steel Gold Fund (up 20%), the Packer & Co Investigator Trust (up 7%) and the Wentworth Williamson Fund (up 4%). The largest detractors included investments in Aveo Group, Tribeca Global Natural Resources, Unibail-Rodamco-Westfield and the Affluence LIC Fund.

The US Masters Residential CPUs (ASX: URFPA) is a relatively new position we started purchasing in May. URFPA are essentially preference units in the US Masters Residential Property Fund (ASX: URF). URF invests in New York and New Jersey single dwelling and multi-dwelling houses. The fund was launched in 2011 and for most of its history has delivered reasonable returns and traded at a premium

to its NTA. However the price of the units has been falling over the past 12 months. The reasons for this are mostly related to the structure of the vehicle, the investment manager and changes to their client base, rather than the value of the assets. As the price of URF fell well below NTA, selling seemed to accelerate and the price fell more, although the overall level of transactions has not been high compared to the size of the fund. At one point, URF units got to a discount of more than 50% to NTA and while we were interested in URF, we considered it was better to focus on the URFPA units which effectively sit between equity and debt. These preference units pay semi-annual distributions at 6.25% per annum on their issue price (\$100 per share). They can be converted into ordinary URF units in January 2023 at the option of the investment manager. If they don't convert, the distribution rate increases to 8.75% per annum. Given the URFPA position ahead of equity, the 6.25% yield and the potential for conversion/repayment over time, there is little reason they should trade much below \$100. However as investors were fleeing URF, they were also selling URFPA. We purchased a position equal to 2.4% of the Affluence Investment Fund portfolio at an average price of approximately \$75 per unit in May/June. As at the end of June, we have achieved a return of 14% to date, on our average purchase price. We believe the risk versus reward characteristics remain attractive, as the manager is very motivated to deal with the structural issues and we believe the value of the underlying property remains close to the NTA.

As we noted in last months report, we expect to receive the majority of our capital back from the KIS Asia Long Short Fund in July as they proceed with winding up their fund. We have been taking this opportunity to remix our alternatives portfolio, as well as making some changes to our fixed interest allocation. We believe these changes will increase the return profile of the Fund going forward.

At month end, 65% of the portfolio was invested in unlisted funds, 16% in the Affluence LIC Fund, 13% in listed investments and 6% in cash. If you'd like further details of the investment portfolio, including our top holdings and weightings, visit the Affluence Investment Fund page at <https://affluencefunds.com.au/aif/> or the Members area of our website. You must be registered as an Affluence Member to view the portfolio.

If you would like to invest with us and get access to a diverse range of Australia's best fund managers, including over 30 unlisted funds as well as more than 20 LIC's and other listed entities, visit the fund page on our website at <https://affluencefunds.com.au/aif/> to find out more. There, you can get information on the Fund, apply online or download the application pack. If you'd like to add to your existing investment in the Fund, you can either complete the one-page form available on our website or use the online facility.

The cut-off for this month's applications is 25th July. Units will be issued effective 1st August.

Fund Performance

To 30 June 2019

| | 1 Month | 1 Year | 2 Years | 3 Years | 4 Years | Inception | Volatility |
|---|-------------|---------------|---------------|---------------|-------------|-------------|-------------|
| Income Distributions | 0.4% | 5.1% | 5.9% | 6.3% | 5.6% | 6.6% | |
| Capital Growth | 0.4% | (3.5%) | (0.6%) | 0.4% | 1.9% | 1.1% | |
| Total Return | 0.8% | 1.6% | 5.3% | 6.7% | 7.5% | 7.7% | 3.5% |
| Benchmark - Inflation + 5% | 0.6% | 6.7% | 7.0% | 7.0% | 6.8% | 6.8% | |
| Outperformance against Benchmark | 0.2% | (5.1%) | (1.7%) | (0.3%) | 0.7% | 0.9% | |

