Affluence INVESTMENT FUND

INVEST DIFFERENTLY

Investment Report - September 2015

Fund Performance

To 30 September 2015	3 Months	6 Months	1 Year	Inception*
Affluence Investment Fund	3.1%	4.5%	N/A	9.4%
Benchmark - Inflation + 5%	1.9%	3.3%	N/A	6.5%
Outperformance	1.2%	1.2%	N/A	2.9%

* Annualised

In this report, we review the characteristics of the initial portfolio, take a look at a great example of fees not equalling performance, review an investment that would never satisfy our criteria and see what a Mexican fisherman can teach us about life.

In the September quarter, the Fund delivered returns of +3.1% in a period when the stock market, including dividends, returned -6.6%. The Fund commenced investing on 1 December 2014 with a limited number of initial investments and has continued to be very conservatively placed over the past few months. While the performance for the quarter of 3.1% after all fees and costs was well above our benchmark, what was more pleasing to us was that it substantially exceeded that of the stock market during the recent correction. The performance for the quarter exceeded that of the ASX200 accumulation index by over 9% and for the past 6 months has exceeded it by over 17%.

Performance to date is equivalent to a 9.4% annualised return, well ahead of our target returns in what has been a difficult market. While we are not yet fully invested and the returns history is relatively short, we are somewhat comforted by these results.

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

The Cromwell Direct Property Fund investment again performed well during the quarter and was the biggest positive contributor to performance. We saw increases in the value of a number of assets in this fund including one underlying asset which was sold to foreign investors at a significant premium to its most recent valuation.

Fund Monthly 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%	1.0%	-0.4%	2.5%			
2016												

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

Market Commentary

In Australia, the ASX200 stock market accumulation index (including dividends) fell 6.6% during the September quarter and is now down 12.7% over the past 6 months. After staging a partial recovery in July, despair set in late in August and again in September, providing us with one of the more volatile quarters we have seen in quite some time. China dominated the financial news, with concern over a continuing slowdown and the potential implications of this for the Chinese and world economies. The potential for the US to raise rates was also cited as a concern, but to date they continue to hold off, with the first rate rise seeming now to be expected "next quarter" for the past year. No doubt they will eventually raise rates, but it has been talked about for so long that we no longer expect that to have a major impact on markets when it does actually happen.

In Australia, many self-managed super fund portfolios took a beating as the brunt of the correction was borne by the banks and miners, with both down around 20% from their highs earlier this year. Banks were impacted by the local regulator, APRA, who seem resolved to making the banks carry a higher proportion of capital - no bad thing in our view. Many other asset classes, including healthcare and A-REITs held up reasonably well during the period. Smaller stocks (excluding resources) also outperformed, somewhat unusually, but probably because in aggregate they are viewed as having more sustainable growth in earnings than many of the major banks and miners.

Overseas stock markets in developed countries generally fell by 6-10% for the quarter, while emerging markets fell slightly more on average. Despite this, the falling Australian dollar largely offset those falls, so that unhedged Australian investors in those offshore markets had small positive returns. The Australian dollar has now fallen by approximately 35% from its highs around 3-4 years ago, which has generated almost all the excess returns from offshore investing over that period. While we believe the AUD does have further to fall, at around AUS/USD $0.71, we are now well below the 10 year average and we would not be surprised by a small recovery of the Aussie dollar in the short term.

Bonds generally didn't lose money for the quarter, but failed to deliver a reasonable positive return. The exception was high yielding bonds, which went backwards as investors realised the yields they were previously trading on may not compensate investors well enough for the fact that many now have a chance of losing capital. We continue to believe that with interest rates starting to rise 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.

Unlisted property continued to chug along very well, with offshore investors continuing to drive asset prices up for the sector. Rentals appear to have at least stabilised in all capital cities except Perth.

Residential property continued to perform well, but is showing signs of investor fatigue in the short term and this has also been one of the factors weighing on bank share prices.

Fund Investment Portfolio

We have now identified our target initial portfolio, gleaned from over 10,000 funds available in Australia. The pullback in markets over the past 6 months has provided us with a much more attractive entry point into many of these funds.

