Investment Update

ara Financial Guidance

October 2017

INVESTMENT RETURNS to 30 September 2017						
	3 Months %	**1 Year %**	**3 Years % p.a.**	**5 Years % p.a.**	**10 Years % p.a.**	**Since Inception % p.a.**
ARA Investment Fund						
Defensive	0.9	2.7	4.6	5.0	3.2	5.0 (April 2003)
Growth	1.9	4.0	7.8	8.0	4.2	6.3 (April 2003)
Equities	2.6	3.3	7.1	9.1	3.4	7.1 (August 2003)
ARA Retirement Fund – Accumulation (taxed)						
Defensive	0.8	2.8	4.1	4.6	3.0	4.1 (April 2005)
Growth	1.8	4.1	7.2	7.6	4.1	5.6 (April 2005)
Equities	2.4	3.1	6.1	8.1	3.6	6.0 (April 2005)
ARA Retirement Fund – Pension (untaxed)						
Defensive	0.8	2.5	4.4	5.0	3.3	4.6 (April 2005)
Growth	1.8	3.7	7.7	8.3	4.6	6.3 (April 2005)
Equities	2.5	3.1	6.9	n/a	n/a	6.6 (October 2013)

Returns quoted are after all costs, and before the application of management fee rebates. Exclude commissions payable prior to 1/7/2006.

Return figures for the ARA Investment Fund are pre-tax and do not include the additional benefit of franking credits as the net result is dependent on individual investors' tax position. Assume the re-investment of distributions.

Return figures for the ARA Retirement Fund – Accumulation (Taxed) are net of all fees and tax on earnings at the statutory rate of 15%.
Return figures for the ARA Retirement Fund – Pension (Untaxed) are net of all fees and tax including the refund of franking credits.
ARA Retirement Fund returns are best estimates based on Investment Fund return–may be subject to minor change pending year end audit.

3 month return figures are for the three months to 30 September 2017 and are not annualised. Past performance does not ensure or imply a future result

In what turned out to be a relatively benign quarter for investment markets, the funds went OK. Nothing went pear-shaped, there were a few standouts, and everything else chugged along without surprises. If you can say that every quarter, it's a recipe for a happy investing experience.

Specifically:

- The problem child of recent times, Condor Energy, appears to have stabilized. Whereas a couple of years ago oil and gas prices plummeted, not a day goes by now where we don't read of the looming energy crisis in Australia. Consequently Condor's order books have recovered substantially – not out of the woods yet, but there's cause for cautious optimism.

- All the share fund managers had strong results in a relatively flat market

- The standout performer was Anacacia's Private Equity Fund 2, which delivered over 12% for the quarter. This was helped along by an exceptionally good trading result for Yumi's, the dips and snack foods manufacturer, and the successful listing of building supplies distributor, Big River Industries.

So, astute observers might be wondering, if the quarter's results were robust, why has the 1-year return sagged since last quarter? It's a quirk of the maths. When it's a rolling 12-month total, it's not just the quarter result that gets added on the front that matters, it's what drops off the back. As it happens, the September quarter last year was a blinder, but it's now dropped off the 1-year return figures. Happily it lives on in the 3- and 5-year results and beyond.

Something new

At our recent investor update sessions we discussed the gradually declining yield from the portfolio of term deposits held by the fund. While still averaging above 4%, as longer term deposits mature it's not possible to get the same rates as a few years back, so the average yield is edging down.

A reminder – it's not the role of the TD's to shoot the lights out on performance. Their key role is security. But every little bit helps. In the hunt for something of similar security but that might help hold up the yield, we've recently approved an investment in a fund managed by Coolabah Capital.

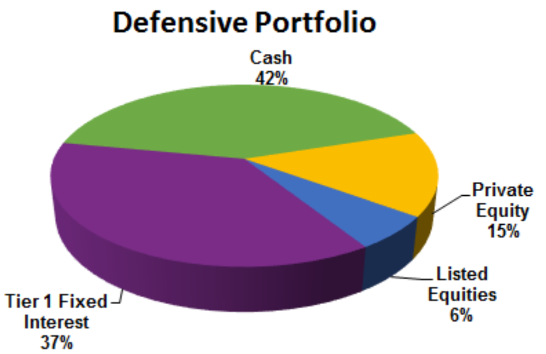
Coolabah is a local specialist manager which invests in a diverse range of Australian bank securities. It aims to add value by accessing securities and rates usually only available to large scale institutional investors, and by actively trading securities for capital gain.

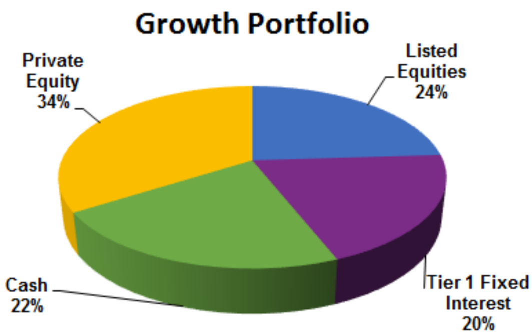
The new investment will appear in the funds in October.

