Investment Update

ara Financial Guidance

July 2020

INVESTMENT RETURNS to 30 June 2020

	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception % p.a.
ARA Investment Fund						
Defensive	3.5	-0.3	2.1	3.1	4.1	4.5
Growth	7.2	-1.7	2.7	4.9	6.2	5.6
Equities	9.1	-2.6	3.0	4.6	6.0	6.3 (August 2003)
ARA Retirement Fund – Accumulation (taxed)						
Defensive	3.4	-0.1	1.8	2.8	3.9	3.7
Growth	7.0	-0.8	2.6	4.5	6.0	5.0
Equities	8.8	-1.4	3.0	4.1	5.7	5.4
ARA Retirement Fund – Pension (untaxed)						
Defensive	3.8	0.2	2.4	3.2	4.3	4.2
Growth	7.7	-1.1	3.1	5.0	6.7	5.6
Equities	9.9	-2.1	3.3	4.6	n/a	5.0 (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.

3 month return figures are for the three months to 30 June 2020 and are not annualised. Past performance does not ensure or imply a future result

At the risk of understatement the story of the past year is dominated by the Covid_19 pandemic. Aside from the tragic impact on human lives and families worldwide, the economic toll is difficult to fathom and will take years, if not decades, to work through.

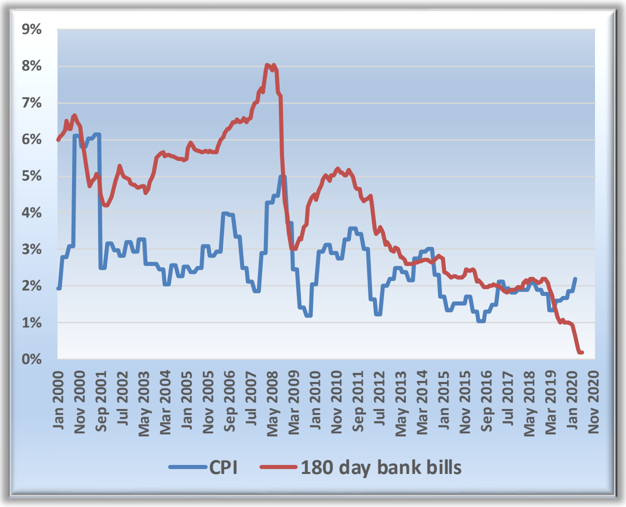
Investment markets worldwide went into free fall in the March quarter with losses typically of the order of 35% plus. But then things came roaring back as if nothing had happened. OK, many governments moved quickly with massive relief and stimulus packages, to their credit. But is everything really OK?

For our part, the portfolios weathered the downturn reasonably well. The chart shows the progress of the portfolios from the end of January to June 30, with the movement of the Australian stock market (in red) as a point of reference. So falls were contained to some extent and all portfolios are close to recovering their losses in full.

This was helped along by generally good performance from our share fund managers in difficult times. Also we were able to buy some additional share exposure in late March at depressed prices, and sold those holdings down in late May/early June, thereby crystallising some additional profit and taking some risk off the table.

Among the many factors that have to be negotiated in these times, two key things are of particular concern. Firstly, in the immediate short term, what is the right level of exposure to share markets? Analysis continues to suggest that Australian shares and global shares excluding the US are good value and we need to be invested. But enormous uncertainty exists still, and so our exposue (see chart on p.3) is about neutral – no more, no less. It's no longer attractive to buy more, but the value model says don't sell any more.

The longer term problem, one which has gotten lost in the noise, is interest rates. The chart below shows movement in interest rates as measured by 6-month bank bills in red, compared with inflation since the start of 2000.



Whereas for most of the time interest rates have provided a positive "real" return – that is, comfortably above inflation - clearly the world has changed, and is probably not changing back any time soon.

