Affluence INVESTMENT FUND

INVEST DIFFERENTLY

Investment Report - June 2015

Fund vs Benchmark

To 30 June 2015	3 Months	6 Months	1 Year	Inception*
Affluence Investment Fund	1.4%	3.1%	N/A	7.9%
Benchmark - Inflation + 5%	1.9%	3.3%	N/A	6.5%
Outperformance	(0.5%)	(0.2%)	N/A	1.4%

* Annualised

Market Commentary

In Australia, the ASX300 stock market accumulation index (including dividends) fell 6.5% during the quarter, giving up most of the strong gains in the March quarter. We believe this is mainly due to investor sentiment changing when Greece, and later in the quarter China dominated the financial news. Over the 2015 financial year, the Australian stock market managed a 5.6% return, most of which came from dividends.

As we expected last quarter, the yield theme has become somewhat tired of late, with the large banks and other financial institutions bearing the brunt of the pain over fears of increased capital requirements. Despite this, A-REITs held up reasonably well during the period, perhaps reflecting their more defensive qualities compared to financials.

Overseas stock markets were fairly muted, with the MSCI World ex Australia Accumulation index returning -0.1% for the June quarter. Most of the damage was seen via European markets. With the Australian dollar being reasonably flat against the US dollar this quarter, there was no discernible difference between hedged and unhedged returns. Over the full year it was a different story, with offshore share markets returning 24.2% unhedged, as the Australian dollar fell against most major currencies, and 8.3% hedged.

Unlisted property continued to do well, with a number of major transactions pointing to continued valuation increases for the sector, combined with some signs of increased tenant demand in the important Sydney and Melbourne markets.

Bonds generally fell during the quarter as interest rates rose, despite ongoing corrections in many equity markets. This is a somewhat concerning development for those who hold significant bond investments as a hedge against falling equity markets. We believe with interest rates starting to rise in many nations over the next 2 years, most bonds will continue to offer minimal protection against equity market falls, while delivering substandard returns. Not a particularly attractive combination.

Fund Performance

The Fund commenced investing on 1 December 2014 with a limited number of initial investments. The Fund is currently very conservatively placed, pending the opening of the Fund to new investors and an expansion in the number of investments later in the year.

Despite its conservative positioning, the Fund investment portfolio increased in value by 1.4% during the June quarter, net of all fees and costs. This is below our long-term target, but in a quarter where the stock market fell 6.5%, probably not a bad result. Performance to date is equivalent to a 7.9% annualised return, well ahead of our target returns in what has been a difficult market.

The Fund holds investments in the Cromwell Direct Property Fund and the Phoenix Opportunities Fund. The investment in the Cromwell Australian Property Fund, which carries exposure to listed property, was redeemed during the quarter as we felt the yield trade had been somewhat overdone.

We currently have around 73% of the Fund's capital invested, with the balance held in cash.

The Direct Property Fund investment performed well during the quarter as we saw increases in the value of a number of assets. The Phoenix Opportunities Fund fell 3.2% for the quarter but still significantly outperformed the share market, testament to the Phoenix team's value focus despite investing in relatively small stocks which are usually more affected in market corrections.

Fund Investments

Fund investments as at 30 June 2015.

Investment	Class	Portfolio %
Cash	Cash	27%
Cromwell Direct Property Fund	Unlisted Property	50%
Phoenix Opportunities Fund	Equities	23%
		100%

The Fund's investments at 30 June 2015 were allocated 23% to Australian equities and 50% to unlisted property, with 27% held in cash.

The Fund aims to be fully invested, and significantly more diversified by the end of this year, holding 15-25 investments in Australia's best managed funds and providing access to various asset classes.

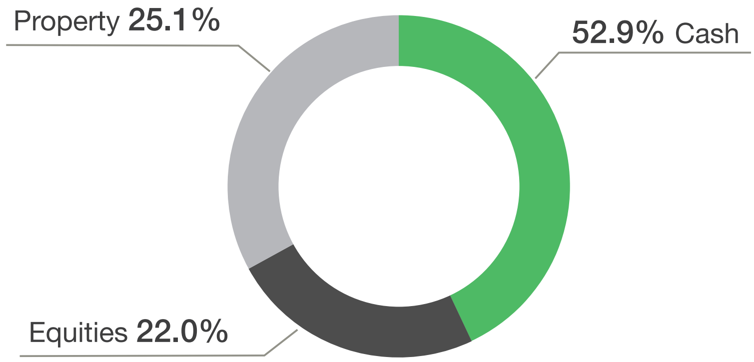
We anticipate making additional investments during the September quarter, subject to market conditions. During 2015 we are aiming to expand the Fund holdings into some offshore equities, a broader range of Australian equities, selected fixed interest investments and one or two strategies designed to cushion the Fund in market corrections.

