



# Affluence LIC Fund

June 2024

Invest Differently

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Current information in relation to each Affluence fund is available at <https://affluencefunds.com.au>.



# Affluence Introduction

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We founded Affluence to allow anyone to access the investment style used successfully by family offices and university endowment funds.

This means seeking above average returns and limiting the impact of market downturns by constructing portfolios that include a wide range of talented underlying managers plus selected other investments.

# Choice - Affluence Funds

	Affluence Income Trust	Affluence Investment Fund	Affluence LIC Fund	Affluence Small Company Fund
<b>Summary</b>	An income focused fund paying monthly distributions.	All our best ideas in a single, highly diversified fund.	A specialised strategy harvesting discounts & returns from LICs.	Targeting the higher growth potential from small cap equities.
<b>Asset class</b>	Fixed Income	Diversified	Predominantly Equities	Small Cap Equities
<b>Risk profile</b>	Low	Medium	Medium-High	High
<b>Return focus</b>	Income + Capital Preservation	Income + Capital Growth	Income + Capital Growth	Mostly Capital Growth
<b>Target total return *</b>	RBA Cash Rate + 3%	Inflation + 5%	ASX200 Accum. Index	ASX Small Ords Index
<b>Distribution payment frequency *</b>	Monthly	Monthly	Quarterly	Quarterly
<b>Suggested investment timeframe</b>	At least 1 year	At least 3 years	At least 3 years	At least 5 years
<b>Returns achieved *</b>	7.5% per annum (current distribution rate)	7.8% per annum (annualised total returns since inception)	11.1% per annum (annualised total returns since inception)	8.8% per annum (annualised total returns since inception)
<b>Fund Status</b>	Open for investment	Open for investment	Open for investment	Open to wholesale & sophisticated investors
<b>Minimum investment</b>	\$20,000	\$20,000	\$20,000	\$20,000
<b>Applications and withdrawals</b>	Monthly, by the 25 <sup>th</sup> of each month.	Monthly, by the 25 <sup>th</sup> of each month.	Monthly, by the last business day.	Monthly, by the 25 <sup>th</sup> of each month.

\* Return data to 31 May 2024. Distributions & returns are not guaranteed. Past performance is not indicative of future performance.



# Top down themes impacting portfolio construction in our Funds

- **Higher for longer.** Value stocks will fare better with interest rates at more normal levels.
- **Earnings risk.** Forecasts are too optimistic, but the timing of any correction is uncertain.
- **Politicians vs central banks.** The result is probably a recession, but probably not soon.

## What We Are Excited About

01

Our fixed income exposure through the Affluence Income Trust is providing the fund with strong, consistent returns. Given where the RBA cash rate is, and the opportunity in private credit, we believe this gives the fund excellent risk adjusted returns.

02

Our exposure to LICs through the Affluence LIC Fund are at the greatest discount since commencement of the fund. The Affluence LIC Fund portfolio discount to NTA was approximately 24% at the end of May, higher than even 31 March 2020 during the covid crisis. We believe this level of discount to NTA is unsustainable, and the fund is well positioned to outperform over the medium term.

03

The February reporting season for REITs reaffirmed the value we see. All of our holdings are trading at large discounts to NTA, and most are paying very healthy cash distributions. We believe there are likely to be more write-downs on the underlying portfolios, however not to the levels implied by the current share prices.

04

Both our Australian and global equities exposure have a small to mid cap bias. Over the past couple of years large caps both globally and in Australia have materially outperformed small and mid caps. We believe that at some point reversion to the mean will reduce this deficit, and the fund will benefit from this.



## Affluence LIC Fund (ALF)

ALF is an **unlisted fund**, created after we identified an opportunity to take advantage of discounts and other inefficiencies in the ASX Listed Investment Company (LIC) sector.

We believe ALF is the only unlisted fund available that invests exclusively in Australian LICs. ALF is a limited capacity strategy.