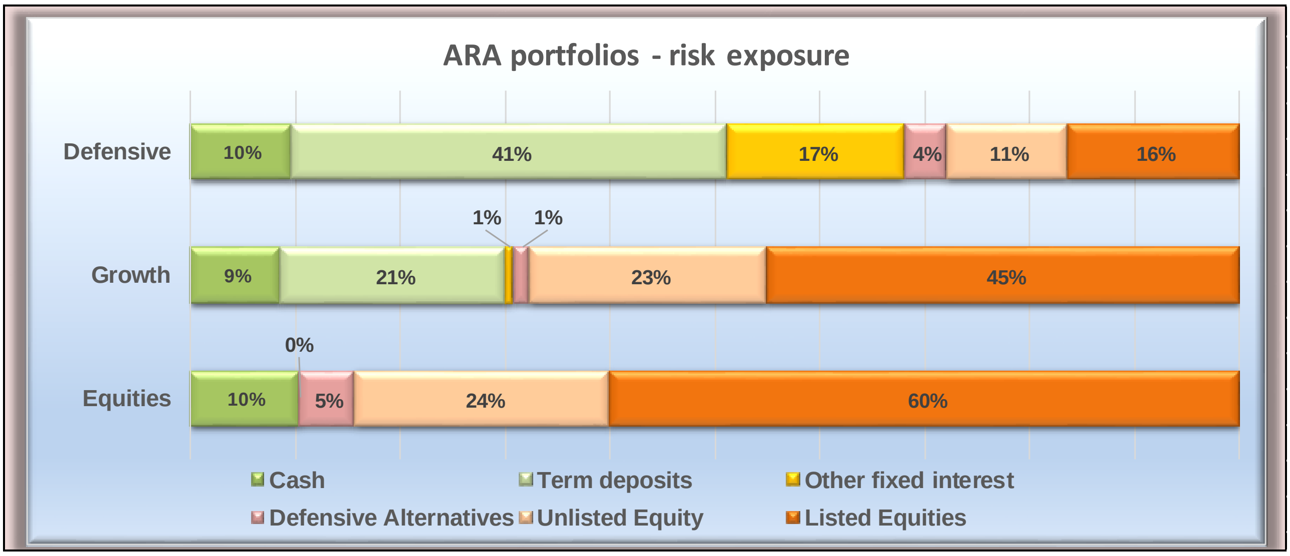
Our strategy has long been underpinned by a core of bank and term deposits, providing a buffer of safety for the portfolios while generating positive real returns. That now requires a re-think, as it seems unconscionable to condemn investors to negative real returns for large slabs of their portfolio.

We have some time up our sleeve as we are still holding many millions in long-dated deposits taken out in the good old days. But a major challenge will be what to replace them with on maturity that does not seriously compromise investors' risk exposure.

So, who's got what?

The table below shows the ARAIF's investments 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 account	Cash & Tier 1 Fixed Interest	4.6%	9.0%	10.3%
National Australia Bank Term Deposits		24.9%	16.8%	0.0%
Challenger Life Guaranteed Annuities		16.6%	4.6%	0.0%
Coolabah Cash Fund		5.0%	0.0%	0.0%
Coolabah Income Fund	Other Fixed Interest	10.7%	0.0%	0.0%
GCI Capital Stable Fund		6.2%	0.8%	0.0%
River Capital Growth Fund	Listed Securities	2.5%	7.5%	6.5%
Sterling Equity		5.6%	8.3%	10.1%
Anacacia Wattle Fund		4.5%	11.0%	8.5%
Betashares Aust Sustainable ETF		1.3%	2.4%	11.4%
Future Generation Global		0.0%	0.0%	4.2%
Vanguard World Ex-US ETF		2.6%	15.6%	17.4%
Vitalharvest Trust		0.0%	0.0%	1.9%
Anacacia Capital	Private (unlisted) Equity & Alternative assets	2.2%	8.5%	10.1%
Cobram Estate		1.8%	1.9%	1.0%
Polaris Marine		2.3%	3.8%	2.5%
Hastings Utilities Trust		0.0%	4.6%	2.4%
Proserpine Capital Partners		5.2%	3.8%	3.1%
Pentalpha Income For Life		4.0%	0.0%	0.0%
Infradebt		0.0%	1.4%	5.3%
Gold ETF		0.0%	0.0%	5.3%
		100.0%	**100.0%**	**100.0%**



Major Holdings

Apart from bank deposits and other 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
Polaris Marine	Private company	Marine services	2.3%	3.8%	2.5%
Nearmap	ASX listed company	Aerial mapping services	1.4%	2.2%	2.5%
Cobram Estate	Private company	Olive Oil producer	1.8%	1.9%	1.0%
Objective Corporation	ASX listed company	Software solutions	0.7%	1.8%	1.4%
Direct Couriers	Private company	Logistics	0.0%	1.8%	2.5%
Force Fire	Private company	Fire safety services	0.8%	1.6%	1.5%
Schaffer	ASX listed company	Diversified industrial	1.0%	1.4%	1.7%
Infradebt	Private trust	Infrastructure lending	0.0%	1.4%	5.3%
Perth airport	Infrastructure	Transport hub	0.0%	1.4%	0.7%
Big River Industries	ASX listed company	Building supplies	0.7%	1.3%	1.3%
Smartpay	ASX listed company	Financial services	0.5%	1.3%	1.0%
Quota Trust	Private trust	Statutory fishing rights	4.0%	1.2%	1.4%
3P Learning	ASX listed company	Education software	0.8%	1.2%	1.4%
Sureway	Private company	Employment services	0.0%	1.1%	1.5%
SEEK	ASX listed company	Online advertising	0.7%	1.0%	1.2%
Australian Wildcatch	Private company	Commercial fishing	0.5%	0.9%	0.7%
ASX	ASX listed company	Financial services	0.6%	0.9%	1.4%
Lotus Filters	Private company	Commercial cleaning	0.5%	0.9%	0.7%
Catalyst	Private company	Tertiary training	0.4%	0.8%	0.7%
RP Infrastructure	Private company	Project management	0.0%	0.7%	1.0%

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