We will make these additional investments gradually over the next 3 months with the intention of being fully invested in our target funds and managers by the end of the calendar year, subject of course to market conditions.

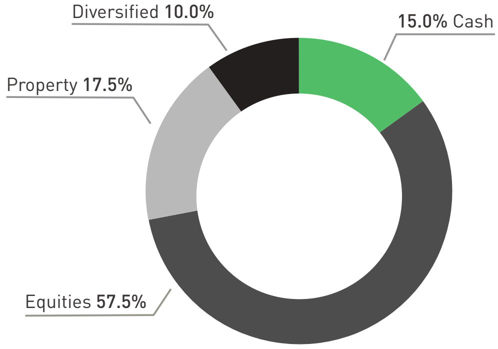
This will result in the Fund being significantly more diversified, holding approximately 25 investments in what we consider to be the best managed funds available in Australia. Below are some graphs outlining the expected characteristics of this target portfolio. Importantly, we expect to expand the portfolio over the next 3 months into some funds which invest in offshore equities and a broader range of Australian equities. Many of these underlying funds use strategies designed to cushion returns in market corrections.

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.

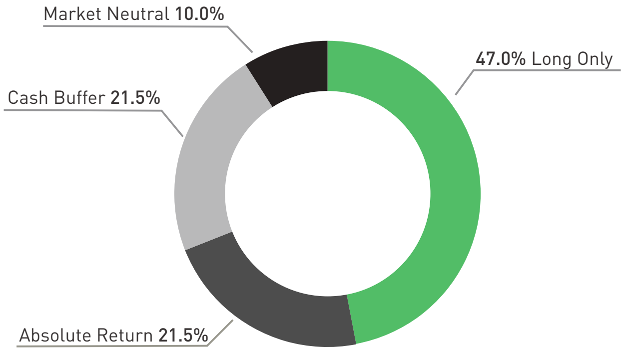
If you would like to know more about the Fund's portfolio, please contact us.

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.

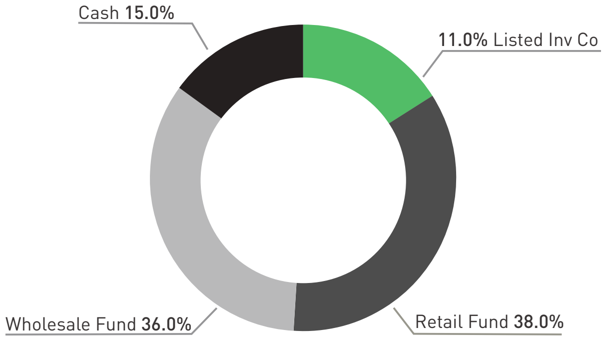
Asset Class



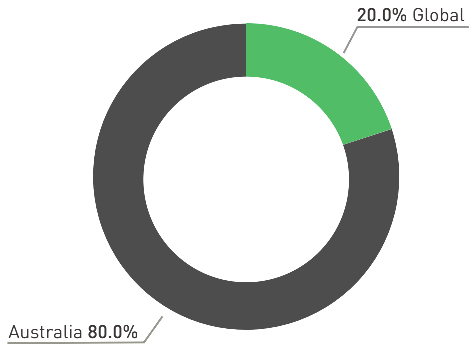
Equities Strategies



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	$1.0075
Withdrawal Price	$1.0004
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

In the short term, it feels difficult to get a read on what the market might do. The falls in value over the past two quarters have, in our view, moved the market from reasonably overvalued to around fair value. That is, at current levels it is neither expensive nor cheap. We have seen some recovery in prices in early October and we do expect some form of relief rally before Christmas, but we are not sure it is sustainable.

We do expect the US Federal Reserve to get the first interest rate rise out of the way by December so they can say they are on the path to normalising interest rates, though we are not confident there will be many more to follow anytime soon. This is what may drive a partial recovery in the AUD over the next while, as market expectations for US rate rises are scaled back.