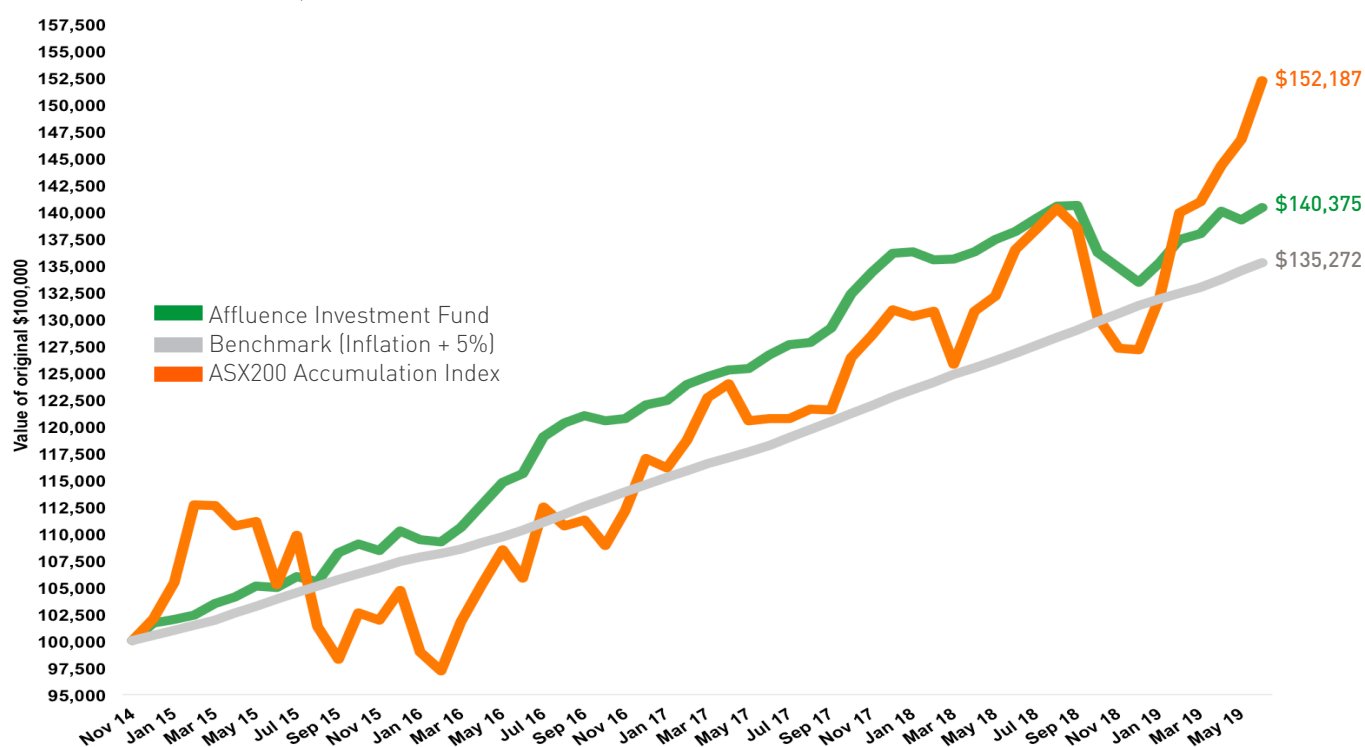
Total returns are net of fees and costs [excluding buy-sell spread] using the mid prices and assume the reinvestment of distributions. Returns for periods of more than 1 year are annualised. Past performance is not indicative of future performance. Inception date is 28 November 2014. The Fund aims to pay distributions of approximately 5% pa paid monthly. Distributions are not guaranteed and may be paid above or below this amount.

Fund Monthly Return History

| | J | F | M | A | M | J | J | A | S | O | N | D | Year |
|------|-------|-------|------|------|-------|-------|------|-------|------|-------|-------|-------|-------|
| 2014 | | | | | | | | | | | | 1.7% | N/A |
| 2015 | 0.3% | 0.4% | 1.1% | 0.6% | 0.9% | -0.1% | 1.0% | -0.5% | 2.5% | 0.7% | -0.6% | 1.7% | 8.4% |
| 2016 | -0.7% | -0.2% | 1.2% | 1.9% | 1.9% | 0.7% | 3.0% | 1.1% | 0.6% | -0.4% | 0.2% | 1.1% | 10.7% |
| 2017 | 0.3% | 1.2% | 0.6% | 0.5% | 0.1% | 1.1% | 0.7% | 0.1% | 1.1% | 2.5% | 1.6% | 1.3% | 11.6% |
| 2018 | 0.1% | -0.6% | 0.0% | 0.5% | 0.8% | 0.5% | 0.9% | 0.8% | 0.1% | -3.1% | -1.0% | -1.0% | -2.0% |
| 2019 | 1.4% | 1.6% | 0.4% | 1.5% | -0.6% | 0.8% | | | | | | | 5.2% |

