Affluence INVESTMENT FUND

INVEST DIFFERENTLY

Investment Report - December 2015

Fund Performance

To 31 December 2015	3 Months	6 Months	1 Year	Inception*
Affluence Investment Fund	1.9%	5.1%	8.4%	9.4%
Benchmark - Inflation + 5%	1.6%	3.4%	6.9%	6.8%
Outperformance	0.3%	1.7%	1.5%	2.6%

* Annualised

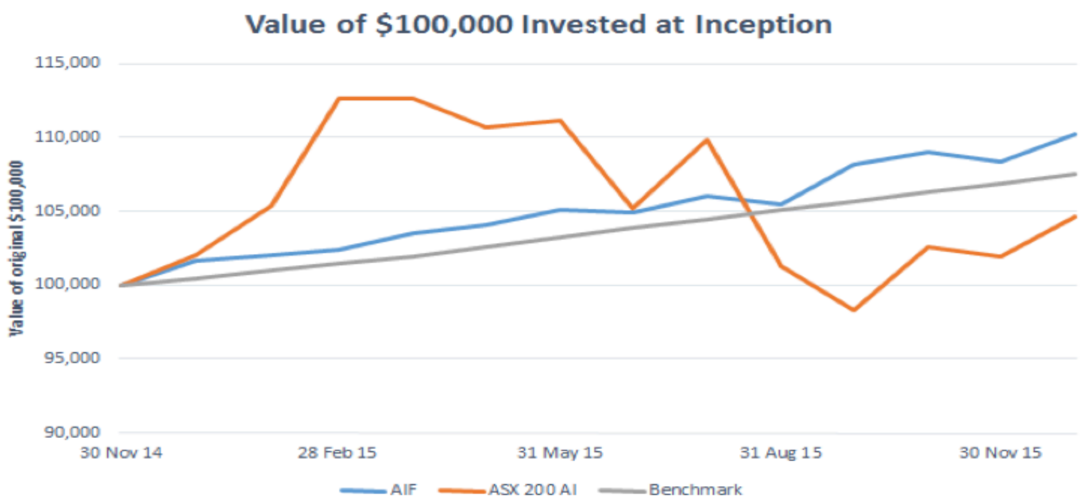
The Affluence Investment Fund returned 1.7% for the month of December and 1.9% for the quarter, exceeding our target return in what was another volatile period for stock markets worldwide.

Despite a difficult investing climate, the Fund has delivered total returns of 8.4% over the past year and 9.4% per annum since commencement in December 2014. Both figures have exceeded our target returns. We also carried substantial cash for most of the year, which significantly reduced the volatility of these returns.

The key contributors to performance over the past year have been our investments in unlisted property funds, which returned around 12% with very little debt attached. Our worst investment this year was our small allocation to commodities, which returned -7%.

Most pleasingly, the Fund outperformed most when markets were sluggish or falling, something which is most evident on the graph below. This is the essence of what we are trying to achieve - consistent, positive returns without the ups and downs experienced by the markets in general. If you can substantially limit the damage in the bad times, you remain much better placed to deliver over the long term.

While 1 year is a short investment period, we are pleased with the results to date, confident in the strategy, and the ability of the underlying managers we have chosen to continue to do the job in what is proving to be a tricky investing period.



Fund Return History

The Fund is structured in a way that aims to withstand volatile markets to create a smoother return flow. The heat map below shows the Fund's historic monthly returns and provides an indication of historic volatility. Past performance (returns and volatility) are not indicative of future performance.

	J	F	M	A	M	J	J	A	S	O	N	D
2014												1.7%
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%
2016												

Strongest Month | Positive Month | Weakest Month | Negative Month | Stable Month

Market Commentary

December saw the Australian stock market increase by 2.7%, with an early December correction followed by the traditional Santa rally. International shares didn't fare quite as well, with the US market falling 2.1% in Australian Dollar terms

It was a fairly ordinary year for most investment markets. The ASX accumulation index returned just 2.6% for the year including dividends and was negative excluding dividends. Global shares in their local currencies fared no better, delivering just 2.1% for the year. The falling Australian dollar did boost overseas returns for Australian investors to a much more respectable 11.8%. Within all markets, there were a very wide range of results for the year in differing stocks and sectors. We see no reason to think that 2016 will be any different in this regard. In this climate, rather than buying index funds or ETF's, we believe it is advisable to invest with talented, active stock pickers.

Market sentiment remains awful at the moment, as demonstrated by the significant falls in most markets in early January. On a technical basis, this is somewhat of a worry, with many sectors now appearing to be in bear markets. Having said that, we believe value is emerging in the Australian market. In early January the ASX200 index fell to around 4,900, the same level it was at in early 2006 and over 25% below the pre-GFC high in 2007.