As noted last quarter, we think Australia is pretty much done with cutting rates this cycle, but we don't expect to see a return to sharp increases any time soon.

We continue to monitor bond funds closely for signs of increased market stress, particularly among the higher yielding, risker bonds. There is much research available that suggests in past periods, the bond market has better anticipated future economic performance than equities markets.

Having competed our shopping list of funds we would like to own for the portfolio, we will 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.

Affluence Website Launched

We are pleased to announce that our website has officially been launched and is now welcoming people to signup to become an Affluence member. 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.

Fees Must Reflect Performance

"Wall Street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway." - Warren Buffett.

According to various sources, ex PIMCO fund manager and well respected bond investor Bill Gross has recently lodged a lawsuit in the US demanding over USD$200 million in compensation for what he calls "improper, dishonest and unethical behaviour" by executives at his previous employer. Bill Gross is an exceptional investor in his chosen field and has pledged to give all proceeds of the suit to charity, but the action provides an amazing insight into how some of the big fund managers charge fees and remunerate staff.

Gross was reportedly due a 20% share of the staff bonus pool before, he alleges, he was driven out of PIMCO by the executives so they could take a greater slice of the pie. Gross' $200m share implies the total bonus pool was in excess of USD$1 billion or around $1.3 billion Australian dollars. You read that right – and the bonus pool was for just one year. That seems, to us, obscene. But more importantly, let's see how that compares to the returns delivered to investors in the fund Bill Gross became famous for managing, the PIMCO Total Return Fund. According to PIMCO's website, the fund, which was once the largest in the world, holds approximately AUD$130 billion in investors' funds and has delivered the following returns to 30 September 2015:

Return Period	Annualised Return
1 Year	1.57%
3 Years	1.36%
5 Years	3.23%
10 Years	5.76%

Source: PIMCO Website.

These returns are after PIMCO's fees (and staff bonuses) before any fees investors might pay to advisors or platform providers. Hands up who thinks those returns deserve a $1 billion bonus?

And that, in a nutshell is the problem with almost all of the funds management industry - worldwide. They take a fixed percentage of funds under management as a fee, regardless of performance. This is despite the fact that as funds under management increases, the marginal cost of managing the extra funds is very, very low and the capacity to deliver outsized returns is almost always diminished.

We therefore encourage you to look at fees on any potential investment carefully. Importantly though, we believe they must be assessed not on their own, but relative to the performance of the manager over the long term. We invest with some managers who charge very high fees - in one case over 2%pa plus a performance fee. But in our view, their performance warrants the fee. Many other professional investors would not hold this view.

At Affluence, here's what we're doing to fight back against underperformance:

- We don't invest in any fund unless we believe it can deliver returns of inflation plus 5% over 3-5 years;
- We invest only with managers who have, and we believe will continue to, outperform a fair benchmark after their fees;
- We charge only a performance fee and a small cost recovery. If we can't add value for you, we won't get paid.
- We co-invest alongside you, so you can be sure we have skin in the game.

The Fisherman

A businessman was at the pier of a small coastal Mexican village when a small boat with just one fisherman docked. Inside the small boat were several large yellowfin tuna. The businessman complimented the Mexican on the quality of his fish and asked how long it took to catch them. The Mexican replied only a little while.

The businessman then asked why he didn't stay out longer and catch more fish. The Mexican said he had enough to support his family's immediate needs. The businessman then asked, "But what do you do with the rest of your time?" The Mexican fisherman said, "I sleep late, fish a little, play with my children, take a siesta with my wife, Maria, stroll into the village each evening where I sip wine and play guitar with my amigos; I have a full and busy life, señor."

The businessman scoffed, "I am a Harvard MBA and I could help you. You should spend more time fishing and with the proceeds buy a bigger boat. With the proceeds from the bigger boat you could buy several boats; eventually you would have a fleet of fishing boats. Instead of selling your catch to a middle man, you would sell directly to the processor and eventually open your own cannery. You would control the product, processing and distribution. You would need to leave this small coastal fishing village and move to Mexico City, then LA and eventually New York City where you would run your expanding enterprise."

