

Investment Update

October 2020

INVESTMENT RETURNS to 30 September 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 | 1.9 | 1.5 | 2.5 | 3.3 | 4.1 | 4.6 |
| Growth | 3.6 | 2.0 | 3.3 | 5.2 | 6.0 | 5.8 |
| Equities | 3.9 | 1.5 | 3.4 | 5.2 | 5.8 | 6.4 (August 2003) |
| Long Term Income Builder | 2.9 | n/a | n/a | n/a | n/a | n/a |
| ARA Retirement Fund – Accumulation (taxed) | | | | | | |
| Defensive | 1.6 | 1.1 | 2.1 | 2.9 | 3.7 | 3.7 |
| Growth | 3.1 | 1.7 | 3.0 | 4.7 | 5.7 | 5.1 |
| Equities | 3.4 | 1.3 | 3.3 | 4.5 | 5.5 | 5.5 |
| ARA Retirement Fund – Pension (untaxed) | | | | | | |
| Defensive | 1.8 | 1.5 | 2.7 | 3.3 | 4.2 | 4.2 |
| Growth | 3.5 | 2.0 | 3.6 | 5.2 | 6.3 | 5.7 |
| Equities | 3.8 | 1.7 | 3.7 | 5.1 | n/a | 5.4 (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 September 2020 and are not annualised. Past performance does not ensure or imply a future result

Happily, another solid quarter, although things slowed down a bit in September. Not surprising for markets to take a breather after two strong quarters. They also had to deal with the uncertainty of a forthcoming Federal Budget – which proved to be stimulatory – and the election in the USA which is shaping up like nothing we've ever seen.

But it's good to see the numbers for all portfolios back in the black. Our share fund managers are near the top of our Christmas card list for some outstanding recent results.

| | Sterling Equities | Anacacia Wattle Fund | River Capital Growth | Market Average (All Ords Accum'n) |
|------------------------|-------------------|----------------------|----------------------|-----------------------------------|
| 12 months to 30/6/2020 | -7.5% | 30.2% | -5.9% | -7.2% |
| 3 months to 30/9/2020 | 11.8% | 14.5% | 2.7% | 1.1% |

Those results underpinned outcomes which by industry standards were strong in a year that included the biggest upheaval since the GFC, while maintaining a relatively low risk profile.

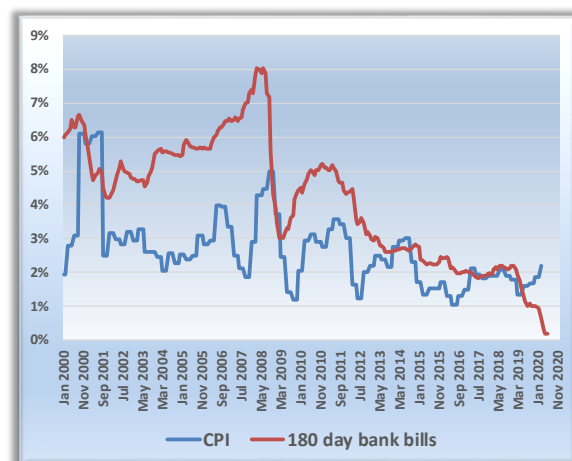
Even after recently rebounding, share markets outside of the US still look reasonable value – maybe not compelling enough to “back up the truck”, but not expensive to the point of selling off more than we already have. So the risk exposure chart on page 3 tells a story of “steady as she goes”, at least for now.

Long Term Income Builder?

Alert readers will have noticed a new portfolio option in the returns table on page 1.

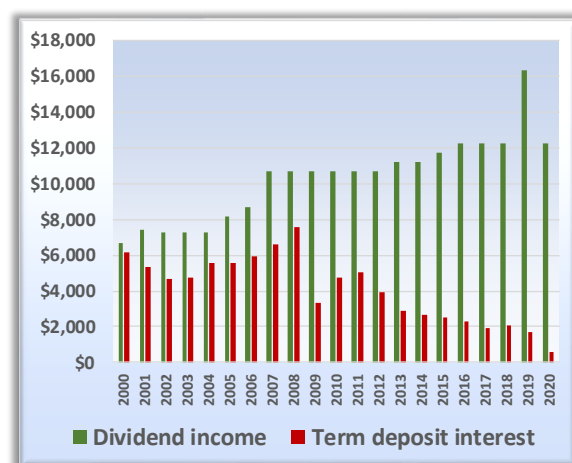
We have previously referred to interest rates which have been on a downward trend for years, to the point where they are now pretty much zero – less after inflation!. And with global economies - some not all that healthy to begin with – now reeling from the effect of the coronavirus, stimulus measures abound and interest rates are likely to stay lower for longer.

