thirdlink

Third Link News

Issue 1 : September 2008

Welcome

to the inaugural newsletter for investors in the Third Link Growth Fund. The intention is to produce a newsletter every six months, at the end of September and the end of March, to keep you updated on the Fund's progress and highlight how some of the donated management fees from the Fund are being used to support the non-profit sector. I hope you will find our first newsletter interesting reading and look forward to hearing your feedback via email at enquiries@thirdlink.com.au.

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I want to thank you for your investment in this unique product. The Third Link Growth Fund has allowed me to capitalise on my industry knowledge, considerable contacts and many years of experience in the investment management industry to provide both a competitive offering for investors and a valuable contribution to the non-profit sector through Social Ventures Australia (SVA). Since the Third Link Growth Fund was created, over $100,000 in donated fees have been channeled to SVA to help in their inspiring and strategic work. On the other side of this newsletter you can read about how one young person has been helped by a venture that SVA supports.

It has undoubtedly been a difficult period in which to start a new investment fund. The Third Link Growth Fund has attracted around $25 million in new applications to date. While this is still well short of our eventual target of $150 million, I am confident that given the very considerable press coverage and interest shown in the Fund it is a matter of 'when' not 'if' we will reach this target. The missing ingredient is a return of confidence in investment markets.

As has been widely reported, the magnitude of today's credit market crisis is due to the interplay between a very high level of 'self created' risk and excess leverage. When investors do not know how to price highly leveraged

> *'The stock market is simply the transfer of wealth from the impatient to the patient.'*
>
> Warren Buffet

securities (e.g. mortgage backed securities and their progeny), and when they are wrong in their forecasts of such underlying 'fundamentals' as the default rate, and when their hedges malfunction and melt down, then a perfect storm results – and it is amplified exponentially by the amount of leverage.

We are pleased to report that despite the poor performance of investment markets since the launch of the Third Link Growth Fund, the Fund's performance relative to the All Ordinaries Accumulation Index has been very good, outperforming by some +13.8%. However, we realise that losing less than others is little consolation for investors who want to grow their capital and we look forward to more rewarding periods in the future.

Finally, I encourage you to look at the dedicated web site for the Fund, www.thirdlink.com.au, which contains up-to-date unit prices, performance information and a listing of the fund managers we invest with.

Regards

Chris Cuffe, Director
Third Link Investment Managers
Pty Limited

Market performance - horrible

By Frank Macindoe

2008 is shaping up to be the worst year since the mid-1980s for the growth assets that the Third Link Growth Fund will typically invest in – with large losses in local and international shares, listed property and alternative assets.

Only cash and fixed interest returns are likely to be positive this year, with listed property giving back the last 4 years' performance and Australian shares 2 years' worth.

The fall in the Australian share market has been as sharp in inflation-adjusted terms as in the two last recessions and rivals some of the great stock market corrections of the past 120 years.

This has been despite some very strong fundamentals:

- the best terms of trade in 50 years
- record Federal Government surpluses
- no net Federal Government debt
- a large and rapidly growing pool of private savings through superannuation
- relatively low unemployment; and
- company balance sheets generally in good shape.

US Housing and Excessive Leverage

The chief causes for the bad market performance were, in my view, the over-building and overvaluation in housing in the US combined with the very high leverage in the regulated and unregulated lenders to the housing market.

In the ensuing panic some of America's largest and best known financial pillars – Bear Stearns, Lehman Bros, Freddie Mac, Fannie Mae, AIG, Washington Mutual (the largest US bank to ever fail) fell or required government assistance with increasing frequency and there were very real fears that lending for ordinary businesses and consumers might seize up.