# Affluence LIC Fund performance

## Fund Performance\*

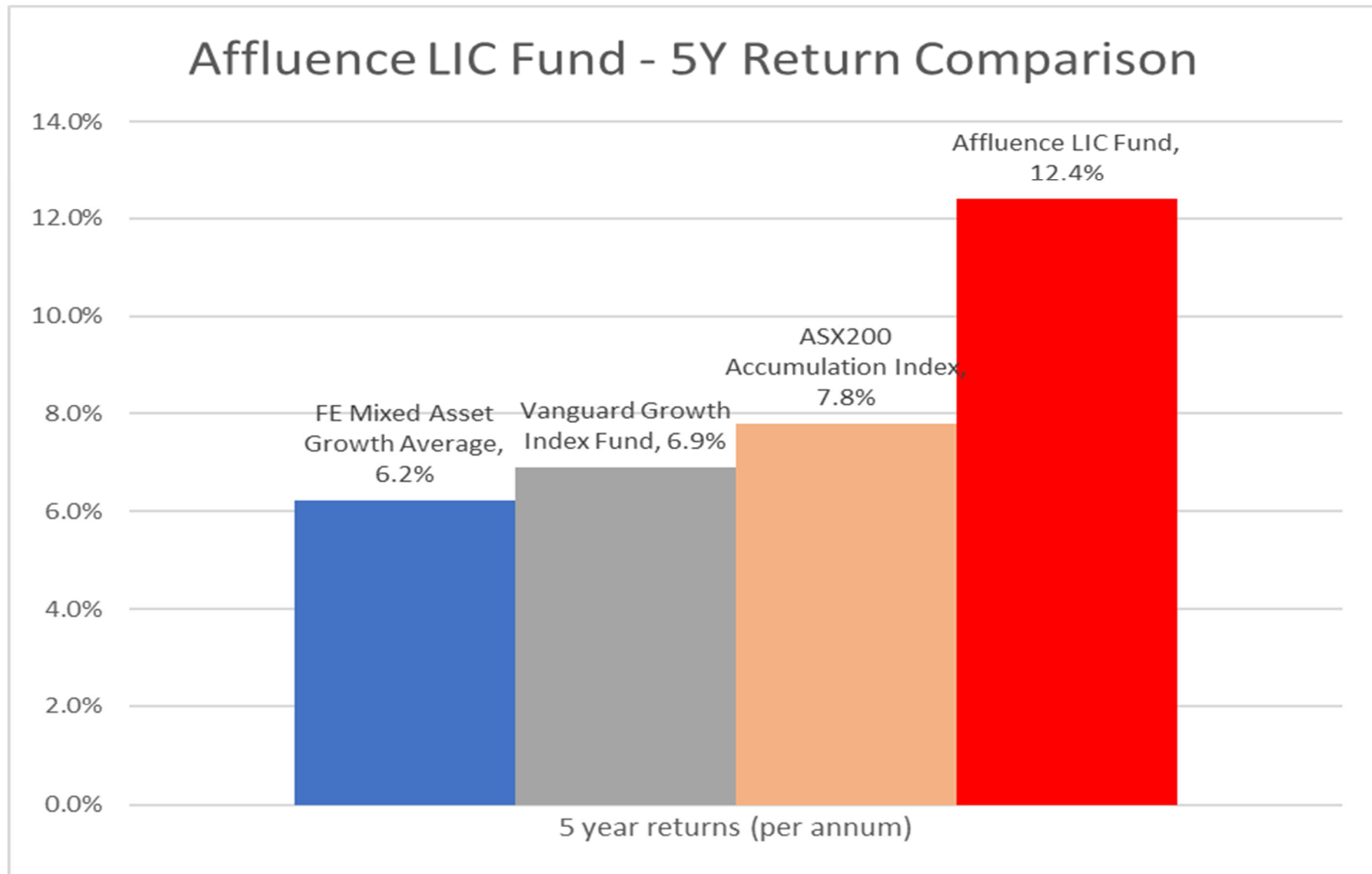
To 31 May 2024	3 Months	1 Year	3 Years	5 Years	7 Years	Inception
Distributions	1.5%	6.2%	8.5%	8.9%	8.7%	7.7%
Change in Unit Price (Capital Growth)	3.0%	4.9%	-1.3%	3.5%	2.1%	3.4%
<b>Affluence LIC Fund Total Return</b>	<b>4.5%</b>	<b>11.1%</b>	<b>7.2%</b>	<b>12.4%</b>	<b>10.8%</b>	<b>11.1%</b>
ASX200 Accumulation Index (AI)	1.2%	12.9%	6.8%	7.8%	8.5%	9.2%
<b>Performance compared to ASX200AI</b>	<b>3.3%</b>	<b>-1.8%</b>	<b>0.4%</b>	<b>4.6%</b>	<b>2.3%</b>	<b>1.9%</b>

Fund Objective	Result	To 31 May 2024
Total annualised returns in excess of the ASX 200 Accumulation Index over rolling 3 year periods	✓	Since inception, the Fund has returned 11.1% pa, exceeding returns from the ASX200 by 2.0% pa. LIC discounts are currently well above normal levels.
Access to a diversified portfolio of ASX Listed Investment Companies	✓	The Fund typically holds 20 - 35 LIC's. Most LICs invest in Australian or global stocks with some exposure to other asset classes. Diversified by investment style & strategy.
Deliver volatility of returns less than that of the ASX200	✓	Since inception, volatility of returns for the Fund has been 8.5% compared to the ASX 200 at 14.1%.
Minimum distribution yield of 5% per annum, paid quarterly.	✓	Distributions have averaged 7.7% pa since inception plus some franking credits. Distributions are paid quarterly.

Performance data is calculated assuming the reinvestment of distributions and is expressed net of fees and costs, excluding the buy-sell spread. Performance includes distributions and changes in unit prices, but not franking or other tax credits. Returns for periods over 1 year are annualised. Past performance is not indicative of future performance. Current performance data is available at [www.affluencefunds.com.au/alf/](http://www.affluencefunds.com.au/alf/).



# This strategy has added significant value over 5 years.



Source: Affluence, Standard & Poors, FE Fundinfo. The FE Mixed Asset Growth Average comprises the average of 92 managed funds including all Australian Core Strategies in the Mixed Asset Growth Sector of the FE Fundinfo database. Data as at 31 May 2024.





# Quick recap...what are LICs?

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- A Listed Investment Company (LIC) is an ASX listed investment entity.
- Originally, LICs were all companies. In recent years, we have also seen the emergence of Listed Investment Trusts (LITs). These use a trust structure rather than a company.
- In this presentation, we refer to both types of structures as LICs.
- There are currently over 100 LICs listed on ASX with a combined value of over \$50 billion.
- Just like a Managed Fund or ETF:
  - They range in size (market cap) from a few million, to billions.
  - They hold a range of underlying investments, but individual LICs usually focus on a particular investment strategy (e.g., ASX shares, global shares).
  - Investment decisions are made by an appointed manager/investment staff.
  - They incur investment costs (e.g. investment fees, audit fees, registry fees).
  - They must value their assets at least monthly and announce that value (NTA) on ASX.
  - Investor returns include both income (dividends/distributions) and changes in NTA.
- However, there is one important difference between LICs and Managed Funds/ETFs:
  - The price they trade at is determined by the market (just like other listed companies).  
**This means they can trade at a price materially higher or lower than their NTA.**



# Affluence LIC Fund history

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- The Affluence LIC Fund seeks to profit from holding a diversified portfolio of LICs. In addition, the Affluence discount capture strategy aims to generate extra returns for the Fund by taking advantage of LICs trading at unusually large discounts to NTA.
- The Fund has an 8+ year track record. Performance has been very good, with the added benefit that the Fund has fared much better than the ASX in market downturns.
- We limit Fund capacity based on market conditions to give it the best opportunity to continue performing well. For example, we closed the Fund to new investors in June 2021 due to limited opportunities and reopened it following the significant market correction in 2022.
- We are currently seeing a wide range of opportunities in LICs. NTA discounts are substantially higher than average.
- The Fund will remain open to new investors while we believe we can deploy the additional capital into attractive investments.
- The Fund performance is impacted by movements in stock markets, particularly the ASX. If you are comfortable holding investments which have equity market risk, you may wish to consider an investment in the Affluence LIC Fund.