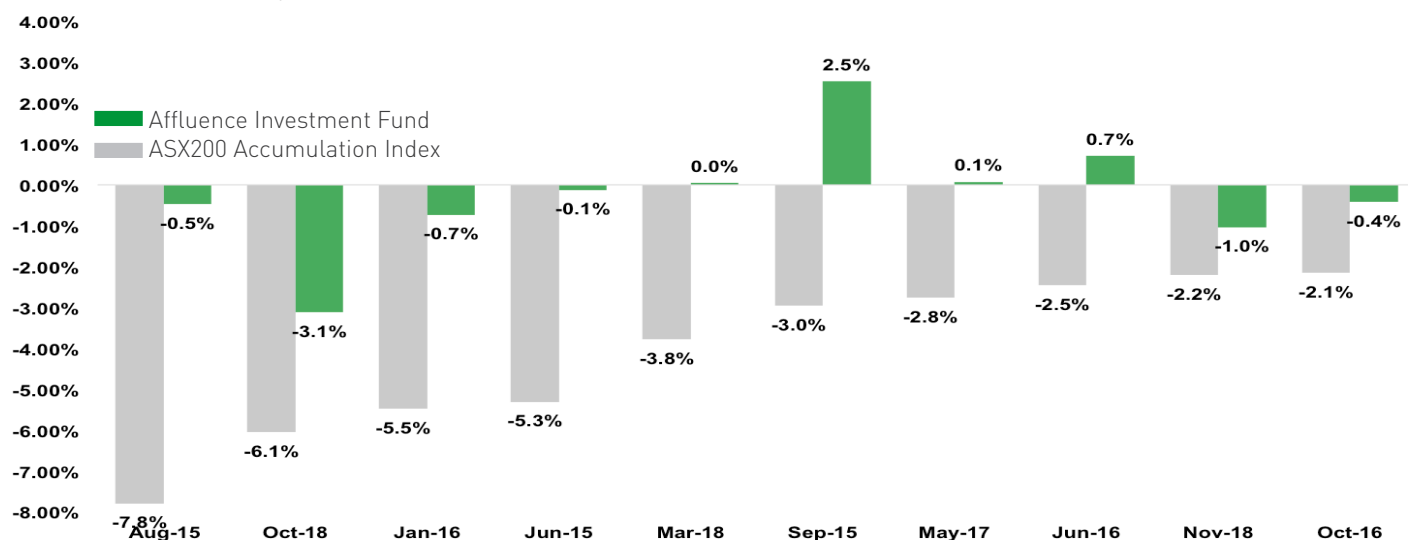
■ Strongest Month
 ■ Positive Month
 ■ Stable Month
 ■ Negative Month
 ■ Weakest Month

Return on \$100,000 Investment



Fund Performance vs ASX 200 - Worst Months

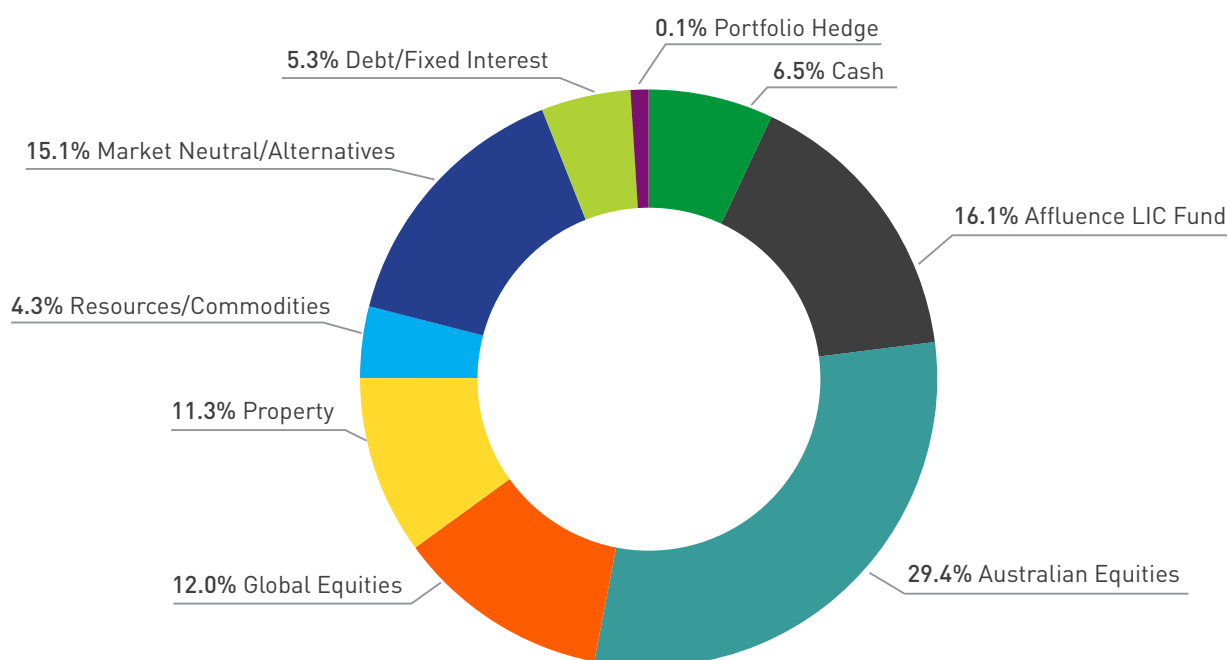
The below shows the 10 largest monthly falls in the ASX200 Accumulation Index since the Fund commenced, and the performance of the Affluence Investment Fund for that month. The Fund has outperformed the Index in all 10 of the worst months, and delivered positive returns in 4 of them.