Earlier in the year we were considering well over 200 potential investment opportunities for the Fund across all asset classes, gleaned from over 10,000 available in Australia. Since then, we have reduced this list to less than 50, from which we will construct our initial portfolio.

We will continue to methodically work through these potential investments and other interesting opportunities, and will select only those which we feel are the absolute best for inclusion in the portfolio.

Asset Allocation (underlying assets)

The graph below analyses the underlying asets of the fund we have invested in.



Because a number of the funds we invest with are themselves carrying significant amounts of cash, the underlying cash exposure is approximately 53%. This means the impact of any market correction on our portfolio should be less severe than, say, a portfolio constructed only of listed stocks. We saw this in effect in the June quarter, with the fund outperforming the Australian stock market by almost 8% during the period.

Key Fund Statistics

Status	Opening Soon[1]
Target Returns	Inflation plus 5%
Investment Class	Diversified fund-of-funds
Minimum Investment	$20,000[1]
Suggested Timeframe	At least 5 years
Issue Price	$0.9751[1]
Withdrawal Price	$0.9712[1]
Distribution Frequency	Monthly
Distribution Yield	5.15% p.a.[2]

Distribution Reinvestment	Yes
Applications	Monthly[1]
Withdrawals	Monthly[1]
Borrowing Policy	No borrowings in Fund
Fees	Performance based[4]
Buy/Sell Spread	0.20%/0.20%

1. The Fund is not currently open for investment but is expected to be made available to new investors during 2015
2. The Fund targets a return of inflation plus 5% over rolling 3 years periods
3. Annualised distribution calculated using current distribution rate divided by withdrawal price
4. The performance fee is 12.5% of positive resturns. Costs in excess of 0.25% of net assets are borne by the manager.

Fund Returns

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												1.4%
2015	0.3%	0.4%	1.0%	0.6%	0.9%	-0.1%						

Strongest Month
Positive Month
Stable Month
Weakest Month
Negative Month

Market Outlook

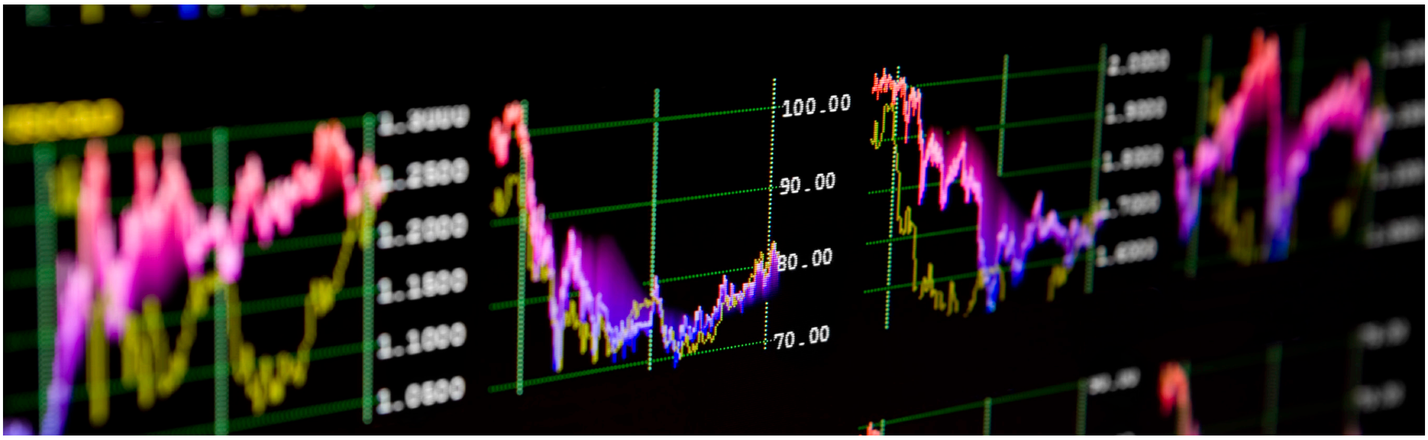
We have seen a pullback in June after a very strong start to the calendar year, but it feels like there will be more opportunities to invest at cheaper prices later this year. Despite a small relief rally in early July as Greece looks to be solved for now and China announces massive stimulus to hold its stock market at levels around 70% higher than this time last year, most markets remain range bound. On one hand, economies remain relatively weak. On the other, the US Federal Reserve seem to be wanting to get that all important first interest rate rise out of the way so they can say they are on the path to normalising interest rates.

In Australia, we seem to switch back and forward between expecting more interest rate cuts and not. Personally, we think Australia is pretty much done with cutting rates this cycle, but, much like the US, we don't expect to see a return to sharp increases any time soon.