# Why a fund that invests only in LICs?

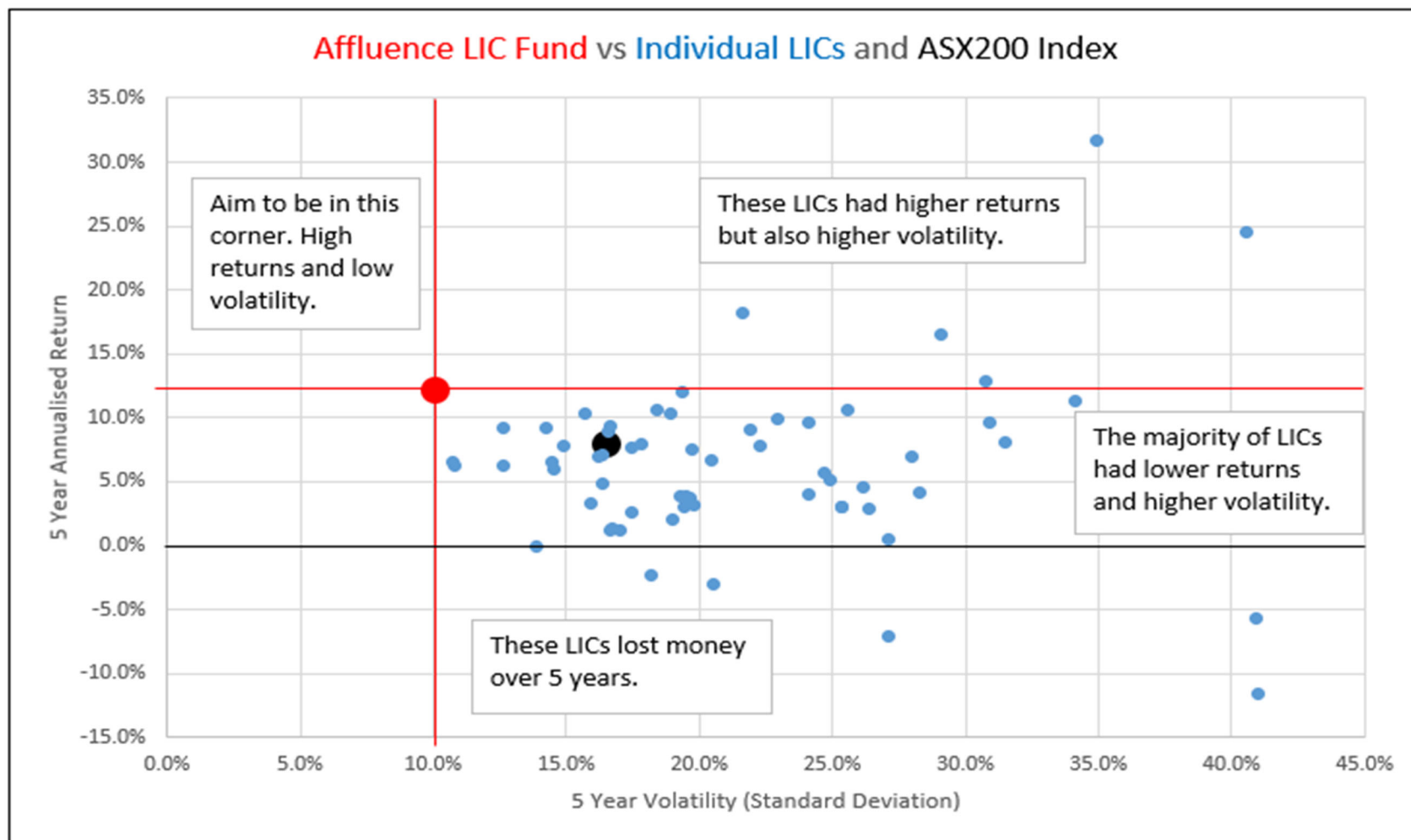
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- Access to some outstanding fund managers.
  - The overall quality of LIC managers is (in our opinion) much higher than unlisted funds.
  - In some cases, access to a manager is only available via an LIC.
  - We expect LIC managers to perform strongly in this environment.
- Diversification across a wide array of asset classes and investment strategies, including.
  - Australian & global shares, including some with specific focus areas (e.g., small caps).
  - Alternative investment strategies such as long/short and absolute return.
  - Alternative assets such as private equity, infrastructure, property and commodities.
  - Fixed interest, including investment and non-investment grade debt.
- LICs are listed and mostly liquid, but not necessarily efficient.
  - LICs are easy to buy and sell. But because they can trade far above or below their intrinsic value (NTA), prices can be more volatile than Managed Funds/ETFs.
  - Where an LIC trades at a price higher than its NTA, it is referred to as trading at a **premium** to NTA. Conversely, when the price is below NTA, it is trading at a **discount**.
  - **This price/NTA divergence is the greatest source of opportunity. It represents an extra way to make (or lose) money that is unique to LICs.**



# The Affluence LIC Fund in one chart.

- The strategy has beaten the ASX200 by 4.6% pa over 5 years, despite LIC discounts expanding considerably AND has been significantly more resilient in market corrections.
- The Affluence LIC Fund is the red dot, and the ASX200 Index is the black dot.