We highlighted the following chart last time, noting that after inflation interest rates are now well and truly negative.



Not surprisingly, many investors are searching for alternatives.

One answer might be dividend income from cash-generative companies listed on the local Stock Exchange – the focus of the Long Term Income Builder. Dividend income has proven to be quite stable, even in times of economic upheaval, and in fact tends to grow over time. The chart below, covering the same period as the one above, models the actual pre-tax income you would have received from investing \$100,000 in 180-day bank deposits, compared with the dividend stream from investing in a diversified portfolio of, mainly industrial and service company, shares.



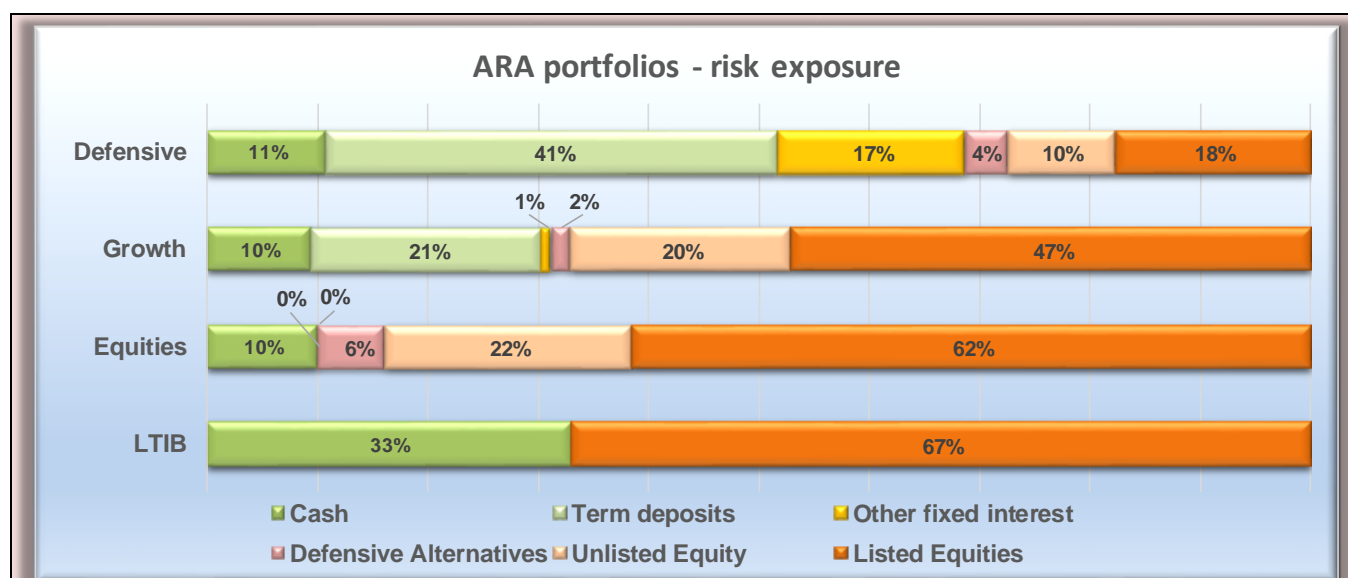
Of course it's not for everyone, as underlying share values can be very volatile and you need to be able to cope with that – and have a long term, income-oriented focus. But with term deposit rates where they are now, maybe it's timely to consider this option.

Lots more to come on this one. In the meantime let us know if this is of interest.