The *Leverage in Global Financials* chart at right highlights the state of the world's major financial institutions' balance sheets heading into the credit crisis as at June 2007. Leverage is shown on the Y-axis and asset growth on the X-axis. Names that appear to the top and right of this chart have engaged in highly levered balance sheet expansion strategies over the last 5 years. The chart shows:

- the most leveraged players have dominated the headlines of the last 14 months in terms of asset write-downs and financial distress;
- while most of the riskiest institutions in the US have been dealt with, that cannot yet be said of the Europeans;
- Australia's major banks have generally had less leverage and pursued less aggressive expansions than the failed institutions overseas.

At the time of writing it is hoped that the 'Paulson Plan' will stabilise the ordinary functioning of financial markets, though whether it will have the same effect on asset prices is likely to be a continuing concern.

China and other Emerging Markets

In recent months, the global financial crisis tended to occupy the headlines, but it remains the case that China has become the world's largest consumer of raw materials and one of the fastest growing. Other emerging markets are beginning to contribute to robust global demand growth. Brisk infrastructure and construction activity in India, Russia, the Middle East, South America and parts of Latin America are important examples, though as yet the absolute increases in consumption are not big relative to China's.

It is entirely possible for global demand to continue growing strongly even if demand in major OECD countries is subdued or even negative. The chart at right illustrates the dynamics.

The Outlook

The short term economic outlook is extraordinarily uncertain, with forecasts for the US and Europe ranging from

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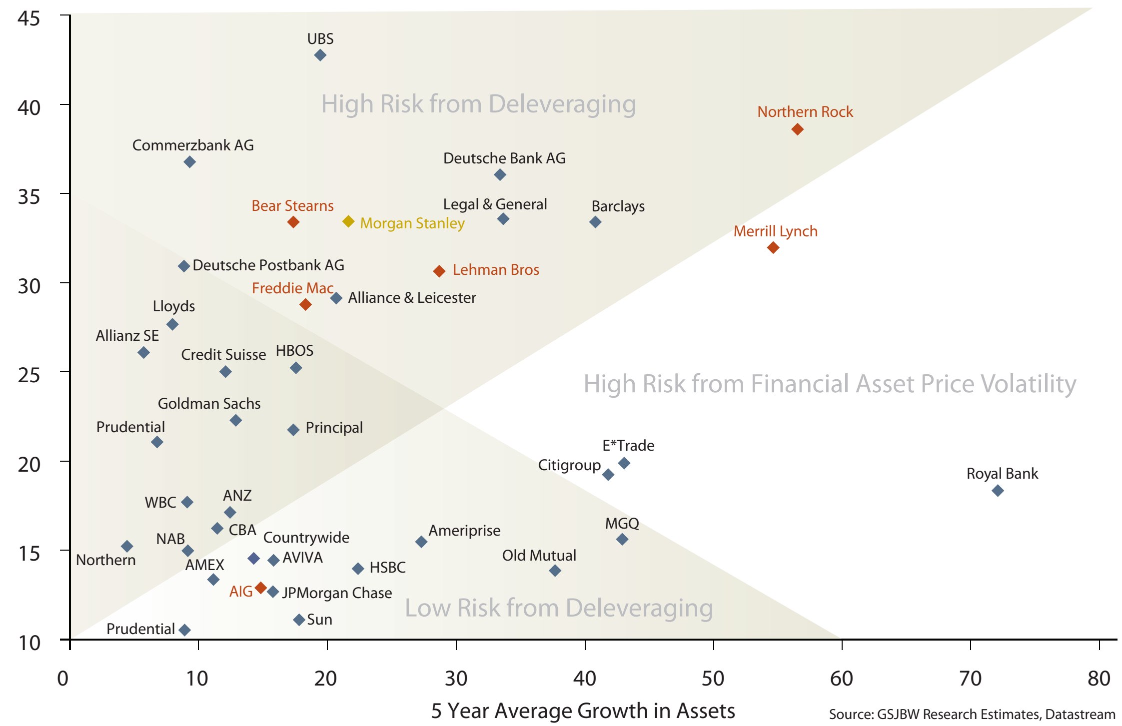
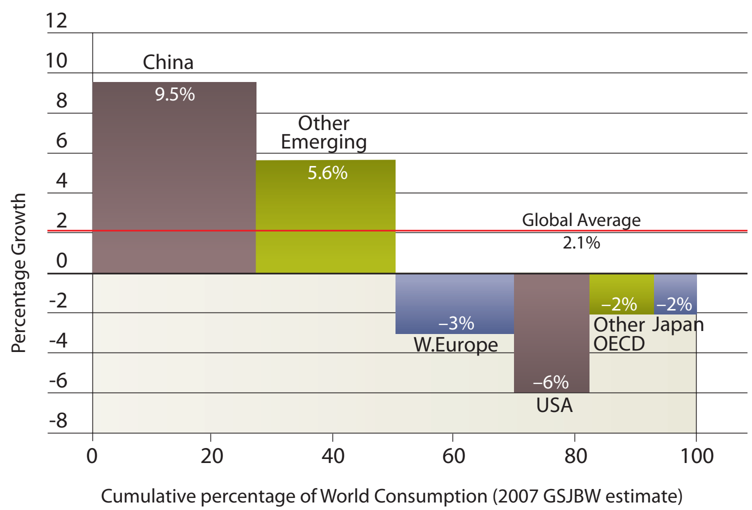
Leverage in Global Financials 5 Year Average Leverage