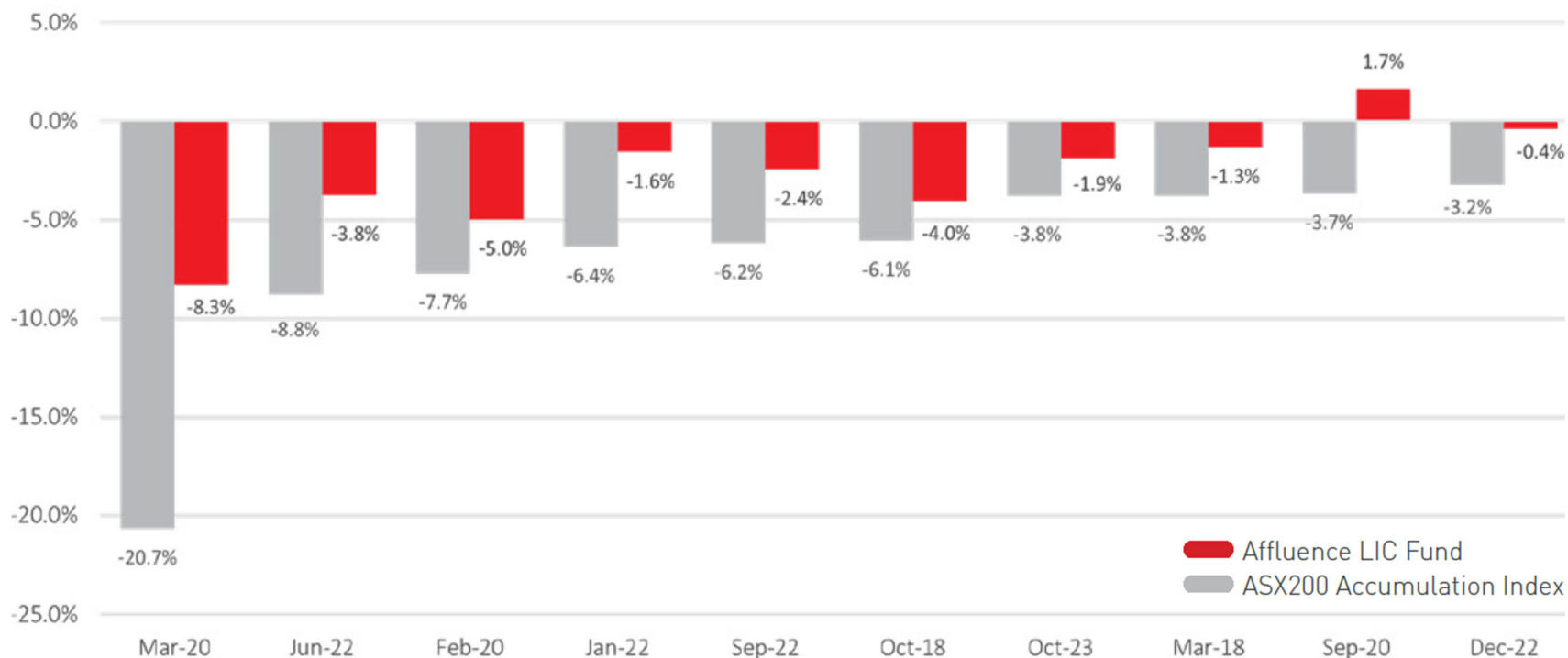
Source: Affluence, ASX.



# The Fund has delivered significant alpha, with lower volatility

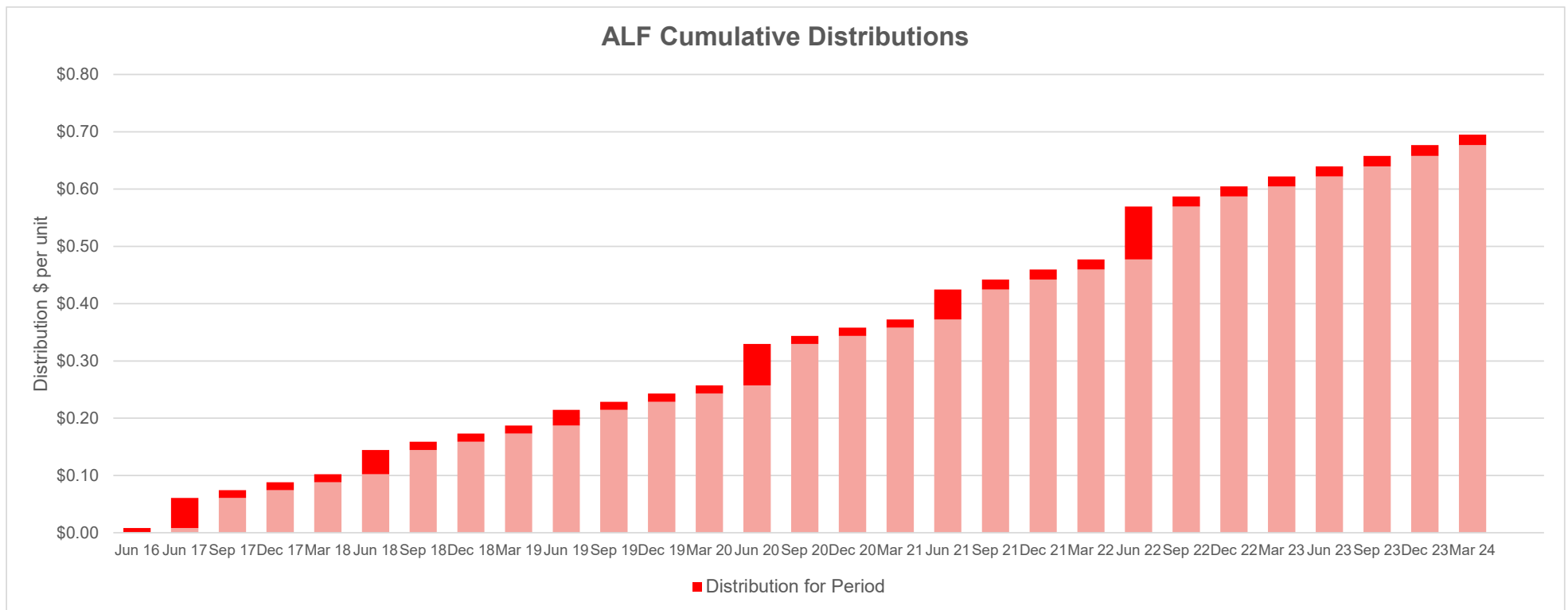
ALF Returns	11.1%pa	ASX200 Returns	9.2%pa
ALF Volatility	8.5%	ASX200 Volatility	14.1%
ALF Sharpe Ratio	1.0	ALF Correlation to ASX200	0.74
ALF Sortino Ratio	2.0	ALF Beta vs ASX200	0.45
ALF Positive Months	70%	ALF Down Capture v ASX200	21%

