

# Investment Update

April 2016

## INVESTMENT RETURNS to 31 March 2016

	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception % p.a.
<b>ARA Investment Fund</b>						
<b>Defensive</b>	-0.1	4.5	5.3	4.3	4.0	5.1 (April 2003)
<b>Growth</b>	-1.2	6.9	8.0	5.9	4.6	6.1 (April 2003)
<b>Equities</b>	-2.3	3.3	7.6	5.3	4.6	7.0 (August 2003)
<b>ARA Retirement Fund – Accumulation (taxed)</b>						
<b>Defensive</b>	-0.2	4.1	4.7	4.0	3.6	4.1 (April 2005)
<b>Growth</b>	-1.1	6.4	7.3	5.7	4.5	5.4 (April 2005)
<b>Equities</b>	-2.2	3.1	6.9	5.3	4.8	5.9 (April 2005)
<b>ARA Retirement Fund – Pension (untaxed)</b>						
<b>Defensive</b>	-0.1	4.4	5.3	4.5	4.1	4.7 (April 2005)
<b>Growth</b>	-1.2	6.9	8.3	6.4	5.2	6.1 (April 2005)
<b>Equities</b>	-2.3	3.2	n/a	n/a	n/a	6.0 (October 2013)

Returns quoted are after all costs, and before the application of management fee rebates. Exclude commissions payable prior to 1/7/2006. Assume the re-investment of distributions. 3 month return figures are for the three months to 31 March 2016 and are not annualised. Past performance does not ensure or imply a future result

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## LOANS



**“Do you have any other collateral...  
besides this e-mail from a Nigerian prince?”**

## Comment

The various headwinds swirling around investment markets meant that it wasn't the easiest quarter to manage. The portfolios were either flat or marginally down – more on that in a moment.

Happily though, annual returns are still pretty good, which is handy in the light of historically very low interest rates and a stock market that is down for the year by over 7% including dividends. Moreover the “blue chips” like the banks and big resource stocks, mainstays of most institutional and family portfolios, have had a particularly torrid time. Against that backdrop, 4%+ in Defensive and 6%+ in Growth for the year to March 31 isn't too shabby.

The major drag on the portfolio for the quarter was an unhappy exit from an investment in the Meredith clothing business. As mooted at the recent Client Updates, the manager of our interest in that concern decided enough was enough and canvassed a variety of exit strategies.

In the end the business was placed in voluntary administration. It is not yet clear what if anything will be recovered in the process, but we have substantially written down the value of that holding in anticipation of an unhappy result.

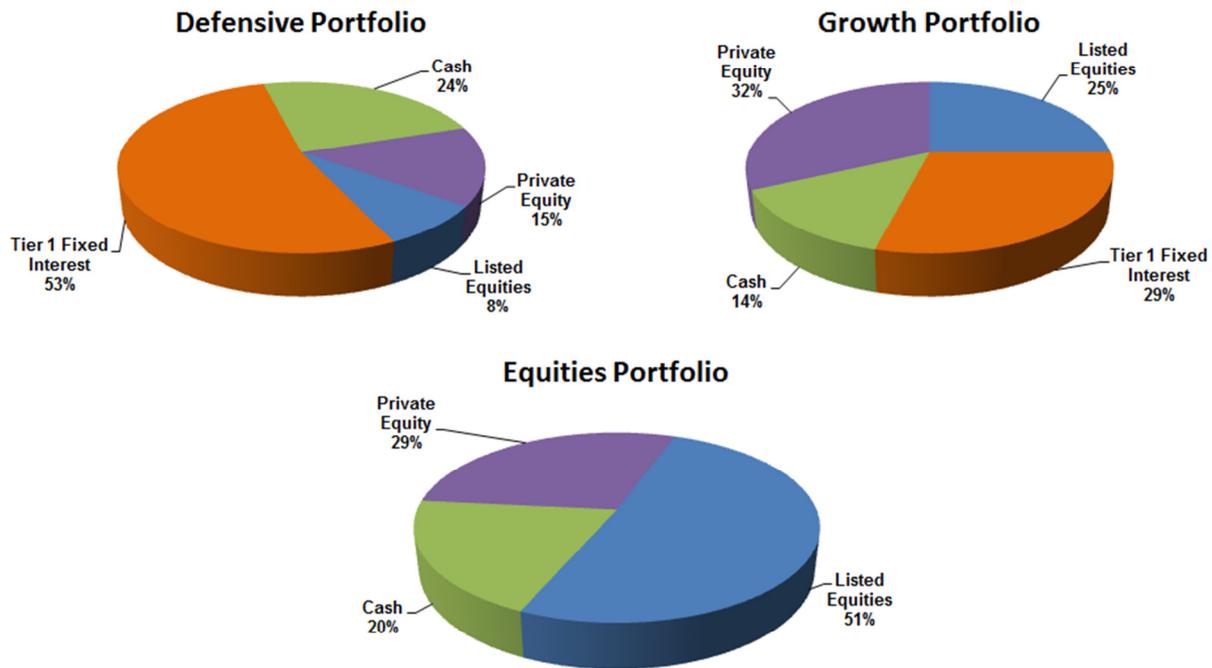
As they say, hindsight is the best performing investor in the business.

