Investment Update

January 2016

INVESTMENT RETURNS to 31 December 2015						
	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception % p.a.
ARA Investment Fund						
Defensive	2.6	5.9	5.7	4.9	4.2	5.2 (April 2003)
Growth	5.4	10.7	9.1	7.0	5.2	6.3 (April 2003)
Equities	5.9	8.8	10.3	6.8	5.6	7.3 (August 2003)
ARA Retirement Fund – Accumulation (taxed)						
Defensive	2.4	5.4	5.2	4.6	3.9	4.3 (April 2005)
Growth	4.9	9.9	8.5	7.2	5.0	5.6 (April 2005)
Equities	5.1	8.1	9.5	6.7	5.7	6.3 (April 2005)
ARA Retirement Fund – Pension (untaxed)						
Defensive	2.4	5.8	5.7	5.1	4.3	4.8 (April 2005)
Growth	5.1	10.8	9.5	7.6	5.7	6.3 (April 2005)
Equities	5.4	8.8	n/a	n/a	n/a	7.8 (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 December 2015 and are not annualised. Past performance does not ensure or imply a future result.

"If you factor in the money you didn't lose on the investments you didn't make, you're doing quite well!"

ARA Consultants Limited
Level 3A 379 Whitehorse Road
Balwyn Victoria 3103

PO Box 609 Balwyn VIC 3103
Telephone 03 9830 0311
Facsimile 03 9830 0699

www.araconsultants.com.au
ABN 78 102 304 692
AFS Licence No. 224150

Best wishes to all for the New Year. We trust you had an enjoyable festive season, and look forward to a safe and prosperous 2016.

So last year was something of a doozy in investment markets. Both the US and Australian stock markets fluctuated quite markedly and ended up returning pretty much nothing apart from dividends. Interestingly, prices of all the major Aussie banks finished in the red, the big miners were hit hard by plunging commodities prices, and other dividend darlings like Telstra and Woolworths struggled.

So eking out a return meant being pretty selective, as the household favourites had a tough time in 2015. Which makes pre-tax returns of 6-ish in Defensive and double figures in Growth look pretty tidy, particularly as the level of risk protection (via cash and bank deposits) was high.

In a nutshell, nothing went too wrong, and a couple of standout results did some really heavy lifting.

Across the board our managers of Australian shares produced strong positive results in a lacklustre year for the broader market, so their stock picks clearly delivered.

We've previously mentioned technology company Appen Ltd., from Anacacia's portfolio. It listed on the ASX early in the year at 0.50c and finished the year above $1.60. A few of those each year and we'd all be happy.

We also had a good run from our privately owned (unlisted) businesses.

ProTen is the premier broiler chicken grower in the country.

Consumer demand for chicken meat as a source of low cost, high-quality protein is very strong. ProTen is an outstanding operator, and deservedly the emerging market leader in a highly fragmented industry. The business is sound, well-sorted and hugely scalable.

Another one to watch is Cobram Estate.

Having built a dominant position in the Australian market for Extra Virgin Olive Oil, Cobram now has a toehold in the US. The olive oil market there is underdone compared to here and in Europe, so the potential is colossal. Not without its risks, but if managed well this is a tremendous opportunity.

So, all up, I'm reminded of a quote attributed to prominent investor George Soros:

"…when investing, it is not how much you are right or wrong, it is how much you make when you are right and how little you lose when you are wrong".

I like that quote because it is humble and realistic enough to concede that bad stuff happens, no matter how hard you try. But invest with conviction and discipline and the good should outweigh the bad in time.

STOP PRESS

Investor Nights Coming Up

We've penciled in the following dates:

Shepparton: Tuesday March 1

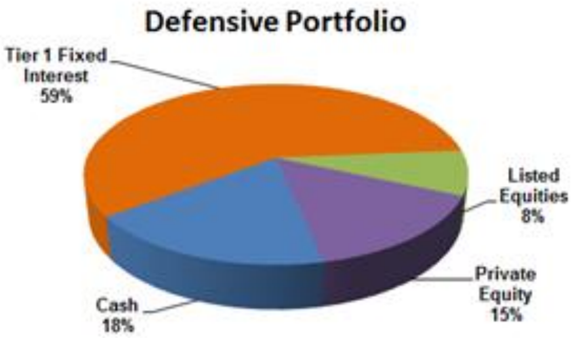
Melbourne: March 7 AND 9.