ALF has outperformed in all 10 worst months for the ASX200 since inception:



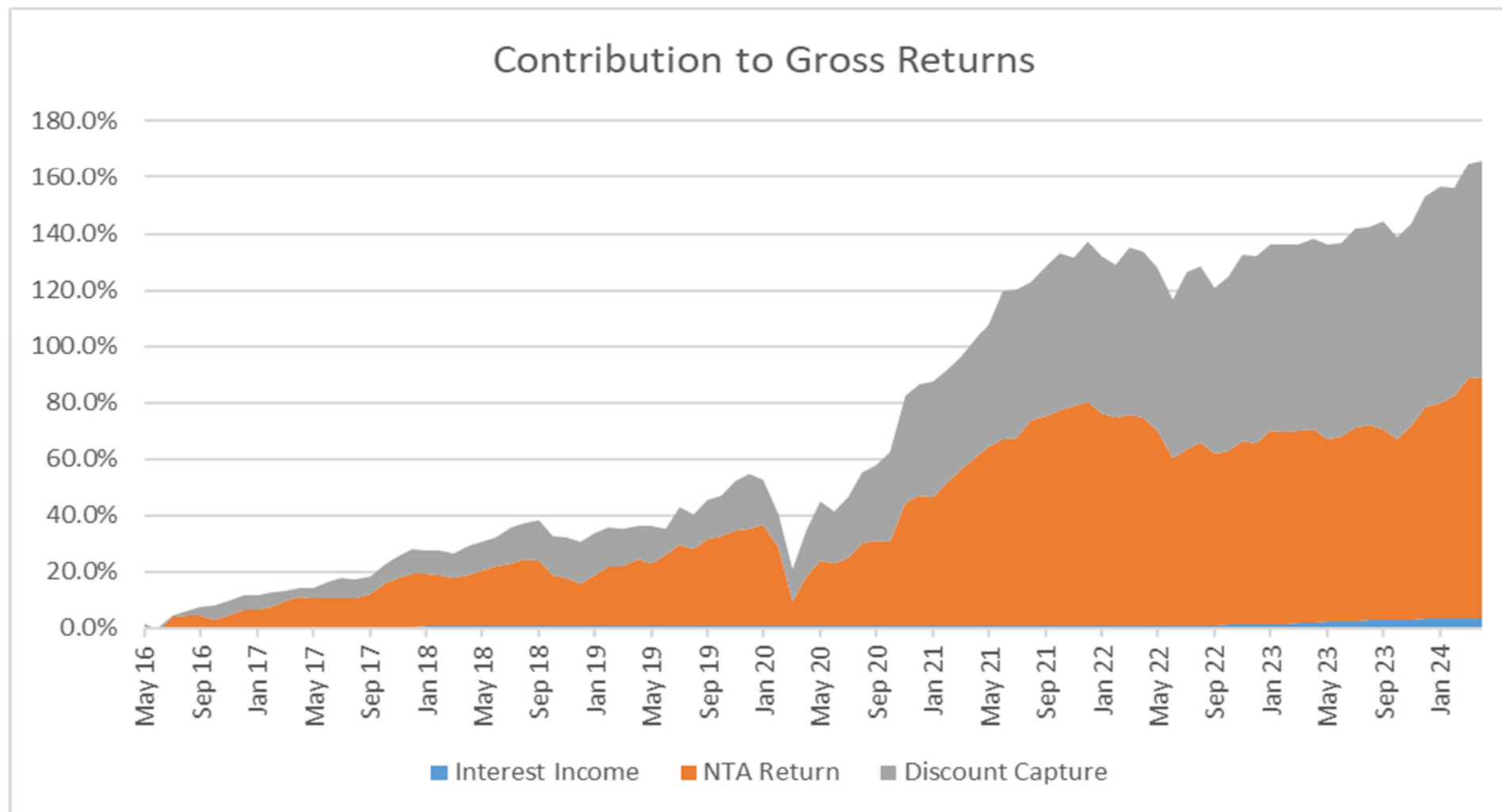
# Regular distributions are important for many investors

- The Fund aims to provide investors with a minimum distribution of 5% per annum.
  - Distributions are paid to investors approximately 10 days after the end of each quarter.
- The Fund has exceeded this objective historically.
  - Since inception, the Fund has paid cash distributions averaging 7.7% per annum.
  - In addition, franking credits received from LIC investments are passed through in full at the end of each tax year. These typically add an additional 0.5% to 1.0% per annum.



# Our advantage...discount capture.

- Our discount capture strategy has delivered approximately the same returns as the underlying LIC portfolios, effectively adding 6%+ per annum to gross performance.



Source: Affluence, ASX.



# Why discount capture is an attractive part of the strategy

- Harvesting discounts is a way to add extra returns above the market.
  - Discount capture occurs when you purchase an LIC at an above average discount to NTA, and profit when the discount to NTA reduces.
  - Each LIC is different and must be assessed on its merits. The right discount varies and is influenced by several key factors.
  - Discounts/premiums can change for many reasons, some of which are unrelated to the market. Therefore, discount capture can be a source of uncorrelated extra return.
  - The LIC sector has limited attention from researchers and professional investors. This provides more opportunities for mispricing than in other areas of the stock market.
- Identifying and executing discount capture is intensive.
  - It requires constant monitoring and modelling of each LIC to identify opportunities.
  - **We use a proprietary model to track LIC holdings, NTAs, discounts and premiums in real time. This enables us to act quickly as opportunities occur.**