Source: GSJBW Research Estimates, Datastream

Copper – GSJBW Demand Growth Forecast for 2008 (%, 1997–2007[a])



Source: GSJBW Research Estimates, CRU International

Portfolio Update

The objective of the Third Link Growth Fund is to provide a diversified growth-oriented investment with a bias at most times to Australian listed shares.

We have considerable flexibility in the type of investments the Fund may hold outside of Australian listed shares with the broad investment ranges set as follows:

50% - 100%	Growth-oriented investments, which may include: ▶ Australian listed shares/securities (0% - 100%) ▶ International listed shares/securities (0% - 40%) ▶ Unlisted investments, whether domestic and/or international, including property and private equity (0% - 20%)
0% - 50%	Fixed interest securities & cash which may include domestic and/or international: ▶ Government and semi-government bonds ▶ Bank and other corporate debt securities (including bills of exchange, promissory notes, negotiable certificates of deposit, term deposits, debentures and/or mortgages)

We are now some months into managing your Fund. As at the end of September 2008, the portfolio was positioned as follows:

Growth-oriented investments	
Australian listed shares	38.2%
International listed shares	16.8%
Property (both domestic and international)	6.7%
Alternative assets	2.8%
	64.5%
Fixed interest securities & cash	
Hybrid securities	20.5%
High yielding global fixed interest securities	12.3%
Cash on deposit	2.7%
	35.5%
	100.0%

Given that we aim to outperform the returns of the All Ordinaries Accumulation Index over time, we have obviously had specific reasoning to deviate from only holding Australian shares to date. Our rationale has been:

- The very uncertain investment climate since the Fund commenced has meant that we have not felt compelled to rush into being fully invested in growth-oriented investments. In accordance with the investment ranges stated above, we moved relatively quickly to the initial 50% exposure then have taken a 'graduated' approach since. At present, we are 64.5% exposed and are intending to increase this over time – thereby 'averaging in' during these volatile times.
- Given the unusually high value of the Australian dollar when the Fund commenced investing, we felt that an exposure to international equities was warranted, which has so far proven to be a good decision. Included in the international equities exposure is a number of 'tilts' – namely to global infrastructure, global resources, Asian equities and stocks benefiting from the move to reduce carbon emissions.
- We were of the view that the listed property trusts sector, both in Australia and overseas, had been very heavily sold off and was starting to represent very good value compared to a pure exposure to Australian shares only.