There are few if any other areas of concern - the biggest holdings outside the safety of the banks continue to perform strongly. We've mentioned Appen and Cobram Estate plenty of times – fundamentals for those businesses remain very appealing. Our new best friend (mind you, we've been invested with them for four years now!) is ProTen, the premier broiler chicken farming business in the country. 40% of the protein consumed in Australia nowadays is chicken meat, demand continues to grow, and ProTen is ideally placed to capitalize. We are very comfortable that this is now one of the fund's major holdings – expect to hear a lot more about ProTen!

## 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	23.7%	14.0%	20.4%
National Australia Bank Term Deposits		19.7%	8.4%	
Challenger Life Guaranteed Annuities		33.5%	20.0%	
RMBL Mortgage Fund	Fixed Interest	0.2%		
Macquarie Index Funds	Listed Securities			0.2%
River Capital Growth Fund		1.8%	10.8%	20.7%
Sterling Equity		2.0%	4.5%	18.4%
Anacacia Wattle Fund		2.5%	6.2%	9.5%
Anacacia Capital	Private (unlisted) Equity	4.9%	11.5%	6.8%
Cobram Estate		0.9%	1.2%	
Pro Ten		2.6%	4.9%	6.6%
Hastings Utilities Trust			5.0%	
Proserpine Capital Partners		7.0%	11.5%	17.4%
Warakirri Dairy Trust		1.2%	2.0%	
		100.0%	100.0%	100.0%