## Larger discounts create outsized opportunities

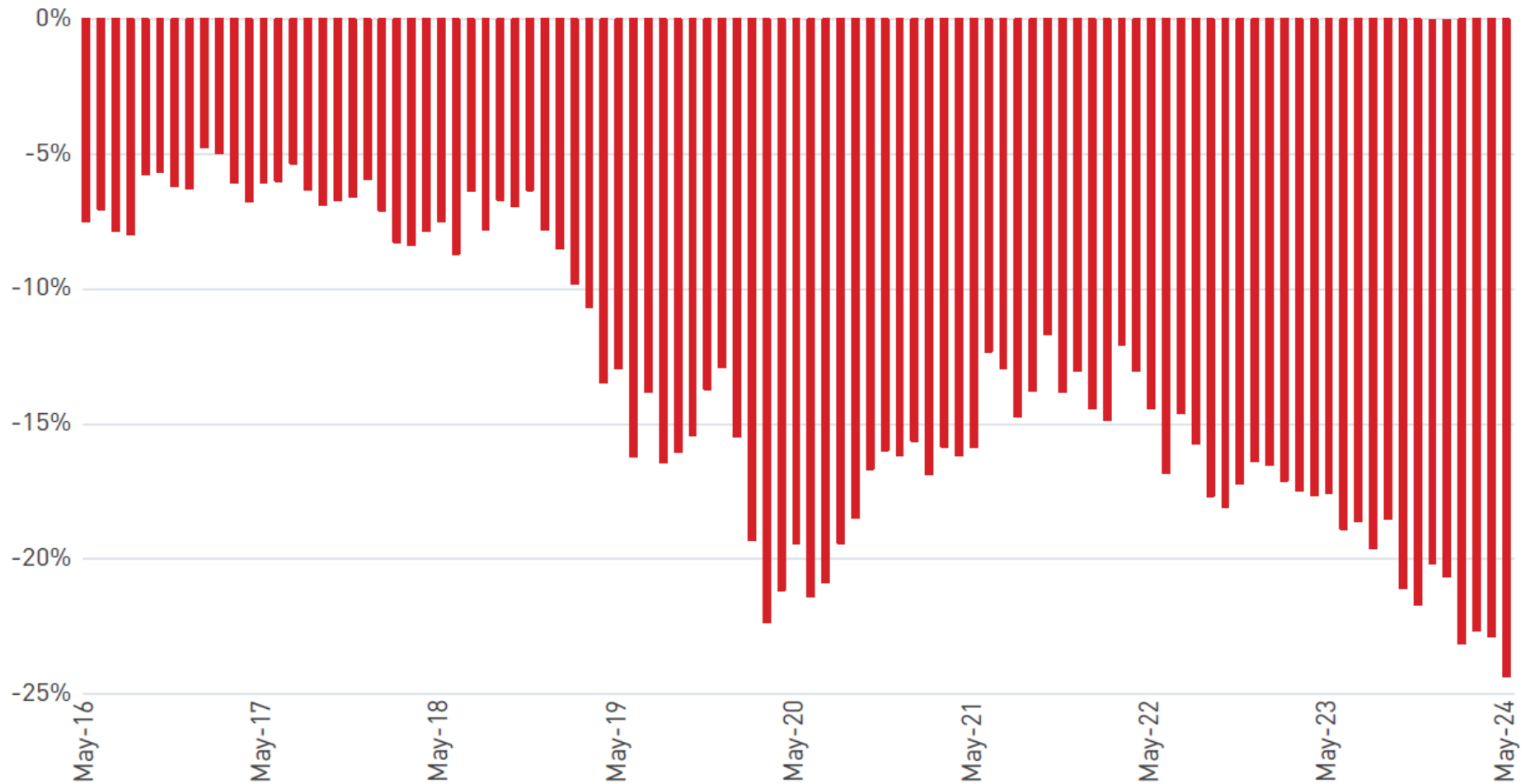
NTA discount at purchase	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	40.0%
Potential upside back to NTA	5.3%	11.1%	17.6%	25.0%	33.3%	42.9%	66.7%





# Why now? Discounts are at record highs since inception.

- The average portfolio NAV discount is as high as it has been since we commenced investing in LICs. We expect this to normalise over time, providing additional return potential.
- Pressure on underperforming managers is leading to mergers, wind-ups and other activity.