As stated in the PDS, the majority of the Fund's assets are invested in other managed funds run by third party investment managers. A description of each of these managers/funds can be found on the website at www.thirdlink.com.au. In summary, the managers being used are as follows:

Australian equities – general
– Cooper Investors
– Solaris Investment Management
– Platypus Asset Management
– Orion Asset Management
– Paradice Investment Management
– Goldman Sachs JBWere/Frank Macindoe

Australian equities – smaller companies
– Eley Griffiths Group
– Pengana Capital

International equities – general
– Intrinsic Value Investments
– Taube Hodson Stonex Partners
– Cooper Investors

International equities – niche/tilts
– Colonial First State Investments (global resources)
– Treasury Asia Asset Management
– Magellan Financial Group (global infrastructure)
– Arkx Investment Management (global carbon reduction)

Property
– Perennial Investment Partners

Alternative assets
– Select Asset Management

Fixed interest & cash
– Colonial First State Investments

The high yielding global fixed interest securities are held through the Colonial First State Wholesale Global Credit Income Fund. This fund has exposure to around 500 corporate debt securities diversified across some 60 different industries and nearly 40 different countries, with very small exposures to any individual issuer. All currency risk is hedged back to A$ and the fund is A-rated by Moody's. We believe this fund is well positioned for when the current credit crunch begins to ease in the future.

The hybrid securities in the portfolio are what we would regard as high quality (and include those issued by Commonwealth Bank, Macquarie Group, Suncorp Metway and St George Bank), though the current environment has caused their valuations to fluctuate markedly over short periods of time. This volatility has been of little concern to us as they have all been bought on attractive yields to maturity, and it is our intention to hold them to maturity unless better opportunities become available.

Your Fund also has positions in:

- three listed investment companies, namely Contango MicroCap Limited, Global Mining Investments Limited and Ellerston GEMS Fund; all purchased at a substantial discount to their net tangible asset backing; and
- three individual listed securities that appear very materially undervalued and are judged to have sustainable, robust profits and cash flows (these total 4.8% of the overall Fund value at the end of September). Two of the three securities are currently yielding in excess of 16% pa, returns we are happy to accept and which we feel confident the market will soon value more highly. While such holdings are expected to be rare, volatile market environments (as is currently the case) do from time to time throw up anomalies which present great value.

Although investment markets may continue to be volatile for some time yet, we remain confident in the abilities of all those managing the assets of Third Link Growth Fund to create attractive long term returns for you.

Fund Performance

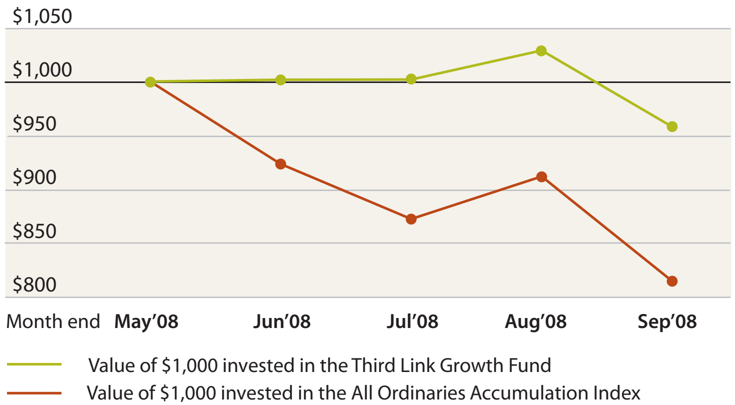
We aim to outperform the returns of the All Ordinaries Accumulation Index after fees over rolling five year periods.

Up until the end of May 2008, it was a requirement that application monies received into the Third Link Growth Fund were kept on deposit as the unit price was held at $1.00. This restriction was removed from the beginning of June, at which time the Fund was free to invest in accordance with its objective.

From 1 June 2008 to 30 September 2008, the Fund return was –4.5%. During the same period the All Ordinaries Accumulation Index returned –18.3%. While this relative outperformance of +13.8% for the initial four month period is pleasing, we acknowledge that this period is very short, and that losing money for investors is never something to cheer about.