It will be BIG!

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	17.5%	14.4%	10.1%
National Australia Bank Term Deposits		24.0%	8.4%	
Challenger Life Guaranteed Annuities		34.7%	19.9%	
RMBL Mortgage Fund	Fixed Interest	0.2%	0.1%	
Macquarie Index Funds	Listed Securities			0.3%
River Capital Growth Fund		1.9%	10.9%	23.2%
Sterling Equity		1.9%	4.2%	19.5%
Anacacia Wattle Fund		2.7%	6.3%	10.8%
Anacacia Capital	Private (unlisted) Equity	4.5%	10.3%	7.2%
Cobram Estate		0.9%	1.2%	
Pro Ten		2.5%	4.5%	6.6%
Hastings Utilities Trust			4.8%	
Proserpine Capital Partners		7.9%	13.1%	22.3%
Warakirri Dairy Trust		1.3%	1.9%	
		100.0%	**100.0%**	**100.0%**



Emily Update

Many of you have had the pleasure of dealing with Emily Spall in the matter of estate planning and will preparation. Emily is returning to work after maternity leave, we're aiming for **January 18**.

Some thoughts about super

Superannuation's in the news again, with lots of kites flying about tax changes. Maybe a comment is in order.

Firstly, current super rules are very generous, no question. As a fellow superannuant I'm happy to receive all the goodies legitimately on offer. But as a taxpayer I question why I should continue to subsidise people who are already well off and self-sufficient. So I'm not too upset by changes that simply limit the extent of tax subsidy.

What changes (if any) will happen is anybody's guess, but if sanity prevails they will take the simplest route of further limits on contributions (particularly after-tax contributions) or setting maximum account balance limits. Things like progressive tax rates on bigger accounts are an administrative nightmare and hopefully will be howled down.

The thing to remember is this. Super's sole purpose is to assist people to secure an adequate income in retirement. Changes will never make super less attractive than the alternative, or it defeats its own purpose. So any changes will not be detrimental as people tend to fear, but simply a reduction in subsidy. But still a subsidy.

So don't throw out the baby with the bathwater and give up on super. It is still, and will remain, the best game in town from a tax and retirement income planning perspective.

What should you do to prepare? If resources are available it probably wouldn't hurt to make this year's maximum allowable contributions now while the going's good. Other than that, don't stress too much. The strong precedent is for existing benefits to be grandfathered, and reasonable levels of funding are unlikely to be targeted anyway.

Update

As we go to press, world stockmarkets have a case of the shakes, so perhaps another comment is in order.

Firstly, a dose of perspective. The fall to date in 2016 does not do much more than give back the gains from the Santa Claus rally in the second half of December, such that at the time of writing the market is back to where it was in mid-December. As is the custom of the popular press, this gets reported as **"$75 billion wiped off market value!"**. I didn't see any headlines saying "$75 billion added to market value" in December.

But of course it could get worse before it gets better, so here are a few things to note:

- Taking into account direct cash holdings as well as cash held by the various fund managers, about 80% of Defensive and 50% of Growth is money in the bank, not in the market.
- As you can see by the pie charts, there is not much at risk in stock markets. Nothing offshore. Effectively nothing in commodities-related stocks.
- Is there a lot of debt in the portfolio? No.
- Is there anything in there we wish we didn't own and should offload in the face of short-term market volatility? Nothing is perfect, but we truly are comfortable with the lion's share of the portfolio, so I'd give that a 99% No.

Of course we'll be watching things closely, but to be honest, our main interest will be in assessing potential buying opportunities, as we're well cashed up and have been waiting on the sidelines for prices to become more attractive. There have been a few false starts where falls have happened and then things bounce straight back. If that happens again, business as usual. If not, a correction presents opportunity as well as danger.