Many SMSF trustees we speak to are a little shell-shocked over what has occurred since the market high in April this year. Quite simply, they are struggling to understand how they could have seen 20% plus falls in the value of many shares they hold, without any great damage to the Australian economy. The answer, it seems, is that the share market has gone from being a bit overvalued to a bit cheap. We have also seen large cap shares bear more than their share of market falls and smaller, higher growth stocks have proven to be more resilient. With many SMSFs being woefully under-diversified, only their substantial cash holdings (with accompanying dreadful returns) have saved them from a much worse result in the past 9 months. If you know anyone in this boat, send them our way. An investment in the Affluence Fund can provide them with two things they probably don't already have - access to some fantastic boutique managers and some alternative strategies and assets which should help diversify returns.

Fund Investment Portfolio

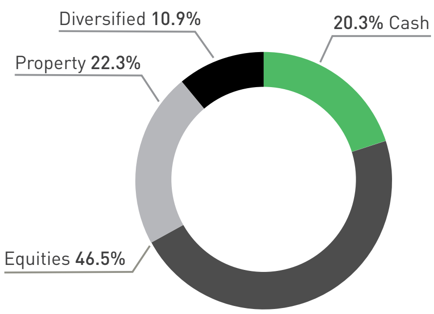
As at 31 December 2015 we have largely completed our portfolio implementation and consider the Fund to be reasonably well diversified, with 9 managed funds accounting for 68% of the portfolio and 12 listed investment companies a further 12%. We held approximately 20% cash as a buffer against further market falls. Having said that, we will continue to invest in funds which give us access to the quality investments, but in ways we believe will prove to be less volatile than average. Many of these underlying funds use strategies designed to cushion returns in market corrections.

The portfolio will continually evolve as markets move around and new opportunities present themselves. We will select only those opportunities which we feel are the absolute best for inclusion in the portfolio.

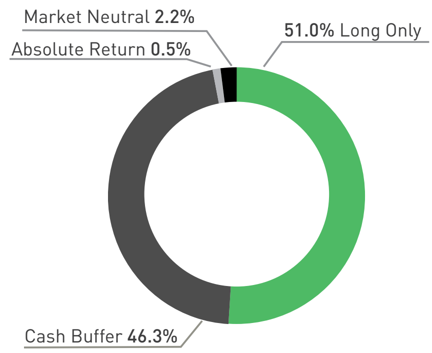
Because a number of the funds we invest with are themselves carrying significant amounts of cash, the underlying cash exposure is likely to be higher than noted above. This means the impact of any market correction on our portfolio should be less severe than, say, a portfolio constructed only of listed stocks.

If you would like to know more about the Fund's portfolio, please contact us at any time.

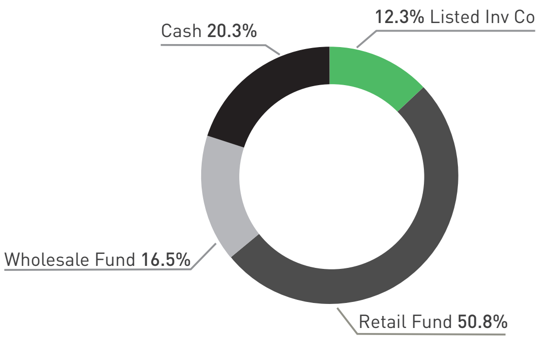
Asset Class



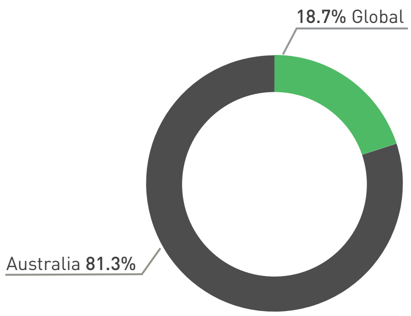
Equities Strategies



Underlying Investment Types



Geographic Exposure



Key Fund Statistics

Availability	Open for Eligible Investors
Target Returns	Inflation plus 5%[1]
Investment Class	Diversified fund-of-funds
Minimum Investment	$20,000
Suggested Timeframe	At least 5 years
Issue Price	$1.0223
Withdrawal Price	$1.0152
Distribution Frequency	Monthly
Distribution Yield	5.0% p.a.[2]

Distribution Reinvestment	Yes
Applications	Monthly
Withdrawals	Monthly
Borrowing Policy	No borrowings in Fund
Fees	Performance based[3]
Buy/Sell Spread	0.35%/0.35%

1. The Fund targets a return of inflation plus 5% over rolling 3 year periods
2. Annualised distribution calculated using current distribution rate divided by withdrawal price
3. The performance fee is 12.5% of positive returns.

Market Outlook

A year ago we thought unlisted (non-residential) Australian property was the cheapest asset class. Since then, property has delivered around a 15% capital gain, while shares have gone backwards by roughly the same amount since their highs in April 2015. Thus, the valuation preferences between these two asset classes has now reversed, particularly given property is less liquid. Recent property transactions have grown more and more out of equalibrium, relying on a continuation of ultra-low interest rates and inflows of foreign capital to derive reasonable returns.

We will continue to hold our limited property fund investments with good rental growth, low gearing and tenants who aren't likely to go broke anytime soon. But it doesn't feel like we'll be making too many additional ones.