Asset Allocation Summary

| Asset Class | Number of Funds/ Investments | Current | Normal Range |
|-----------------------------|---------------------------------|---------------|--------------|
| Affluence LIC Fund | 32 LICs | 16.1% | 10-20% |
| Australian Equities | 14 | 29.4% | 20-50% |
| Global Equities | 6 | 12.0% | 5-30% |
| Property | 7 | 11.3% | 5-30% |
| Resources/Commodities | 3 | 4.3% | 0-10% |
| Market Neutral/Alternatives | 9 | 15.1% | 5-20% |
| Debt/Fixed Interest | 5 | 5.3% | 5-20% |
| Other | N/A | 0.0% | 0-35% |
| Portfolio Hedge | N/A | 0.1% | |
| Cash | N/A | 6.5% | 5-20% |
| Total | | 100.0% | |

Portfolio Summary



1. The Funds are categorised based on their dominant underlying asset class/strategy (e.g. some Australian equity funds may include some global holdings).
2. Australian Equities and Global Equities comprise both long only and long/short strategies.
3. Normal Range refers to the expected lower and upper range for each asset class during normal market conditions. We may vary these ranges at any time.
4. More detailed information on the Affluence LIC Fund, including asset allocation, can be found in the fund report available on the Affluence website.

Top 10 Largest Investments

| | |
|--------------------------------|--|
| Affluence LIC Fund | KIS Asia Long Short Fund |
| Phoenix Opportunities Fund | GMO Systematic Global Macro Trust |
| Wentworth Williamson Fund | Auscap Long Short Australian Equities Fund |
| Packer & Co Investigator Trust | EGP Concentrated Value Fund |
| Cromwell Direct Property Fund | US Masters Residential Fund |

What Makes This Fund Different

| Traditional Fund Managers | vs. | Affluence - Invest Differently |
|--|-----|---|
| Follow The Herd: Traditional managers are too scared to fail, so they don't succeed. Most don't outperform the index. | | Actively Pursue Out-performance: From our fee structure alignment to our investment methodology, our strategy targets positive returns and low volatility. |
| Restricted Product Selection: Commonly places clients into their own managed funds or choose from a restricted list of 'approved' funds. | | Best Of Breed: We will seek the best fund managers, and combine them in a way which cushions against market corrections. |
| Traditional Asset Classes: Manage large amounts in traditional asset classes (e.g. ASX200 equities), which minimises chances of excess performance. | | Unique Strategies: We prefer managers who operate in specialised markets with less funds under management and a competitive advantage. |
| High, Fixed Fees: Take fees regardless of performance. | | No Fixed Fees: Our fees are 100% performance based. |

Key Statistics

| | |
|------------------------|-------------------------------|
| Investment Class | Diversified |
| Minimum Investment | \$20,000 |
| Suggested Timeframe | At least 3 years |
| Benchmark Returns | Inflation + 5% |
| Fund Value | \$15.6m |
| Entry Price | \$1.0539 |
| Exit Price | \$1.0487 |
| Annual Distributions | 5.52 cpu |
| Distribution Yield | 5.3% p.a. |
| Distribution Frequency | Monthly |
| Applications | Monthly |
| Withdrawals | Monthly |
| Management Fees | Nil |
| Performance Fee | 12.5% of positive performance |
| Buy/Sell Spread | 0.25%/0.25% |

Investment Strategy

We believe that exposure to quality investments across multiple asset classes, managers, geographies and strategies should be an essential part of any well diversified portfolio.

The Fund provides access to a diversified investment portfolio of the best fund managers as selected by Affluence. We aim to provide a distribution yield of approximately 5% pa paid monthly and a total annualised return of at least inflation plus 5% over rolling 3 year periods. We aim to deliver these returns with less volatility than the stock market.

Contact Us

If you have any questions, please do not hesitate to contact us:

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Meet The Portfolio Managers



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Platform Availability:

HUB24 (IDPS)

Netwealth (IDPS)

Powerwrap

Mason Stevens

One Answer (NZ Advisers)

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