The line graph below shows the value of $1,000 invested in the Third Link Growth Fund since the start of June 2008, tracked on a month by month basis and assuming income distributions were reinvested. This is compared to the value of $1,000 invested in the All Ordinaries Accumulation Index over the same period.

Performance – Third Link Growth Fund vs All Ordinaries Accumulation Index



[1] The All Ordinaries Accumulation Index is Australia's premier market indicator. The index represents the 500 largest companies listed on the Australian Securities Exchange measured by market capitalisation and with dividends reinvested.

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depression (if the financial crisis cannot be addressed) to merely sub-par growth (unlike in golf, that is not a good thing).

Nevertheless share markets often rebound strongly the year after a significant decline. In the period since 1885, the year following a fall in the Australian share market has been followed by an average return of 14.7% the next year, or 9.0% in inflation-adjusted terms.

Finally, short-term interest rates are now falling and most if not all of the strong fundamentals described above look likely to remain in place. So while there are many reasons to be cautious, there are also reasons to be optimistic particularly for the Australian economy which has become increasingly linked with China and the rest of Asia, where the growth prospects appear better than in other parts of the world.

30 September 2008
Frank Macindoe, Director,
Private Wealth Management,
Goldman Sachs JBWere

The opinions expressed in this article are my personal opinions and may not represent the view of Goldman Sachs JBWere or Treasury Group Investment Services.

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Social Ventures Australia
Activity Update

Corina is a 15 year old Indigenous student facing a delicate balancing act to care for her unemployed father and elder brother and keep up her school commitments.

'SVA has been a key ingredient in Beacon's national success. The partnership has provided honest and constructive feedback, tremendous consulting services that have supported our growth and introduction to networks that have led to pivotal financial support.'

Scott Harris, Chief Executive of Beacon

She has no access to technology at home, relying on outside sources like the library to research and complete assignments. Buying books, uniforms or attending school trips is a luxury.

Despite these considerable obstacles, Corina is a determined young woman who has given great thought to her future aspirations.

Through the Beacon Foundation's *No Dole* program Corina undertook work experience at an aged care home and hospital, where she received glowing reports. These experiences, coupled with caring for her Dad, led Corina to setting her sights on becoming a nurse.

Now in Year 11 and enrolled in Certificate 3 in Aged Care at her local TAFE, Corina received a scholarship through one of Beacon Foundation's major partners to help cover her school fees, uniform, books and excursions. She is well on her way to finishing school and then in her own words, 'it's off to uni'.

Beacon's program gave Corina the practical assistance she needed to help realise her ambitions; her story is at the heart of SVA's work.

In the first year of *No Dole* at Brooks High School in Launceston, the number of students going on to the dole halved. Within three years that figure was down to one per cent. Of 6,284 students who participated in the *No Dole* program during 2007, 99 per cent have continued on positive pathways, with 92 per cent continuing with further education and seven per cent gaining employment. These figures reflect the kind of individual transformation of young lives that Corina's story exemplifies.

SVA has made real progress over the last six months, working with 15 other non-profit organisations to help build their capacity to change lives and address some of Australia's entrenched social issues. Officially launched in March this year, the SVA Consulting team is also doing outstanding work with SVA's venture partners and external non-profit clients, working on a cost recovery basis.

Your investment commitment to the Third Link Growth Fund, the management fee of which contributes to SVA's work, has been an important component of its growing funding base. SVA thanks you for your support.

www.socialventures.com.au

Important Information: 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 seek independent advice as to the suitability of the Fund to their investment needs. Treasury Group Investment Services Limited is the responsible entity for the Third Link Growth Fund (the "Fund"). Applications can only be made on the form in the current product disclosure statement dated 15 October 2008. A product disclosure statement will be available by contacting Third Link or on **www.thirdlink.com.au**. Potential investors should consider the product disclosure statement before deciding whether to invest, or continue to invest, in the Fund.