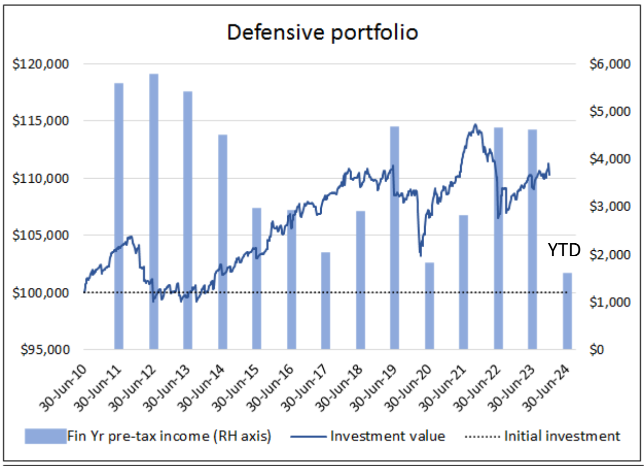
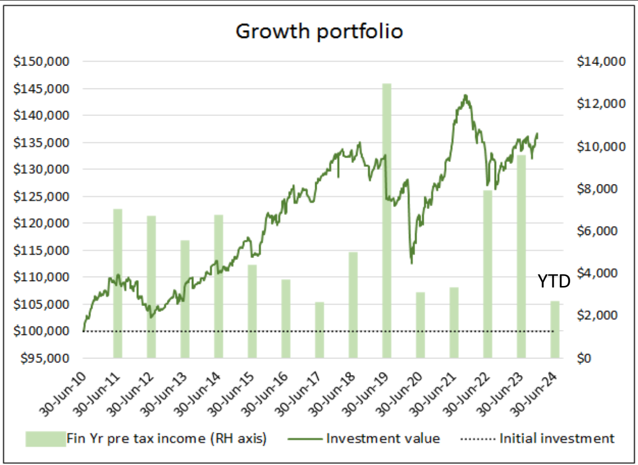
Investment Update

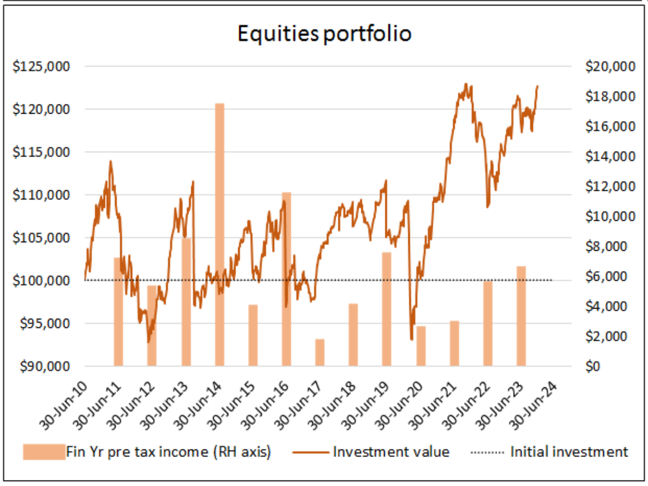
December Quarter 2023

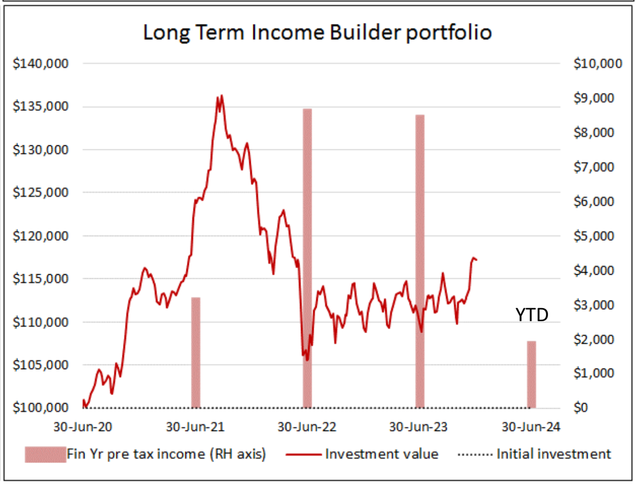
ARA INVESTMENT FUND RETURNS to 31 December 2023						
	3 Months %	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.	Since Inception % p.a.
Defensive	1.1	5.4	4.2	3.8	4.1	4.8 (April 2003)
Growth	2.1	10.9	8.3	7.1	7.0	6.7 (April 2003)
Equities	2.8	12.8	8.3	7.5	6.7	7.6 (August 2003)
Long Term Income Builder	5.3	14.8	7.2	n/a	n/a	10.7 (March 2020)

Illustration of income and capital returns received by an investor from an initial investment of $100,000 since 1/7/2010 (or 1/7/2020 for the Long Term Income Builder)









ARA Consultants Limited
Level One 17 Cotham Road
Kew Victoria 3101

PO Box 2273 Kew VIC 3101
Telephone 03 9853 1688
Facsimile 03 9853 1622

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

It turned out to be quite a good (calendar) year. A handy Santa Claus rally in November and December pushed returns in some cases into double figures. Happy days.