The Mexican fisherman asked, "But señor, how long will this all take?" To which the businessman replied, "15-20 years." "But what then, señor?" The businessman laughed and said, "That's the best part! When the time is right you would announce an IPO and sell your company stock to the public and become very rich. You would make millions." "Millions, señor? Then what?" The businessman said, "Then you would retire and move to a small coastal fishing village where you would sleep late, fish a little, play with your kids, take a siesta with your wife, stroll to the village in the evenings where you could sip wine and play your guitar with your amigos."

So far as we can ascertain, the preceding story never actually happened. But the point is worth considering. It might resonate with you if you have ever seen the movie, "The Shawshank Redemption."

Many years ago, when I was young and keen, and working 60+ hours most weeks, my mother bought me a framed picture of a beach for my birthday. On it were the words "Never get so busy making a living that you forget to make a life." It remains on my office wall at home to this day, a constant reminder that success can be rewarding, but only if you get a chance to enjoy it.

Why Would you Buy This?

August in Australia saw an extraordinary event – or at least it should be an extraordinary event. Unfortunately in today's market, it is almost normal.

Technology giant Apple launched a bond in Australian dollars.

They wouldn't actually need the money at all if it weren't for the US tax system. Apple is based in the United States, but is making some very large profits all over the world. However the company struggles to move profits made outside the US back to the USA because they will have to then pay tax at a higher rate on the funds. Unfortunately they do want some money to make its way back to America to fund dividends and share buybacks. This is particularly the case more recently as some activist shareholders have demanded higher payouts and stock repurchases to increase shareholder returns.

So what do you do if you have over $100 billion in cash lying around the world but can't use most of it to pay your shareholders? Well if you're Apple, with a AA+ credit rating (better than the Australian banks and only one notch lower than the Australian Government), you borrow it at very low rates and use the debt to pay dividends and buy back shares. The funds are not borrowed from a bank in the way a smaller business might do it, but are instead borrowed by Apple issuing Bonds to institutional investors. Much of the borrowing has taken place in the US, and in US dollars, but last week the company undertook its first issue in Australian dollars.

All this was apparently very exciting news for Australian investors in such things. But when we saw the details, we were much less excited.

Apple issued two types of bonds – one with a 4 year maturity (repayment date) and one with a 7 year maturity.

Now for the returns. For the pleasure of holding some Apple bonds for a period of 4 years, you could be virtually guaranteed to achieve a return of 2.88% per annum. This may well turn out to be less than inflation, and certainly less than you could currently get in a term deposit or a good online savings account with an Australian Bank. The alternative was a 7 year bond with a much higher yield – 3.71%. Now, while it would be lovely to be able to say that you hold an investment in one of the world's largest companies and while the debt is considered extremely safe by the ratings agencies, most investors would hardly say that these are acceptable returns for tying up your money for the long term.

So how much money did they raise – a million? 10 million? 100 million? Well that's the extraordinary thing – both types of Bond were well oversubscribed, with over $1 billion invested in each one according to the Australian Financial Review. Who's buying? Some of Australia's largest bond fund managers no doubt, along with a good smattering of insurance companies and the like. If you have your super invested in a retail or industry fund with an allocation to fixed interest – you may be lucky enough to have just bought some yourself (indirectly via the underlying fund manager of course).

For us, these sorts of deals are a no-brainer. We just say no. Because they simply don't deliver an acceptable return if they are held to maturity. The only way this might occur is if you buy now and hold out for an investor who is prepared to accept an even lower return in the future to buy it from you in the secondary market. Of course, this could well happen, but it's not a sound basis on which to make the investment in our view.

At Affluence, we prefer slightly more risk, and substantially better returns. Otherwise, you might as well leave your money in the bank.

Become A Foundation Investor

A reminder to all readers that if you invest before 31 December 2015, you will receive 'Foundation Investor' status and be entitled to the following benefits:

- Pay no fees on your investment until 1 July 2016
- Receive priority notification and allocation on all future investment opportunities
- Free access to all website content including the Fund portfolio, for life.

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.

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