

# Third Link Growth Fund

Fund report and commentary – as at 30 November 2009

## Performance

	Since inception	One year	Six months	Three months
Third Link Growth Fund	2.8%	33.9%	20.5%	5.3%
Morningstar Multi-sector Growth Market Index*	-5.7%	10.2%	13.2%	2.3%
Fund Relative Performance	8.5%	23.7%	7.3%	3.0%

Returns are calculated after fees have been deducted and assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance.

\* As at 24 November 2009, the Fund commenced using the Morningstar Multi-Sector Growth Market Index as its benchmark. Following the change of benchmark (formerly the "All Ordinaries Accumulation Index"), the performance of the Fund since inception is now assessed against the new benchmark.

## Investment objective

The Fund aims to provide a diversified growth-oriented investment with a bias at most times to Australian listed shares.

The Fund extensively invests in other managed investment funds run by professional third party investment managers.

## Fund benchmark

Morningstar Multi-sector Growth Market Index is constructed from reviewing the asset allocation of Australian fund managers who operate multi-sector funds and have between 61% and 80% of their assets in growth sectors (typically defined as shares and property asset classes) with the balance in cash and fixed income securities.

## Investment manager

Third Link Investment Managers Pty Limited of which Chris Cuffe is the sole Director.

## Distribution frequency

Six monthly, at end of December and June.

## Minimum investment

\$20,000

## Fund size

\$33.6 million

## Inception date

The Fund was established on 12 March 2008. Up until the end of May 2008, it was a requirement that application monies received into the Fund were kept on deposit as the unit price was held at \$1.00.

## Website

[www.thirdlink.com.au](http://www.thirdlink.com.au)

## Asset allocation

	%	Total %
<b>GROWTH-ORIENTED</b>		
Australian shares (general)	50.7	
Australian shares (smaller companies)	12.4	
Total Australian shares		63.10
Int'l shares (general)	8.8	
Int'l shares (emerging markets)	9.4	
Total international shares		18.2
Global property securities		0.0
Alternative assets		4.1
<b>Total growth-oriented</b>		<b>85.4</b>
<b>FIXED INTEREST AND CASH</b>		
Global credit securities		5.4
Hybrid securities		5.4
Cash		3.8
<b>Total fixed interest and cash</b>		<b>14.6</b>
<b>Total</b>		<b>100.0</b>

The above is based on the overall classification of each underlying fund, rather than on a 'look through' basis. The Fund must hold a minimum of 50% in growth-oriented assets.

## Fees and expenses

There are no entry or exit fees payable by investors. The ongoing fees and expenses paid from the Fund are:

- an ongoing management fee of 1.4% p.a. of the gross asset value of the Fund, from which normal operating expenses are met; and
- abnormal operating expenses.

All fees received from managing the Fund's investments, net of expenses incurred, are donated to Social Ventures Australia (SVA), an Australian based non-profit organisation. For more information visit [www.socialventures.com.au](http://www.socialventures.com.au).

## Investment philosophy

History has shown that holding investments in 'growth' assets (such as shares or property) over long periods of time usually provides superior returns compared to other investments. Whilst this is attractive to investors, many would also ideally like to minimise their exposure to the large falls that occur in growth markets at various times.

We believe that in the long term the valuations of share markets tend to follow a relatively stable trend line. However, over the short to medium term markets can become very overvalued, the extent of which can be measured in terms of the number of standard deviations from the 'normal' long term trend line. When this occurs, we believe it is sensible to lower the exposure to shares until 'in trend' values (or below) once again prevail. This action may in turn crystallise capital gains resulting in tax leakage, but we believe that:

- allowing tax to dominate your investment thinking is dangerous to your wealth;
- not everyone is concerned about paying tax on capital gains if the trade-off is lower risk to capital - plus some investors do not pay tax or are subject to low tax rates through their superannuation fund.

Given the above, the investment philosophy of the Fund is the following:

- to have the majority of the Fund invested in growth assets (being Australian shares, international shares, and/or property) as the 'default' position;
- progressively increase the weighting to cash and fixed interest securities if growth assets appear very overvalued compared to long term trends; and
- head back to being predominantly invested in growth assets once valuations return to normal or fall below long term trend lines.

This is often referred to as a 'mean reversion' strategy.

The growth assets we choose to invest in can include listed Australian shares (large companies and/or smaller companies), listed international shares (operating in mature economies/markets and/or emerging economies/markets) and/or listed property securities (whether in Australia or overseas).