Without the stimulus of a greater number of interest rate cuts than the market expects, or upside surprises in economic indicators or company earnings, it would seem to be difficult for stock market and property prices to move materially upwards in the near term. Thus we will look to make small additions to the portfolio and days, weeks or months when the market is feeling down, and we will remain patient at other times.

We feel the easy money has now been made in offshore markets as well, with the fall in the Australian dollar removing much of the margin of safety, particularly given valuations in most markets are no longer cheap. The current rush by Australian investors to increase exposure to offshore markets may be a little late.

We would still not be surprised by a 10-15% market correction in the US market at some point this year, but the recent correction in Australia probably means we are unlikely to be affected to the same degree here if/ when it does occur.



Affluence Website

Along with the Affluence Investment Fund, our new website is due to be launched in August 2015. Investors and Affluence members will have exclusive access to the Fund's portfolio holdings, asset allocation, Fund documentation and investment education. Be sure to register your details at **www.affluencefunds.com.au** to receive updates.

Why Term Deposits Are Dead

"I went to the bank and asked to borrow a cup of money. They said, 'What for?' I said, 'I'm going to buy some sugar." - Steven Wright

"Bank failures are caused by depositors who don't deposit enough money to cover losses due to mismanagement." - Dan Quayle

Back in the depths of the global financial crisis, our self-managed super fund was able to do an extraordinary deal. We secured a 5 year term deposit in 2009 at 7.5% per annum. By the time that term deposit matured in 2014, the best we could do was around 3%. And since then, it has only gotten worse. In this market, banks have all the pricing power - they currently have more cash deposited with them than they need and are under no pressure to pay above-market rates.

Most investors are currently holding a reasonably significant portion of their portfolio in cash. The latest numbers available from the ATO suggest around 30% of the assets of the average SMSF are cash. Given that, one of the easiest ways to maximise investment returns, and one that it totally within your control, is to ensure you are getting the absolute best deal you can on the spare cash.

Today, the best 1 year term deposit rate according to online comparison site MOZO is just a touch over 3%, from a small credit union. And the best "big 4" bank is offering just 2.40%. That is basically guaranteeing you an inflation-like return. Which means you will be guaranteed not to make any real investment return on those funds.

That might be OK if it came with some flexibility, but for the privilege of earning this wonderful rate you have to lock your money up for a year. And because of tightened capital requirements by the bank regulator, APRA, it is now much more difficult for you to withdraw money from a term deposit early. You will almost certainly be charged a penalty, making the return even more meagre.

The opportunity cost, that is, the chance a much better investment opportunity will come along during that period, is simply too great to commit your hard earned cash for a whole year. One of our key rules at Affluence is that accepting a below-average return on any investment, regardless of diversification benefit, is not worth it. In return for locking up your funds for a period of time, with no easy access to the money, a return of 2.4% - or even 3%, is simply unacceptable.

Of course you can achieve flexibility by leaving your money in a traditional savings account – but many of them pay terrible rates of interest. And the general rule is the bigger the bank – the worse the interest rate.

Some savings accounts essentially pay no interest at all – and while we all value the flexibility and the features they provide, if you're holding a significant amount of cash in one of these accounts you could be costing yourself a great deal.

There is a much more flexible option than term deposits or the old fashioned savings account – a high interest online savings account. If you haven't looked into what is available in this space, you are not doing yourself any favours. These accounts have several advantages over term deposits. By far the biggest is flexibility. The funds are essentially on call - available within 24 to 48 hours. This means they make not only a better alternative to term deposits, but they also allow you to move much of your on-call cash there as well.

The next best feature is the rates - generally around 2.5% if you make a withdrawal during the month and as high as 3% if you don't. For most of us, that's a much better option than both a term deposit and a run of the mill savings account. Even if your average return is slightly worse than the best term deposit rate - you will have a much greater degree of flexibility. In this investing climate, where prices can move up and down quickly and investing opportunities present themselves regularly, flexibility is key.

So which are the best ones to use? Well, the choices are much wider if you have the funds in your own name and are able to open a personal account. We have accounts with RAMS (100% owned by Westpac) and UBank (a NAB subsidiary). Both offer great ongoing rates and a better deal if you meet certain criteria. With RAMS you must deposit $200 per month and make no withdrawals. With UBank you must pair your online account with a normal savings account and maintain a minimum balance.

For a self-managed super fund or a business account it's a bit harder, but there are still some good options. UBank have one of the best offers for SMSF's. We also use CUA, which is currently offering 3.05% if you make no withdrawals, reducing to 2.15% if you do. Still on a par with term deposits but with much better flexibility.

If you haven't given online savings accounts a look - you should definitely do so. There are not many easier ways to improve investment returns than by ensuring you maximise your income on cash.

Contact Us

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

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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 on the web directly 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.

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