Affluence INVESTMENT FUND

INVEST DIFFERENTLY

Investment Report - December 2014

Fund vs Benchmark

To 31 December 2014	1 Month	3 Months	1 Year	Inception*
Affluence Investment Fund	1.4%	N/A	N/A	16.5%
Benchmark - Inflation + 5%	0.6%	N/A	N/A	7.5%
Outperformance	0.8%	N/A	N/A	9.0%

* Annualised

Market Commentary

In Australia, the ASX200 stock market index rose 2.2% for the quarter, but just 1.1% for the entire 2014 calendar year. Investors continued to favour companies with defensive earnings, US dollar earnings and high dividend yields. The Australian dollar continued its fall against the US dollar, ending the quarter at 82 cents per USD. Those overseas holidays continue to get more expensive.

Despite continuing weak economic data from Europe, a stronger US market helped world stock markets finish the quarter on a positive note. The falling Australian dollar meant that for the full year, global equities were the place to be for Australian investors. The US market rose 11% in 2014, well outpacing the Australian market. If you also allow for the fall in the Australian dollar, the increase for an Australian dollar investor was around 18%.

The surprising performance during the year was from bonds, particularly Australian Government Bonds. Yields on the Australian 10 year government bond fell by over 1% during the year as global investors sought out reletively higher income and safer returns from the Australian Government. Despite our own frustrations with successive Governments, Australian bonds are seen globally as one of the safest investments. And compared to other developed nation in the Northern Hemisphere, the yields available on Australian bonds seem high.

Meanwhile, in the mysterious world of commodities, increasing supply levels in the energy markets finally put paid to the speculators and we saw oil prices go through a sharp correction during the quarter, following iron ore into the doldrums. This, predictably had a big negative impact on oil stocks.

Fund Performance

The Fund commenced investing on 1 December 2014. Initial investments were made into the Cromwell Direct Property Fund, Cromwell Australian Property Fund and the Phoenix Opportunities Fund. We currently have around 87% of the Fund's capital employed in these investments, however because a number of these funds are carrying significant amounts of cash, the underlying cash exposure is approximately 48%.

The portfolio increased in value by 1.38% in December, net of all fees and costs. This is equivalent to a 16.5% annualised return, well ahead of our target returns of 7.5%. At this stage a very short performance history, but heading in the right direction.

All investments contributed positively to performance. The Direct Property Fund saw increases in the value of two key assets, the Australian Property Fund benefitted from continuing increases in listed A-REIT values and the Phoenix Opportunities Fund continued it's pattern of being up in value despite a rather flat small ordinaries index in December – testament to the exceptional stock picking abilities of the Phoenix team.

The Fund's investments are currently allocated 26% to Australian equities, 61% to listed and unlisted property and 13% in cash.

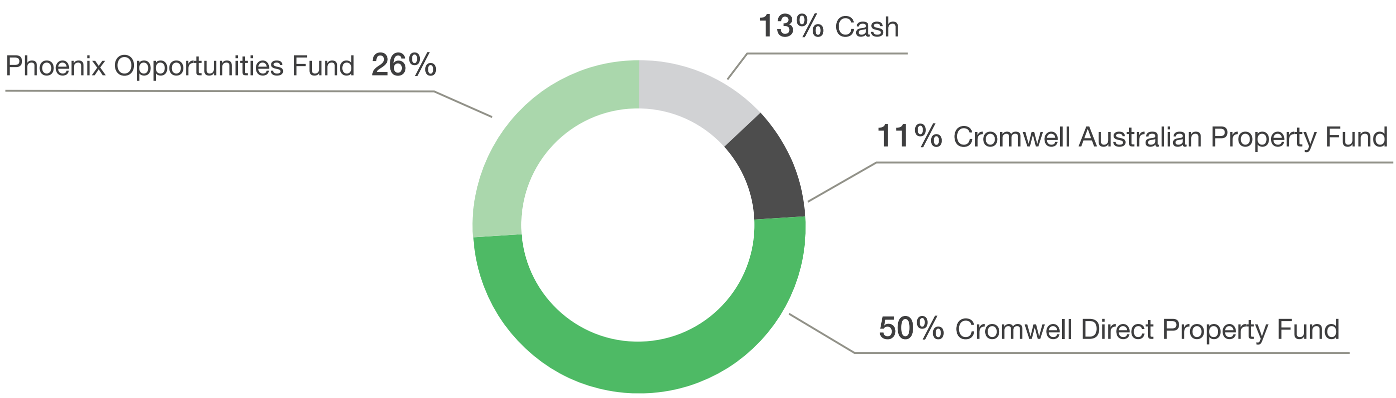
We are currently looking at well over 200 potential investment opportunities for the fund across all asset classes. Some we have been monitoring for a year or more – others we have a lot more work to do on. We will continue to methodically work through these potential investments and select only those which we feel are the absolute best for inclusion in the portfolio. During 2015 we expect to expand the Funds 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.

Portfolio Performance

Portfolio performance for the period 1 December 2014 to 31 December 2014.