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 | Long Term Income Builder |
|---------------------------------------|----------------|---------------------|------------------|--------------------|--------------------------|
| National Australia Bank Cash account | Cash & | 2.7% | 5.4% | 6.7% | 33.0% |
| National Australia Bank Term Deposits | Tier 1 | 24.6% | 16.5% | 0.0% | |
| Challenger Life Guaranteed Annuities | Fixed | 16.3% | 4.5% | 0.0% | |
| Coolabah Cash Fund | Interest | 8.4% | 4.1% | 3.5% | |
| Coolabah Income Fund | Other | 10.7% | 0.0% | 0.0% | |
| GCI Capital Stable Fund | Fixed Interest | 6.1% | 0.8% | 0.0% | |
| River Capital Growth Fund | | 2.6% | 7.8% | 6.7% | |
| Sterling Equity | | 6.2% | 9.2% | 11.2% | |
| Anacacia Wattle Fund | | 5.1% | 12.5% | 9.6% | |
| Betashares Aust Sustainable ETF | Listed | 1.2% | 2.3% | 10.9% | |
| Future Generation Global | Securities | 0.0% | 0.0% | 4.5% | |
| Vanguard World Ex-US ETF | | 2.6% | 15.1% | 16.8% | |
| Vitalharvest Trust | | 0.0% | 0.0% | 1.8% | |
| Listed Investment Companies | | 0.0% | 0.0% | 0.0% | 67.0% |
| Anacacia Capital | | 2.2% | 8.5% | 10.0% | |
| Cobram Estate | | 1.6% | 1.9% | 0.8% | |
| Polaris Marine | Private | 0.9% | 1.4% | 0.9% | |
| Morrison Utilities Trust | (unlisted) | 0.0% | 4.6% | 2.4% | |
| Proserpine Capital Partners | Equity & | 5.0% | 3.8% | 2.9% | |
| Pentalpha Income For Life | Alternative | 3.8% | 0.0% | 0.0% | |
| Infradebt | assets | 0.0% | 1.6% | 6.0% | |
| Gold ETF | | 0.0% | 0.0% | 5.3% | |
| | | 100.0% | 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 |
|-----------------------|--------------------|--------------------------|------------------------------|---------------------------|-----------------------------|
| Nearmap | ASX listed company | Aerial mapping services | 1.3% | 2.0% | 2.3% |
| Objective Corporation | ASX listed company | Software solutions | 0.8% | 2.0% | 1.5% |
| Cobram Estate | Private company | Olive Oil producer | 1.6% | 1.9% | 0.8% |
| Direct Couriers | Private company | Transport/ Logistics | 0.0% | 1.7% | 2.4% |
| Perth airport | Infrastructure | Transport hub | 0.0% | 1.6% | 0.9% |
| Infradebt | Private trust | Infrastructure lending | 0.0% | 1.6% | 6.0% |
| Schaffer | ASX listed company | Diversified industrial | 1.1% | 1.6% | 1.9% |
| Force Fire | Private company | Fire safety services | 0.8% | 1.5% | 1.4% |
| Polaris Marine | Private company | Marine services | 0.9% | 1.4% | 0.9% |
| Big River Industries | ASX listed company | Building supplies | 0.7% | 1.3% | 1.2% |
| 3P Learning | ASX listed company | Education software | 0.9% | 1.3% | 1.6% |
| Quota Trust | Private trust | Statutory fishing rights | 3.9% | 1.2% | 1.3% |
| Sureway | Private company | Employment services | 0.0% | 1.0% | 1.4% |
| Transgrid | Infrastructure | Electricity transmission | 0.0% | 1.0% | 0.5% |
| Australian Wildcatch | Private company | Commercial fishing | 0.5% | 1.0% | 0.7% |
| Lotus Filters | Private company | Commercial cleaning | 0.5% | 1.0% | 0.7% |
| SEEK | ASX listed company | Online advertising | 0.6% | 0.9% | 1.1% |
| Westpac | ASX listed company | Financial services | 0.6% | 0.9% | 1.1% |
| Smartpay | ASX listed company | Financial services | 0.4% | 0.9% | 0.7% |
| Data#3 Ltd | ASX listed company | Info & comm's technology | 0.4% | 0.9% | 0.7% |

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