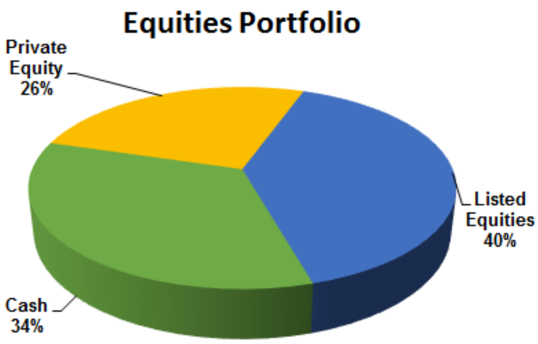
So, who's got what?

The table below shows the ARAIF's investments as at the time of writing. Please note, the percentages refer to the proportion of each portfolio allocated to that investment, not its rate of return.

	Asset Class	Defensive Portfolio	Growth Portfolio	Equities Portfolio
National Australia Bank	Cash & Tier 1 Fixed Interest	41.6%	22.4%	33.4%
National Australia Bank Term Deposits		17.7%	7.7%	
Challenger Life Guaranteed Annuities		19.4%	12.6%	
RMBL Mortgage Fund	Fixed Interest	0.1%		
Macquarie Index Funds	Listed Securities			10.1%
River Capital Growth Fund		1.8%	10.7%	10.6%
Sterling Equity		2.2%	5.3%	9.7%
Anacacia Wattle Fund		2.5%	7.6%	9.7%
Anacacia Capital	Private (unlisted) Equity	3.3%	8.3%	9.6%
Cobram Estate		1.5%	2.1%	
Pro Ten		3.6%	7.0%	7.9%
Hastings Utilities Trust			5.2%	
Proserpine Capital Partners		5.3%	9.4%	9.0%
Warakirri Dairies		1.0%	1.7%	
		100.0%	**100.0%**	**100.0%**







Major Holdings

Apart from bank deposits and other fixed-term interest-bearing accounts, the Fund invests in a range of assets through the fund managers listed in the table above. If we drill through to the assets selected and overseen by those managers, there are in fact over a hundred individual securities providing diversification of risk and exposure to a wide range of opportunities.

The table below shows the 20 largest individual holdings and what proportion of each portfolio they represent. These are the investments that will have the biggest impact on the return of your portfolio.

Investment	Type	Principal Activity	Defensive Portfolio Exposure	Growth Portfolio Exposure	Equities Portfolio Exposure
ProTen	Private company	Chicken farming	3.7%	7.1%	9.1%
Big River	Private company	Building supplies	1.2%	3.0%	1.7%
Condor Energy	Private company	Mining services	1.1%	2.9%	4.2%
Cobram Estate	Private company	Olive Oil producer	1.5%	2.2%	0.0%
Polaris Marine	Private company	Marine services	1.0%	2.4%	4.9%
Yumi's	Private company	Dips and snack foods	0.8%	2.0%	1.1%
Warakirri Dairies	Dairy properties and operations	Dairying	1.0%	1.8%	-
Perth Airport	Infrastructure	Air transport hub	-	1.6%	-
Lotus Filters	Private company	Commercial cleaning	0.5%	1.4%	2.0%
Corporate Alliance Enterprises	Private company	Commercial Fishing	0.5%	1.3%	1.9%
Catalyst	Private company	Tertiary Training Institute	0.5%	1.2%	0.7%
Quota Trust	Investment Trust	Statutory fishing rights	2.3%	0.9%	-
LEDified	Private company	LED Lighting	0.4%	1.0%	0.6%
Schaffer	ASX Listed company	Diversified industrial	0.4%	0.9%	3.5%
Appen	ASX Listed company	Linguistics technology	0.3%	0.8%	1.2%
NearMap	ASX Listed company	Aerial mapping services	0.3%	0.8%	3.1%
RISSafety	Private company	Industrial safety services	0.3%	0.7%	0.4%
Fleetwood Corporation	ASX Listed company	Diversified industrial	0.3%	0.7%	2.7%
PMP	ASX Listed company	Printing & marketing	0.3%	0.7%	1.0%
Melbourne Airport	Infrastructure	Air transport hub	-	0.6%	-