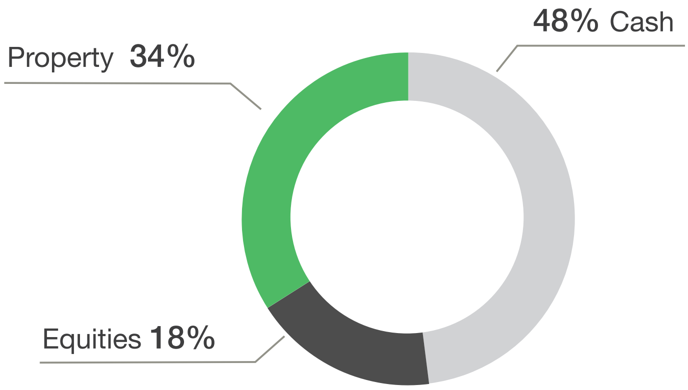
Investment	Class	Portfolio %	Performance
Cash	Cash	13%	0.13%
Cromwell Australian Property Fund	Listed Property	11%	2.16%
Cromwell Direct Property Fund	Unlisted Property	50%	1.67%
Phoenix Opportunities Fund	Equities	26%	0.64%
		100%	**1.38%**

Asset Allocation (investment positions)



Asset Allocation (underlying assets)

The Fund aims to be fully invested during 2015, holding 15-25 investments in Australia's best managed funds, providing a diversified exposure to various asset classes. The graph below analyses the underlying asets of each fund we invest in.



Key Fund Statistics

Status	Opening Soon[1]
Investment Class	Diversified fund-of-funds
Minimum Investment	$20,000[1]
Issue Price	$1.0154[1]
Withdrawal Price	$1.0138[1]
Annual Distributions	5.00 cpu
Distribution Yield	4.93% p.a.[2]
Distribution Frequency	Monthly
Target Returns	Inflation + 5%

Applications	Monthly
Withdrawals	Monthly[2]
Suggested Timeframe	At least 5 years
Distribution Reinvestment	Yes
Borrowing Policy	No borrowings in Fund
Fees	Performance based
Buy/Sell Spread	0.20%/0.20%

1. The Fund is expected to be open to new investors during 2015
2. Annualised distribution divided by withdrawal price
3. The Fund targets a return of inflation plus 5% over rolling 3 year periods

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												

Strongest Month
Positive Month
Stable Month
Weakest Month
Negative Month

Market Outlook

We have not been surprised by continuing low interest rates, and expect to see this trend continue for some time. In fact, it would appear the European Central Bank is likely to finally come to the party and looks set to release their own form of money-printing to combine with their continuing ultra-low interest rates. This will have the predictable result of holding global asset values up, despite fundamental economic weakness. Even though we feel some markets are well overvalued (the US being one), that doesn't mean continuing low interest rates won't keep them there.

In Australia in 2014, the positive impact of low interest rates on the value of yield-based stocks (e.g. Banks, Telstra) has been offset by the falls in value of resources stocks. Our best guess is that the first trend will continue this year, albeit with slightly less upside, and the second trend will reverse. This should be positive overall for the Australian stock market over the year.

However, given our portfolio aims to deliver in all environments, we must ask ourselves and allow for, what else might happen. Broadly, we see two other alternatives in the year ahead. Volatility is likely to continue, and with it will come market fluctuations.

We are happy to take the risk of smaller market corrections in our stride, but are looking to put in place some limited portfolio protection against sustained stock market falls as we make further investments into equity markets. This won't protect the portfolio totally, but will provide a buffer against the risk of market falls greater than 10%. Downside surprises could come from a lot of places in 2015, but most likely from places or events we haven't thought of, the so-called unknown unknowns. Surprises after all, by their very nature, are a surprise!

The second alternative is that we could see markets perform better than expectations. The US economy is continuing to get better and Australia has been in the doldrums for quite a while. It is not inconceivable that our economy will, against popular expectation, improve substantially this year. While not our expected outcome, we have positioned the portfolio to continue to have a reasonable allocation to equity markets so that it can benefit from a greater than expected improvement.

What's Going On With Oil?

Here at Affluence, we love finding beaten up stuff at prices below long term fair value. That's why we're excited by the oil price right now. Oil was the big story for the second half of 2014, as it continued a relentless slump in price to below USD$50 per barrel. Every nation in the world is affected by the oil price. The degree of impact depends on whether you are a net buyer or seller.