A dose of perspective may be in order. It comes off the back of a tough prior year, so there might be a bit of a rebound thing happening. It's perhaps instructive to look at the two years together – what investment markets did, and how the portfolios fared by comparison.

	2022 return (%)	2023 return (%)	2-yr total return (%)
Aust shares *1	-3.0	13.0	9.6
US Shares *2	-19.4	24.2	0.1
World ex-US *3	-11.0	11.7	-0.6
Aust Fixed Int *4	-9.7	5.5	-4.7
Aust listed property *5	-24.0	12.6	-14.4
ARA portfolios			
Defensive	0.4	5.4	5.8
Growth	-0.5	10.9	10.3
Equities	-1.9	12.8	10.7
LTIB	-7.9	14.8	5.7

*1 ASX All Ordinaries Accumulation Index *2 US S&P 500.
*3 FTSE All World ex-US *4 S&P/ASX Australian Fixed Interest Index
*5 S&P/ASX 200 A-REIT

Looks like a living example of the benefits of selective diversification, and of trying to limit volatility and the impact of market downturns. Take the US case for example:

Year 1: $100 – 19.4% = $80.60
Year 2: $80.60 + 24.2% = $100.10.
Total return = $0.10, or 0.1%.

Those big falls take a disproportionate amount of recovery time and effort. Fortunately it is quite possible to target a decent average return over time while limiting the damage of downturns – even if it means foregoing a little in the strong years. Put more simply – the tortoise won!

So, what will happen now? The honest answer is the same as it is every year – "No idea, really". Expensive investments can still go up, cheap things can go down further. The best you can do is back the probabilities, and diversify your market exposure and asset choice accordingly.

And so…….?

- After a strong 12 months, some sharemarkets, the US in particular, are looking expensive again.
- Unlisted shares (i.e. private equity) are less susceptible to market shifts as they are not valued according to what's in the daily news.
- From here interest rates look more likely to come down than go up, so locking in attractive rates on good quality loans seems like a good idea.

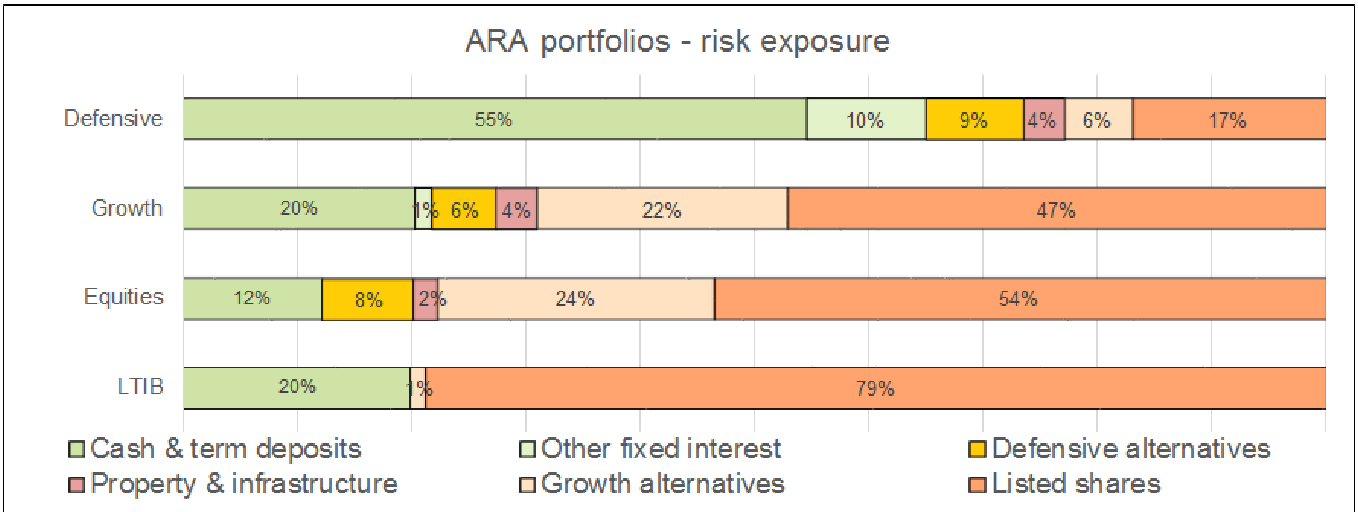
Against that backdrop, our key moves (more like portfolio tweaks really) look like this:

- We've taken some profits from Australian listed shares. We remain invested, but in what we might call the Goldilocks zone. Not too hot, not too cold.
- We have re-instated some mild hedging against US shares – i.e. investments designed to profit if the US market underperforms.
- We have made a significant commitment to the next of Anacacia's private equity funds. As usual this will be progressively drawn down over the next several years as attractive, well-priced opportunities arise.
- We have also committed to a new investment with infrastructure lender Infradebt. Their new fund provides loans for the development of large-scale battery facilities. Whatever your persuasion, one thing's for certain - given the current state of the energy market in Australia there is a need here and now for large scale storage to underpin base load power, as old coal mines get de-commissioned. And there are very few reliable sources of finance for such undertakings. The traditional banks are not functioning in this space at the moment, whereas Infradebt, who we know well by now, is one of only two main lenders, and they know this market well. A timely opportunity. We'll have more to say on this investment as it develops.

