Investment Update

April 2018

INVESTMENT RETURNS to 31 March 2018						
	3 Months %	**1 Year %**	**3 Years % p.a.**	**5 Years % p.a.**	**10 Years % p.a.**	**Since Inception % p.a.**
ARA Investment Fund						
Defensive	1.0	4.8	4.3	4.9	3.4	5.0 (April 2003)
Growth	0.5	9.4	7.3	7.8	5.0	6.3 (April 2003)
Equities	-0.4	10.9	5.8	7.4	5.3	7.0 (August 2003)
ARA Retirement Fund – Accumulation (taxed)						
Defensive	0.9	4.4	3.9	4.4	3.2	4.1 (April 2005)
Growth	0.5	8.5	6.6	7.1	4.9	5.6 (April 2005)
Equities	-0.4	9.4	4.9	6.5	5.1	5.9 (April 2005)
ARA Retirement Fund – Pension (untaxed)						
Defensive	1.1	4.8	4.2	4.8	3.5	4.6 (April 2005)
Growth	0.6	9.4	7.2	7.9	5.4	6.3 (April 2005)
Equities	-0.4	10.3	5.5	n/a	n/a	6.3 (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.

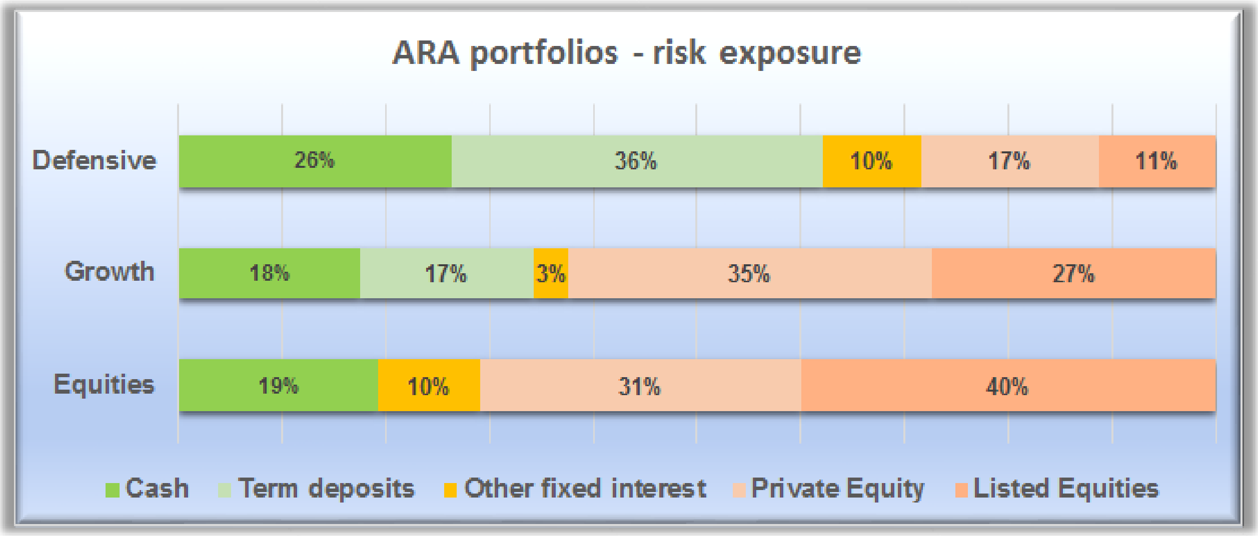
3 month return figures are for the three months to 31 March 2018 and are not annualised. Past performance does not ensure or imply a future result.

Recent returns shouldn't cause too much heartburn, although things got pretty tricky in the March quarter. More on that shortly.

While the local stock market has had an ordinary year, our share fund managers have shone. The table at right shows performance of the three core managers for the year and the March quarter, in comparison with the All Ordinaries Index for the market as a whole. That there is some mighty fine stock pickin'.

Looking at other major holdings (see p. 3), by way of a brief summary:

Investment	Comment
ProTen	Everyone's favourite chicken farmer. Very little price gain this year (after a 30% jump in the prior 12 months), but it pumps out a 7% dividend as regular as clockwork. Trading strongly.
Yumi's	Manufacturer of dips and snack foods. A star performer this past year, with a gain in value in excess of 75%. Trading very strongly.
Big River Industries	Timber and building supplies. Share price dropped away a little in the March quarter (on very low volumes) but it remains 30% up on the price at which it listed on the Stock Exchange in May 2017.
Cobram Estate	Valuation up 13% for the year, trading well. Expansion into the US market is progressing ahead of expectations. (Goes well with Yumi's dips).
Condor Energy	Still challenging, and the only asset that's currently causing discomfort. Has been through a near-death experience, however its main customers (gas and oil producers) are gearing up production again and Condor lives to fight another day. Fingers remain tightly crossed.