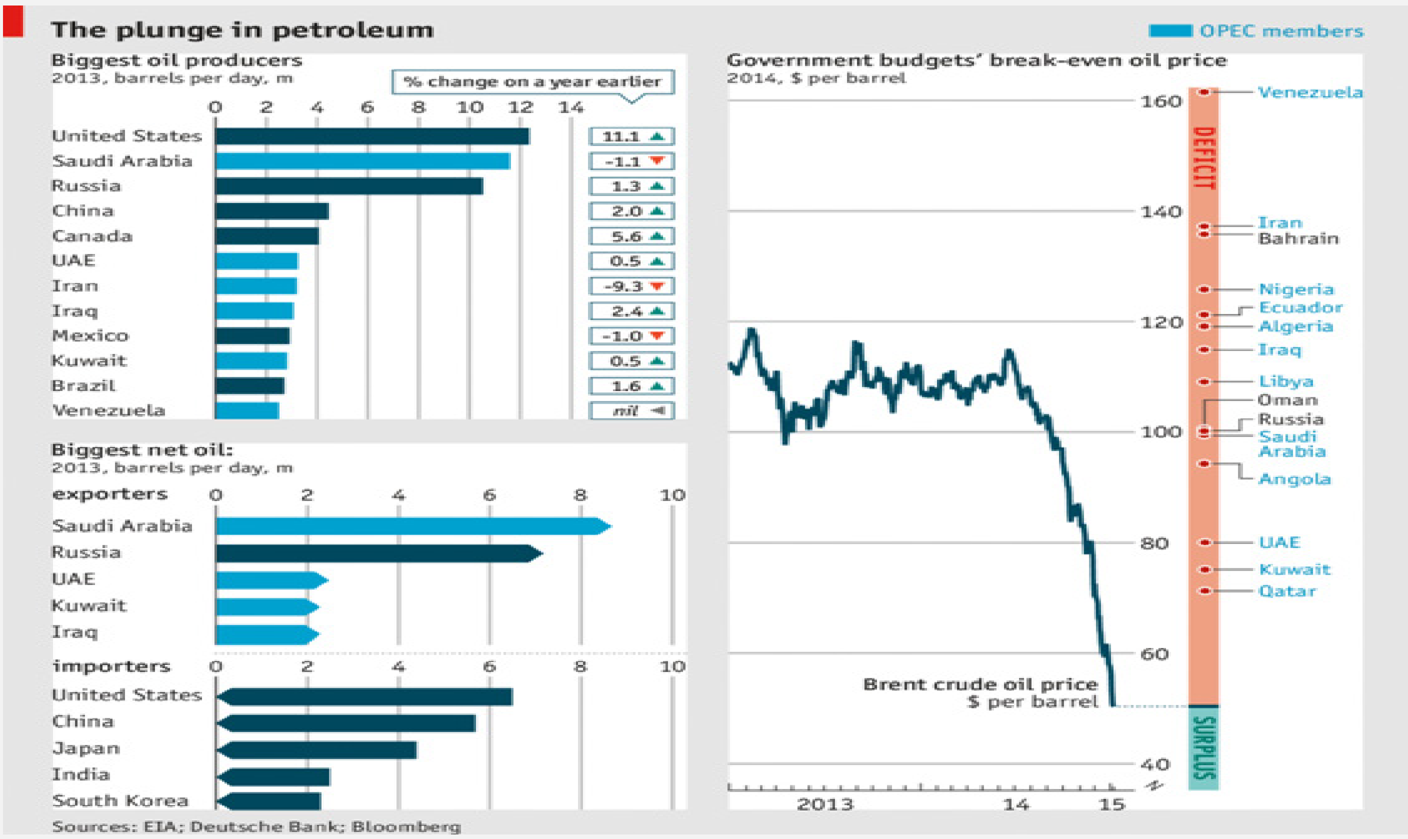
The excellent graphic below (courtesy of the economist) shows the biggest producers and users of oil. The graph on the right explains why we are now actively looking at opportunities to take some exposure to the oil sector. The current oil price is below the break even price required to balance the budget of every major oil producing nation.

In the short term, the oil price is driven by speculators and sentiment, and I have no idea where it will go. But over a reasonable time, the price of oil must rise, and rise substantially. Just as high oil prices a few years ago drove new supply, particularly in the US; low oil prices, should they continue for long, will very quickly force a lot of production to stop as the highest cost producers lose substantial money. This will take a little time, as many producers have hedged, or fixed their sales of oil for various periods into the future, which means they have effectively pre-sold some of their future production at yesterday's, higher prices. But eventually the hedges will run out, and if prices stay low, production will reduce. This should, by definition, increase the price, since supply will be slowing but demand will continue.

It may take a month, a year or 3 years, but the oil price will rise and there is good money to be made when it does. If I was a betting man (which I'm not) I would expect at least some bounce in the oil price in the short term. With every "expert" predicting further doom and gloom, some a price as low as $10 per barrel, it seems well primed for at least a short term reversal in price.

We will be looking for early signs of that rise and will probably seek to place a small amount of the Fund's capital in oil futures or oil stocks in anticipation, with a view to increasing exposure as we see signs of a change in sentiment and momentum. Given oil and oil stocks deliver no, or very low income, we are unlikely to stake no more than 5% of the Fund's capital on oil, but it provides a vey good example of the sort of investment where you have the chance to buy well and are prepared to be patient.

Personally, I'm happy to wait. I, like most of you, am a net buyer of oil every time I go to fill up the car. I will be waiting very patiently for the oil price to go back up.



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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