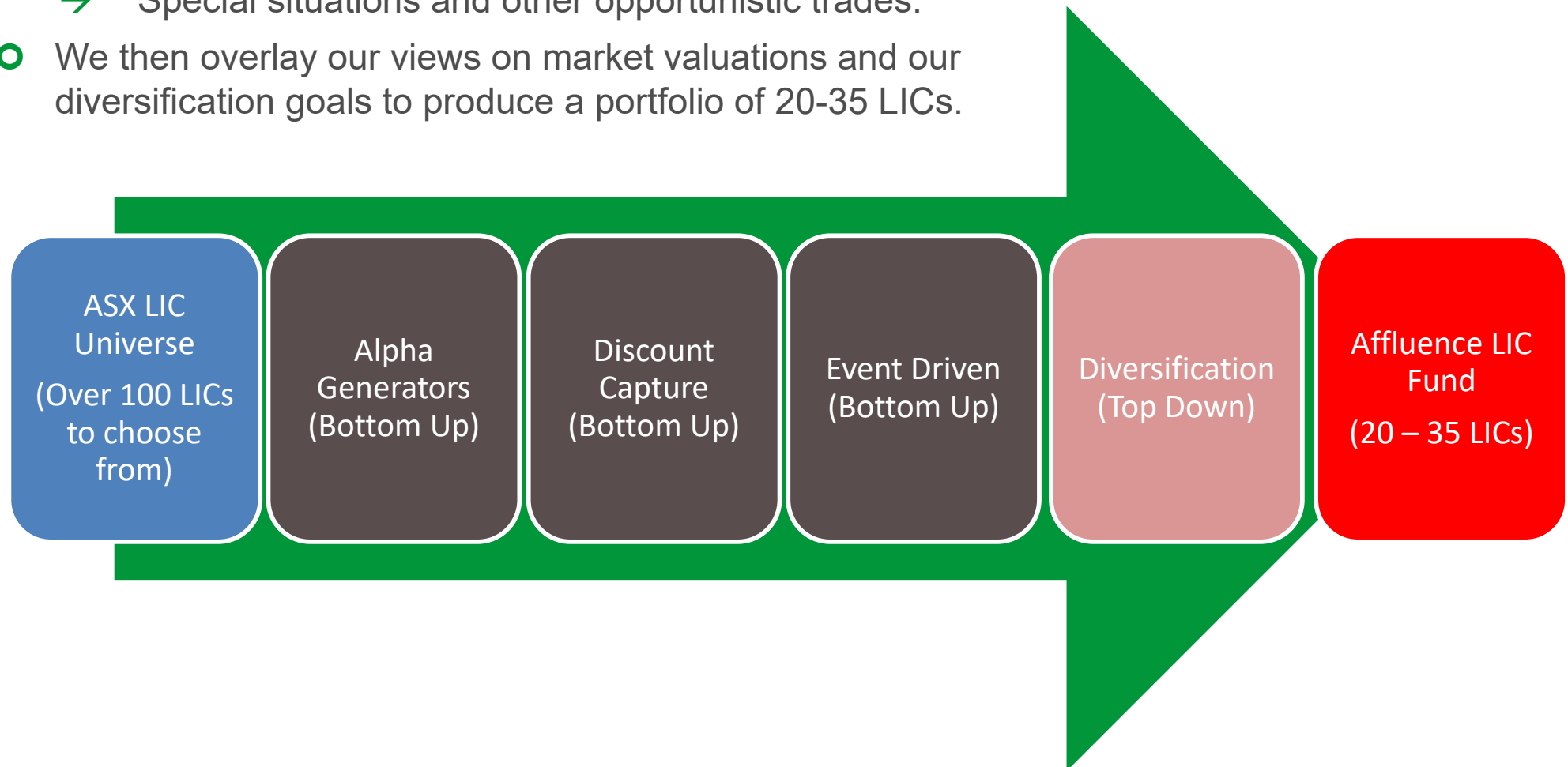


Source: Affluence, ASX.

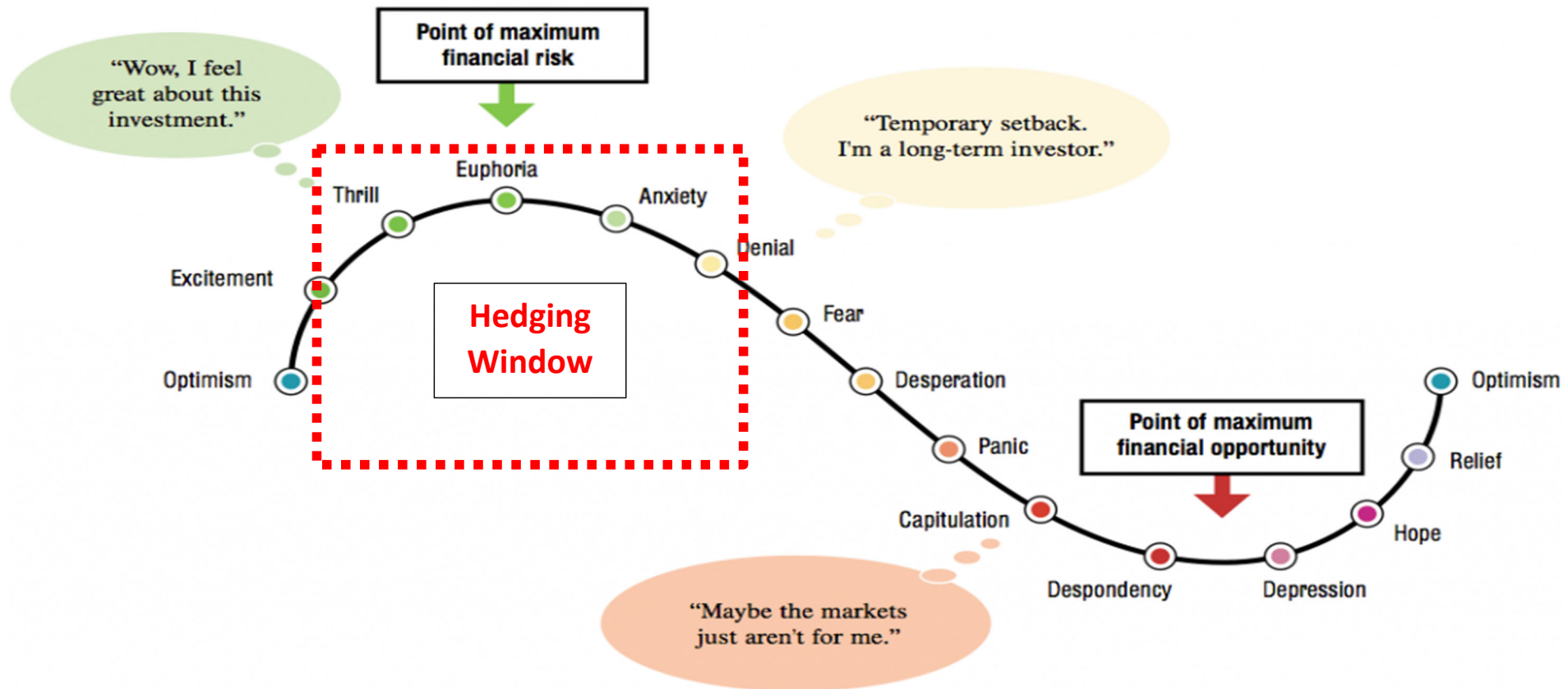


# How we construct the Affluence LIC Fund portfolio

- We identify LICs with one or more of the following features:
  - Quality, active fund managers that we believe can outperform.
  - Priced at an abnormally large discount to NTA.
  - Special situations and other opportunistic trades.
- We then overlay our views on market valuations and our diversification goals to produce a portfolio of 20-35 LICs.



# LICs can be volatile. We adjust exposure as conditions change



- We aim to be conservative when markets are expensive and aggressive when markets are cheap, while remaining diversified.
- We adjust exposure using cash, lower beta LICs and hedging/put options.
- We consider valuations vs long-term averages, available opportunities & other factors.
- We open the Fund to new investors only when we believe the opportunities are attractive.