Market musings

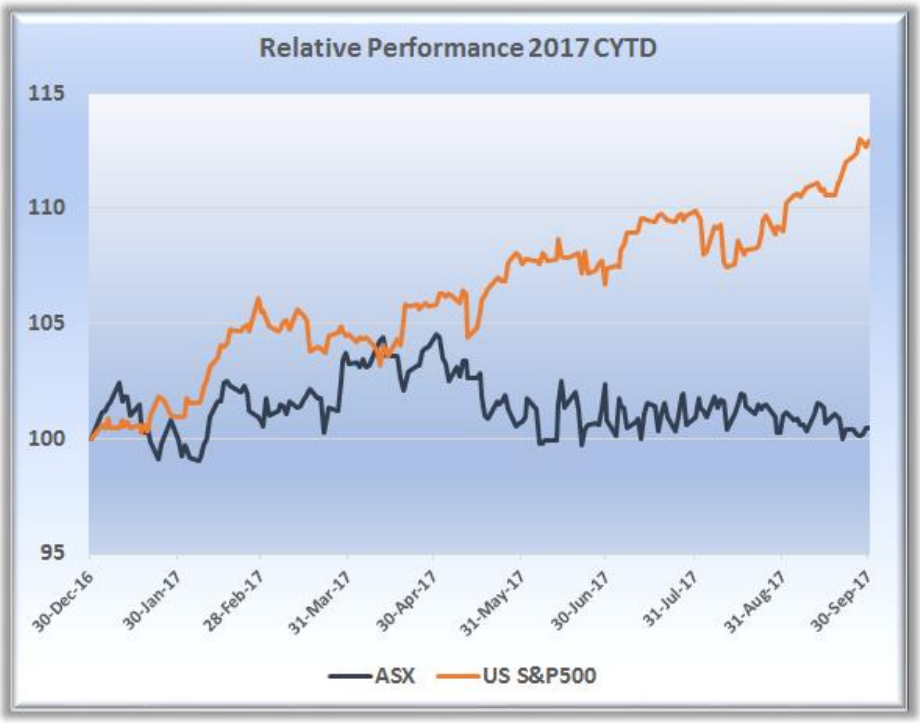
Every so often in the investment game comes the temptation to try to make some sense of it all. This is usually a mistake that will end badly – a bit like parring the 17th. hole in an otherwise ordinary round, and thinking that you've finally got golf figured out.

Take this snippet for instance. The chart below shows the relative movements of the Australian sharemarket (dark line) and the US market, this calendar year to date.

Whereas the ASX line has wobbled its way to nowhere, the US has ploughed ahead - up 13% YTD. In fact, it continues to scale new record heights almost daily while the Aussie market remains 16% below the peak it hit almost ten years ago (November 1, 2007).

This despite commentary such as the following, from US funds manager Hoisington's latest quarterly update:

"The worst economic recovery of the post-war period will continue to be restrained by a consumer sector burdened by paltry income growth, a low and falling saving rate, and an increasingly restrictive Federal Reserve policy. Additionally, with the extremely high level of U.S. government debt and deteriorating fiscal situation, the economy is unlikely to benefit from any debt-financed tax changes. Finally, from a longer-term perspective, the recent natural disasters are an additional constraint on economic growth."



So what do we put this down to? It could be:

a) Just the grumblings of a grumpy money manager in downturn Kew that has deliberately avoided the "over-priced" US market with best intent, and missed out on handy returns in the process;

b) Record low interest rates in the US (even lower than ours) driving desperate US investors to take ever increasing risk rather than accept low bank interest rates;

c) An already fully-priced US market going over the top; or

d) All of the above.

Whatever the answer, what's the solution? Keep the head down, and avoid any rash, risky shots, especially on the back nine.

New faces

Some of you may already have met our two newest staff members.

William Cundawan and **Hugh Nguyen** recently joined our planning team as **paraplanners**, a job which involves doing all the work while the planners take the credit.

Both are tertiary qualified in accounting and finance related disciplines, Hugh having also completed the Diploma of Financial Planning, which Will is about to start.

Will (left) has two years' paraplanning experience in Perth before moving to Melbourne with his wife Audrey.

Hugh (right) has five years' experience in the industry.

Both are keen to pursue financial planning careers. Both are also keen followers of the round ball game, while Hugh professes a passion for Collingwood in the AFL. This highlights a serious flaw in our recruiting methods.

We welcome Will and Hugh to the team. It's great to bring new folk with fresh ideas to the business, and it helps to grow the prize pool in the footy tipping comp.

Quiz

And finally, a test of your knowledge of portfolio companies, courtesy of Anacacia Capital. The beneficiary company for each fact is in bold.

1. **Acculec**'s *(Anacacia Fund 2)* biggest customer is Western Power, whose power poles are ageing. How often does one of their poles fall over?	a) ~ 1 per day b) ~ 1 per week c) ~ 1 per month
2. To how many tonnes of logs does **Big River Industries** (*Fund 2*) have annual access?	a) ~ 10,000 tonnes b) ~ 50,000 tonnes c) ~100,000 tonnes
3. What is the global cost of caring for Alzheimer's disease patients? **(Cogstate –** *Wattle Fund*)	a) $5 billion b) $50 billion c) >$500 billion
4. On average, how many catalogues are delivered each year to every man, woman and child in Australia? **(PMP Ltd** – *Wattle Fund)*	a) ~ 30 b) ~ 100 c) ~ 300
5. What percentage of online searches will be voice-activated by the year 2020? **(Appen –** *Wattle Fund*)	a) 5% b) 25% c) 50%
6. Which manufacturer's range of dips and snack foods has been voted Australia's favourite by CanStar for the second time?	**a) Yumi's** **b) Yumi's** **c) Yumi's**

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Name (Please print) ____

Answers: 1. A 2. C 3. C 4. C 5. C 6. D – all of the above