Major Holdings

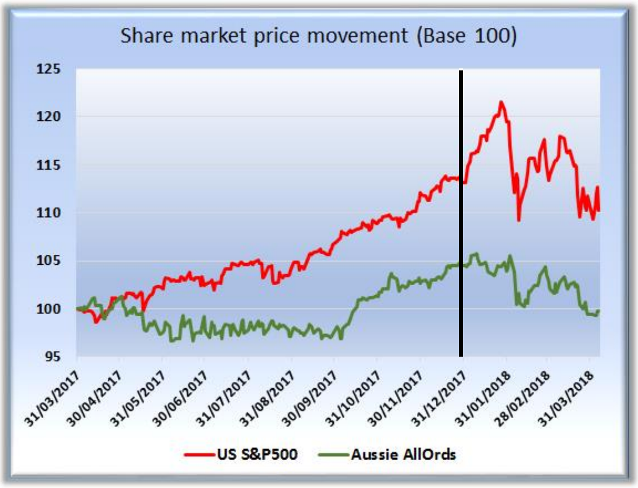
Apart from bank deposits and other interest-bearing accounts, the Fund invests in a range of assets, primarily through funds managed by specialist independent firms. If we drill through to the assets selected and overseen by those managers, there are in fact well over a hundred individual securities 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	2.9%	6.1%	7.8%
Condor Energy	Private company	Mining services	1.5%	3.7%	3.6%
Yumi's	Private company	Dips and snack foods	1.0%	2.4%	3.1%
Polaris Marine	Private company	Marine services	1.1%	2.4%	1.3%
Cobram Estate	Private company	Olive oil producer	1.9%	2.3%	0.0%
Big River Industries	ASX listed company	Building supplies	1.0%	2.2%	2.9%
Nearmap	ASX listed company	Aerial mapping services	0.9%	2.0%	2.4%
Force Fire	Private company	Fire safety services	0.8%	1.9%	2.5%
Warakirri Dairies	Farmland & dairy operation	Dairy production	1.0%	1.8%	0.0%
Lotus Filters	Private company	Commercial cleaning	0.6%	1.4%	1.4%
Perth Airport	Infrastructure	Transport hub	0.0%	1.4%	1.0%
Commercial Alliance Enterprises	Private company	Commercial fishing	0.5%	1.4%	1.3%
Schaffer	ASX listed company	Diversified industrial	0.6%	1.2%	1.5%
Big 4 Aussie Banks	ASX Listed companies	Banking & fin services	1.2%	1.2%	6.8%
Catalyst	Private company	Tertiary training	0.4%	1.0%	1.3%
Quota Trust	Private trust	Stautory fishing rights	3.1%	1.0%	0.0%
RISSafety	Private company	Industrial safety services	0.4%	0.9%	0.1%
Transgrid	Infrastructure	Electricity transmission	0.0%	0.9%	0.6%
GTN Ltd	ASX listed company	Media advertising	0.3%	0.8%	0.8%
REX	ASX listed company	Regional airline	0.0%	0.7%	0.7%

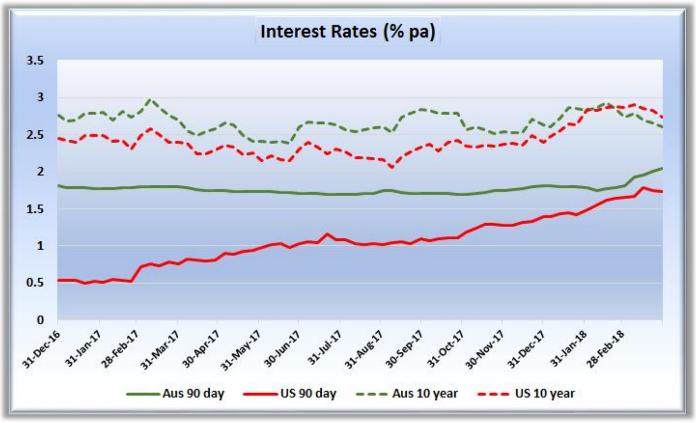
Matters of interest

The chart below shows the relative movements of the Aussie and US stock markets over the past twelve months. Note, these are price movements only, excluding dividends.



Apart from the fact that the US market continued to outperform ours, thumbing its nose at the house view that the US market is in nosebleed territory, it's as if on January 1 someone accidentally hit the volatility switch. After a period of relative stability (that in fact goes back years now), suddenly the short term swings have become quite violent. What gives?

The next chart shows interest rates in the US (red) and Australia (green) since Jan 1, 2017.



Short term rates are the solid lines at the bottom, long term rates are the dotted lines.

Short term US rates are the big mover – in fact have jumped from 0.5% to over 1.5%. Doesn't sound much, but it's actually a trebling of rates. Longer term rates haven't done much, but short term rates in Australia are showing signs of stirring. So what does that mean?

Actually, I have no idea, which is a shame because it was going so well until then. But therein may lie a clue to the short term volatility

As we've said before, investment markets as a rule don't like rising interest rates. It signals an increase in the cost of money and the cost of doing business, and also raises the "risk free" benchmark against which investment propositions are compared for viability.

That need not rule out good market performance if investors feel that the economy, and the government's management thereof, is still favourable. However, the strong mover – short term US rates – is almost entirely a function of the US Federal Reserve's determination to raise rates from their recent all-time lows – a stance which they are re-affirming in the Press almost daily.

So we have twin warnings: the prospect of higher interest rates, and the indication that the powers-that-be are no longer going to be so accommodating by prolonging a period of ultra-cheap and easy money. The markets seem to be struggling to accept that the host might really be turning off the beer after such a long and happy party.

So, best to be prepared for a period of elevated volatility, with the likelihood of some quite sharp falls in the mix. Fortunately our portfolios are set up with high levels of cash – at least a partial cushion against volatility, and the means to buy assets at lower prices later. But caution is the order of the day.

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