# The Affluence LIC Fund Summary

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- **A specialised focus** - An actively managed portfolio of 20-35 LICs that can complement your other equity investments. We concentrate mostly on small to medium sized LICs, where mispricing is more common.
- **Quality and diversity** - The Affluence LIC Fund portfolio includes some of Australia's best investment managers, and a range of alternative investment strategies.
- **An extra way to add value** - The Affluence Discount Capture strategy aims to generate additional returns for the Fund by taking advantage of LICs trading at unusually large discounts to NTA. Right now, those discounts are higher than average. The average discount for the portfolio (May 24) was 24%.
- **Regular income** - Quarterly distributions, targeting a minimum 5% per annum. Since commencing, the Fund has paid cash distributions of 7.7% per annum, plus some franking credits.
- **Strong returns, lower volatility** - Returns since the Fund commenced have averaged 11.1% per annum, with significantly more consistency than the Australian share market.
- **Alignment of interests** – We co-invest in the Fund with you. We only charge fees based on Fund performance, with no fixed management fees. We will close the Fund to new investors when we reach investment capacity.



# Affluence LIC Fund - Key Information

Fund	Affluence LIC Fund (ARSN 634 532 424   APIR AFX6930AU)
<b>Strategy</b>	ASX Listed Investment Companies, Discount Capture.
<b>Fund Type</b>	Unlisted Retail Fund. Open to investors in Australia and New Zealand.
<b>Responsible Entity and Manager</b>	Affluence Funds Management.
<b>Key Investment Objective</b>	Total annualised returns above ASX 200 AI over rolling 3 year periods.
<b>Suggested Investment Timeframe</b>	At least 3 and preferably 5 years.
<b>Applications and Redemptions</b>	Monthly (cut-off last business day). Minimum initial application \$20,000. Redemptions paid 10 days after EOM.
<b>Distributions</b>	Quarterly. Targeting 5% per annum. Distributions are not guaranteed.
<b>Custodian</b>	Perpetual.
<b>Registry</b>	Registry Direct.
<b>Auditor</b>	Pitcher Partners.
<b>Legal</b>	Hall & Wilcox.
<b>Tax</b>	Pricewaterhouse Coopers.
<b>Fees &amp; Costs</b>	Affluence charge no fixed fee. Costs capped at 0.25% of net assets. Performance fee of 12.5% of positive returns, with high water mark. Underlying LICs also incur fees & costs – see PDS.
<b>Buy/Sell Spread</b>	+/- 0.10%



# What next?

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- Learn more about our Funds.
  - Visit <https://affluencefunds.com.au/> to get more information including fund documents, performance reports, monthly updates and portfolio analysis.
  - Got a question? Call us on 1300 233 583, or email [invest@affluencefunds.com.au](mailto:invest@affluencefunds.com.au).
- Considering an investment?
  - Read the PDS/TMD or IM for the Fund. Consult your financial advisor if you have one.
  - Apply online or download application and other forms from our website.
  - The minimum initial investment is \$20,000. Minimum additional investment is \$1,000.
  - Applications and withdrawals are accepted monthly.
- Not ready to invest yet? Subscribe to our monthly eNews.
  - Visit <https://affluencefunds.com.au/> to subscribe.
  - We send just one email per month.
  - Fund updates, investment ideas and other things we find interesting.
  - It's 100% free and you can unsubscribe at any time.



## Appendix: More about Affluence

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# Affluence and the investment team

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- Investment Manager: Affluence Funds Management Limited
  - Owned by portfolio managers, directors, staff and investors.
  - The investment team have worked together for 18 years.
- CEO/Portfolio Manager: Daryl Wilson
  - Experienced across all aspects of funds management (investment, operations, capital).
  - Spent 15 years with ASX listed Cromwell as Director, CFO and Head of Funds Mgmt.
  - Qualified Accountant, Bachelor of Commerce, Diploma of Financial Planning.
- Portfolio Manager: Greg Lander
  - Experienced in portfolio construction, investment evaluation and asset allocation.
  - Spent 10 years with Cromwell as Investment/Property Strategist and Analyst.
  - Property Valuer, Bachelor of Applied Science (Property Economics).
- Our interests are aligned with yours
  - The first money in each Affluence fund is our own. We always invest alongside you.
  - We charge only a performance fee and cap the direct costs of running Affluence Funds.





# Portfolio Manager – Daryl Wilson

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- 24 years industry experience including 15 years at Cromwell, prior to forming AFM.
- Cromwell roles included Executive Director, Head of Funds Management and Key Person for AFSL's.
- **Affluence key responsibilities:**
  - Product development.
  - Portfolio management.
  - Fund/manager due diligence.
  - Marketing.
- **Key relevant experience:**
  - Ten years running multi-asset funds.
  - Executive director of an ASX200 listed entity (>\$2bn market cap).
  - Fund manager partnerships, including evaluation, selection, due diligence and management.
  - Creation of funds including direct/listed property, mortgages, microcaps.
  - Funds management experience across all disciplines (investment, operations, capital, governance).
  - Bachelor of Commerce, Diploma of Financial Planning, Chartered Accountant.



# Portfolio Manager – Greg Lander

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- 18 years industry experience including 10 years at Cromwell, prior to joining AFM.
- Cromwell roles included Head of Investment Strategy, Investment/Transaction Committee Member.
- **Affluence key responsibilities:**
  - Product development.
  - Portfolio management.
  - Fund/manager due diligence.
  - Portfolio/risk monitoring.
- **Key relevant experience:**
  - Eight+ years at Affluence including all aspects of manager selection, asset allocation and investing.
  - Investment committee including portfolio construction and capital allocation.
  - Extensive due diligence on real assets, listed property trusts, fund managers.
  - Product development including forecasts for property and other funds.
  - Transaction committee including property purchase/divestment recommendations through the market cycle.
  - Bachelor of property economics.



# Thank you for your time



## Investor Services

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