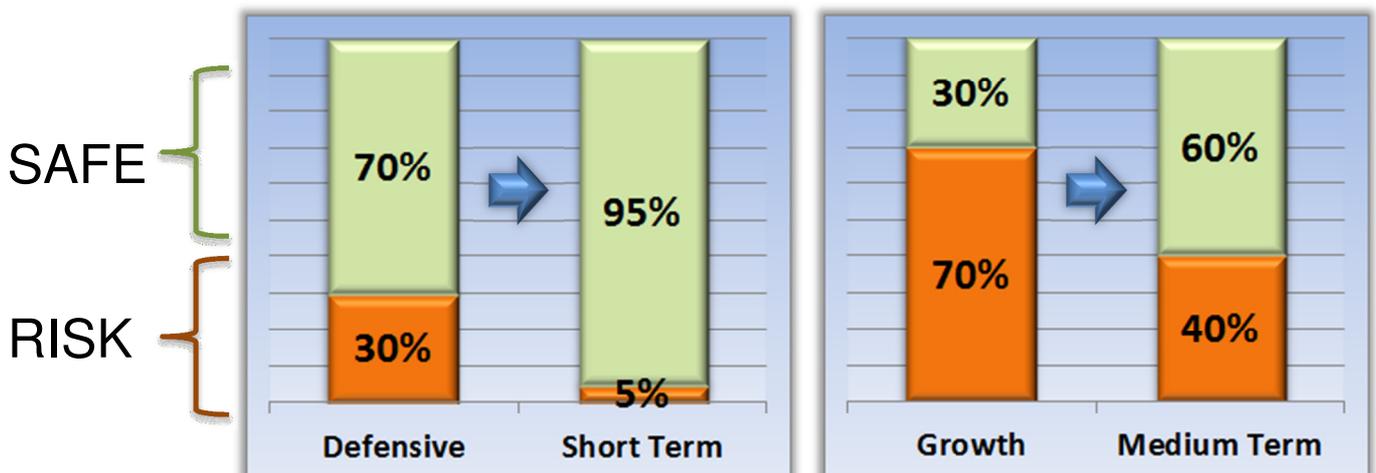
**Changes to the ARA portfolios**

At the recent Client Updates we spent some time explaining the changes we are planning to the ARA fund portfolio choices.

Investors would be familiar with our clear distinction between:

- **“Safe”** assets – that is, assets that should retain their value come what may in broader investment markets. Only bank deposits and those covered by a guarantee mechanism, such as fixed-term annuities, qualify for this moniker.
- **“Risk”** assets – everything else. Doesn’t matter what it is, if it’s not safe, it’s risky. In our case this category currently is comprised of shares in businesses, some listed on stock markets, some privately owned.

In a nutshell, we intend to alter the usual weightings within the Defensive and Growth portfolios as shown below, and will re-name them **“Short Term”** and **“Medium Term”** respectively.



The Equities portfolio will remain as is (i.e. typically 90-95% invested in risk assets) but will be re-named (you guessed it): **“Long Term”**

### Why?

Primarily to offer more flexibility and a more comprehensive basis on which to advise investors about what portfolio choice suits their needs best.

Traditionally the financial planning industry approaches this task by assessing investors’ risk tolerance and preference, typically using some sort of questionnaire, to arrive at a categorisation like “Conservative” or “Balanced” or “Growth”. This assessment is then applied to the investor’s whole portfolio.

Certainly that approach has its place, but we believe there’s more to it, and the new portfolio names should provide a clue. Typically investors may have different purposes for investing, primarily around timing – when they need money and how much. It might be medium term savings goals (e.g. house or school fees), long term wealth accumulation (retirement funding).

Retirees are an excellent case in point. They have short term cash needs (buy the groceries, pay for travel, etc.) but still need to fund a retirement that hopefully stretches for several decades. Funds required to meet short term spending requirements should be invested differently from those whose main purpose is generating a sound, long term return.

So, we would expect, for example, to invest clients’ immediate and near term cash needs in the Short Term and Medium Term portfolios, leaving the Long Term portfolio to do its job. Further, we would also expect that cash payments, such as pension payments or withdrawals, would be paid from the Short Term portfolio.

Understanding the purpose behind investors’ investment aspirations and cash flow requirements and timing we believe will provide a better foundation for advising on individuals’ portfolio choice and improve risk management at an individual level – without any additional cost.

### And?

There is no change to ARA’s approach to actual investment, the guiding principles or methods of selection and monitoring portfolios. The only change is in the typical weightings in the different options. We will still have (and use) considerable flexibility to adapt the portfolios to our prevailing views on market conditions, and investors will be free to make changes without cost.

What it does imply is a more robust approach to regular reviews and adjustment of portfolios according to what has transpired, any changes in individual circumstances and how the portfolios have recently performed. Typically short term holdings might need to be topped up with profits from the others if things have gone well of late, or alternatively review the strategy if not.

We will be reviewing all clients’ portfolios over the coming months to discuss and agree on the ideal portfolio distribution in this new scheme of things, with great confidence that this is a worthwhile enhancement of our service. Looking forward to seeing you soon!

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Name (Please print) \_\_\_\_\_

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