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 Type	Defensive Portfolio	Growth Portfolio	Equities Portfolio	L/T Income Builder
National Australia Bank Cash account	Cash & Tier 1 Fixed Interest	15.7%	1.0%	12.2%	20.6%
Bank Term Deposits		10.3%	8.9%	0.0%	
Challenger Life Guaranteed Annuities		29.3%	11.4%	0.0%	
Coolabah Active Credit Fund	Other Fixed Interest	10.3%	1.4%	0.0%	
River Capital Growth Fund	Listed Securities	2.0%	5.4%	3.5%	
Sterling Equity		7.0%	8.8%	10.1%	
Anacacia Wattle Fund		6.2%	11.5%	9.4%	
Dimensional Sustainability Aust		0.0%	3.1%	10.5%	
Vanguard World Ex-US ETF		0.9%	7.7%	7.0%	
Anacacia Global Fund		0.6%	1.6%	2.8%	
Dimensional Sustainability Gbl Unhedged		0.0%	4.3%	5.2%	
Dimensional Sustainability Gbl Hedged		0.0%	4.3%	5.1%	
Listed Investment Companies		0.0%	0.0%	0.0%	69.4%
MVB Aust Banks ETF		0.0%	0.0%	0.0%	8.7%
Anacacia Capital	Alternative assets (Growth)	1.4%	13.6%	13.8%	
Polaris Marine		1.5%	2.2%	1.1%	
Morrison Utilities Trust		3.5%	3.5%	2.1%	
Proserpine Resources Trust		0.2%	0.6%	0.2%	
Performance Equity Mgrs Fund 4		2.0%	3.6%	5.0%	
Luxury Escapes		0.7%	1.6%	1.9%	
Cheesecake Shop		0.0%	0.0%	2.0%	1.3%
Infradebt	Alternative assets (Defensive)	0.0%	1.7%	4.8%	
Fortlake Higher Income Fund		3.1%	1.3%	0.0%	
Quota Trust		3.4%	0.9%	0.8%	
BBUS US Bear ETF		1.9%	1.6%	2.5%	
		100.0%	**100.0%**	**100.0%**	**100.0%**



Major Holdings – diversified portfolios

Apart from bank deposits and other interest-bearing accounts, Defensive, Growth and Equities portfolios invest 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 portfolios' returns.

Investment	Type	Principal Activity	Defensive Portfolio Exposure	Growth Portfolio Exposure	Equities Portfolio Exposure
Direct Couriers	Private company	Transport & logistics	0.0%	5.3%	5.7%
RP Infrastructure	Private company	Project Management	0.0%	2.4%	2.6%
Polaris Marine	Private company	Marine services	1.5%	2.2%	1.1%
Infradebt	Private trust	Infrastructure lending	0.0%	1.7%	4.8%
Gentrack	ASX listed company	Software services	0.9%	1.6%	1.3%
Luxury Escapes	Private company	Travel agency	0.7%	1.6%	1.9%
Big River Industries	ASX listed company	Building supplies	0.8%	1.5%	1.0%
Westpac	ASX listed company	Financial services	1.1%	1.3%	1.5%
Schaffer	ASX listed company	Diversified industrial	1.1%	1.3%	1.5%
Opteon	Private company	Property services	0.0%	1.2%	1.3%
Sureway	Private company	Employment services	0.0%	1.2%	1.2%
Smartpay	ASX listed company	Financial services	0.6%	1.2%	0.9%
Perth Airport	Infrastructure	Transport hub	1.1%	1.1%	0.7%
3P Learning	ASX listed company	Online education	0.8%	1.1%	1.2%
IRESS	ASX listed company	Financial software	0.8%	1.0%	1.1%
Force Fire	Private company	Fire safety services	0.6%	0.9%	0.7%
Data#3 Ltd	ASX listed company	Communications technology	0.5%	0.9%	0.8%
Quota Trust	Private trust	Statutory fishing rights	3.4%	0.9%	0.8%
Duncan Technologies	Private company	Parking technology	0.0%	0.7%	0.8%
Transgrid	Infrastructure	Electricity transmission	0.7%	0.7%	0.4%

Returns quoted in this report are after all costs, and before the application of management fee rebates. Return figures are pre-tax, and include the value of franking credits from franked dividends. Total return figures assume the re-investment of gross distributions including franking credits. 3-month return figures are for the period to 31 December 2023 and are not annualized.