Many investors are trotting out a list of things that are uncertain as a reason to be worried about investing right now. Most of these guys were remarkably quiet earlier in 2015 when stocks were 15-20% more expensive than now. To us, that is completely the wrong way around. Just because we don't know the answer, doesn't mean we should not try to deduce it - my grade 8 accounting teacher taught me that. In fact, as value investors, uncertainty is our friend - the more of it about, the more likely we are to pick up a bargain. Besides, negative surprises don't usually come from things we know about and anticipate - rather from those that blindside us. Thus complacency and overconfidence is usually more of a problem than uncertainty. We don't see too much complacency and overconfidence from Australian investors right now.

We believe at current values, the Australian market offers reasonable value and presents a good opportunity to add slightly to existing investments, while retaining some cash in case even bigger bargains appear. As we noted in our recent article (8 contrarian investment ideas for 2016), we expect the Australian market to be one of the better performers in 2016, with the impact of twin negatives from falling commodity prices and a lower AUD largely now priced in.

In particular, we see many opportunities in the Listed Investment Company space, as some fairly wide divergences arise between the trading value of LIC's and the value of the underlying stocks they hold. As just one example, you can buy Platinum International's LIC at the moment for around a 20% premium to the underlying value of its assets, or the PM Capital Global Growth Fund for a 15% discount. Both are exceptional fund managers with great records. We know which one we'd rather own at those prices though.

The LIC market is currently throwing up a number of quality opportunities at discounted prices and, though we only allocate around 15% of our portfolio to this area, we feel it provides one of our very best opportunities to add value in the coming year.

While there are a number of signs of stress in high yield bond markets, this seems confined to the commodities space, in particular loans to US based oil producers. While there will no doubt be pain for holders of these bonds, this doesn't seem to reflect a wider contagion of the entire sector.

Having got the first interest rate rise out of the way in December, it seems the US Federal Reserve will now be holding fire for quite a while. We expect a similar result in Australia. We expect bond returns to remain dismal for the medium term, and currently have no allocation to this sector.

We expect to continue our approach of making small additions to the portfolio on the days, weeks or months when the market is feeling down. We will remain patient at other times.

Welcome Greg Lander

In December the small Affluence team expanded with the addition of Greg Lander. Many of you will know Greg from his Cromwell days and I was proud to work with him there for almost 10 years. Greg takes on the role of portfolio manager and works closely with me on monitoring the portfolio, implementing investments and researching new opportunities.

Much as my accounting background dictates a conservative investment nature, Greg's background as a property valuer does likewise. His innate conservatism serves us well and provides a foil for my occasional outlandish idea - something you will all probably be better for over time.

He is an important addition to the team and, along with Kane Doyle who continues to work part time and a band of talented and dedicated service providers, we are very happy with the progress we have made. You will be hearing more from both Greg and Kane as we grow.

Contact Us

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

Phone: 1300 AFFLUENCE (1300 233 583)

Email: invest@affluencefunds.com.au

Feedback

One of the things we value at Affluence is feedback from our members and investors. If you love what we're doing, let us know. Just as importantly, if you have a question or a suggestion of something we could do better, please tell us.

If you see an investment opportunity you think is exceptional, we would love to hear from you. Although remember - we are seeking the best fund managers and investors, so we don't usually invest in individual stocks. Also, we cannot give you any personal advice relating to your specific investments or specific circumstances.

You can call us anytime on 1300 233 583, provide feedback at www.affluencefunds.com.au or e-mail me directly with your investment ideas or comments at daryl.wilson@affluencefunds.com.au. You can also connect with us on social media to get regular updates as we post them.

Risk Disclosure

The key risks of the Affluence Investment Fund are typical of the risks associated with most managed investment schemes. It is important that you understand the value of your investment will go up and down over time, the Fund's returns will vary over time, future returns may differ from past returns, and returns are not guaranteed. All of this means that there is always the chance that you could lose money on your investment.

Affluence
FUNDS MANAGEMENT

Affluence Funds Management is the trustee and investment manager of the Fund.

Affluence is a boutique fund manager which specialises in providing high quality investment opportunities to a wide range of investors.

The Affluence business was formed to provide better investment solutions. Affluence's focus is on delivering superior long term investment performance. We believe in doing things differently, and we believe diversification is essential to any investment portfolio.

Affluence has a strong customer service focus. Investors can speak to our staff directly about their investments and information on performance and activities is communicated quarterly.

Additional Information on Affluence can be found on our website.

The Investment Team

Daryl Wilson

CEO / Portfolio Manager
daryl.wilson@affluencefunds.com.au
0402 046 883 | 1300 233 583

Greg Lander

Portfolio Manager
greg.lander@affluencefunds.com.au
0409 645 893 | 1300 233 583

Kane Doyle

Investment Associate
kane.doyle@affluencefunds.com.au
0422 013 860 | 1300 233 583

Affluence Funds Management
Level 7, 320 Adelaide Street, Brisbane QLD 4000
1300 233 583 | www.affluencefunds.com.au