We recognise that different types of growth assets will behave differently over time depending on where their values are relative to their long term 'equilibrium' position. For example, at some points in time Australian shares may be relatively undervalued compared to international shares, at which time we would expect to have a much greater weighting to Australian shares.

We also have a natural bias to owning Australian shares because of the prospect of receiving franked dividends, which are generally attractive from both a yield and tax perspective compared to other asset classes.

It is possible that at various points in time we could regard all growth assets to be relatively overvalued relative to their long term 'equilibrium' positions. If this was the case, we are permitted to hold up to 50% of the Fund in cash and/or fixed interest securities. This strategy will inevitably mean Third Link Growth Fund will perform below other multi-sector growth funds over some time periods. However, we have the conviction to manage the Fund as outlined above because we passionately believe that it is in the best long term interests of investors. Successful investing is about long term time frames, patience, and a willingness to run against the herd if needs be. This is why the Fund measures its success over longer rather than shorter time frames, aiming to outperform the returns of the Morningstar Multi-sector Growth Market Index after fees over rolling five year periods.

## Underlying investments

The majority of the Fund's assets are invested in other managed investment funds run by third party investment managers.

The process of choosing each investment manager is based on their investment style and process, the expertise of the investment team, past performance (through different market cycles) and a range of other factors. This process is based on our extensive industry knowledge, considerable contacts and many years of experience in the investment management industry.

Current investments are held with the following fund managers:

#### **Australian shares – general**

- Cooper Investments
- Solaris Investment Management
- Platypus Asset Management
- Orion Asset Management
- Paradise Investment Management
- JBWere/Frank Macindoe

#### **Australian shares – smaller companies**

- Eley Griffiths Group
- Pengana Capital
- Contango

#### **International shares – general**

- Intrinsic Value Investments
- Taube Hodson Stonex Partners
- Magellan Financial Group
- Arkx Investment Management

#### **International shares - emerging markets**

- Schroders Group
- Aberdeen Asset Management
- RARE Infrastructure

#### **Alternative assets**

- Select Asset Management
- Technical Investing

#### **Global credit**

- Colonial First State Investments

#### **Cash**

- Colonial First State Investments

#### **Advisers**

A highly experienced group of people act as advisers to Chris Cuffe to provide input when requested concerning the investment environment, the strategy of the Fund and/or the investments held. This ensures there is a diversity of views from experts to help formulate decisions about the Fund. These advisers comprise:

- Robert Keavney, former Chief Investment Strategist, Centric Wealth Advisers
- Kieran Kelly, Managing Director, Sirius Fund Management
- Frank Macindoe, Director, Private Wealth Management, JBWere
- Doug McTaggart, Chief Executive, Queensland Investment Corporation
- Mark Nelson, Chief Investment Officer, Caledonia Investments Pty Limited
- Don Stammer, former Chief Economist and Director of Investment Strategy for Deutsche Bank
- Fiona Trafford-Walker, Managing Director, Frontier Investment Consulting
- Geoff Wilson, Director, Wilson Asset Management International
- Stephen van Eyk, former Managing Director, van Eyk Research

#### **Acknowledgment of support**

Thanks to the extraordinary and generous support of a number of investment and service professionals who have agreed to waive some or all of the fees that would otherwise be due to them for services rendered, the expenses from running the Fund are kept to a minimum, resulting in a larger pool to donate to Social Ventures Australia.

For a full list of the service providers, please refer to our website at [www.thirdlink.com.au](http://www.thirdlink.com.au)

Treasury Group Investment Services Limited AFSL 227326 ('TIS') is the responsible entity for the Fund. Third Link Investment Managers Pty Limited AFSL 321 611 ('Third Link') has been appointed by TIS to invest and manage the investments of the Fund. Applications can only be made on the form in the current product disclosure statement for the fund dated 15 October 2008 which must be read together with the Supplementary Product Disclosure Statement dated 24 November 2009. The product disclosure statement can be obtained by contacting Third Link Investment managers Pty Limited or on [www.thirdlink.com.au](http://www.thirdlink.com.au). Investors should be aware that past performance is not indicative of future performance. Returns can be volatile, reflecting rises and falls in the value of underlying investments. Potential investors should consider the product disclosure statement before deciding whether to invest, or continue to invest in the Funds.