

Hanging on for the ride

I am often bemused by the volatility of share markets: apparently intelligently interpreting and reacting to local and domestic events (followed by commentators summing up with precision why markets moved the way they did on a particular day). Does all the 'noise' really matter? I was reminded of this again in March, where markets went up, down, and back to where they started!

March was marked by a number of major geopolitical and economic developments, which at any other time might have caused major market moves. Tensions between Russia and the West waxed and waned after the

former invaded the Crimean peninsula. There was a small but high-profile bond default in China when the market is concerned about credit issues there. Chinese authorities continued to depreciate their currency amid concerns of slowing growth. The US Federal Reserve signalled its intent to tighten monetary policy more quickly, despite a string of weaker economic data (likely caused by unseasonably cold weather).

In spite of all of this, the market response was quite muted by the end, though it jumped around in-between. Major share markets (particularly in US and Australia) didn't change much over the month and bond yields ended the month only marginally higher. Even in iron ore markets (Australia's largest export commodity and a major driver of resource shares), there was a lot of volatility (prices were down more than 10% at one stage) before rebounding

with little overall net change.

From an Australian investor's perspective, a 3 cent increase in the Australian dollar versus the US dollar was the only meaningful and lasting market move during the month. Reserve Bank of Australia Governor, Glenn Stevens stepped back from his recent strategy of actively talking down the currency. In this context, the article below by Ashley Owen (one of the Third Link directors) offers an interesting perspective on the Australian dollar.

Given the goings-on in Crimea it would not be entirely accurate to say 'all is quiet on the Western front'. However, with respect to investment market ramifications, the aggression in that part of the world appears to be panning out the same way as most modern geo-political crises. That is, a market sell-off is met with support as buyers conclude that it's in all parties'

interests to seek a diplomatic solution. Whether we are dealing with tensions in North Korea / South Korea, or Israel / Iran, or Japan / China, investors should generally work with a base case that sanity will prevail. Investment payoffs are based on attaching probabilities to expected outcomes. There are of course situations where the probability of hostilities is high, such as with Syria, but the magnitude of the consequences is relatively small from a global markets perspective.

Volatility in markets is a permanent feature of the landscape, but it doesn't always amount to much.

Thank you for your continuing investment in Third Link Growth Fund. As the Fund now approaches its sixth anniversary, it continues to be heartening to see the fees you pay to us for having your money professionally managed making a difference to others. Since the Fund

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began in mid 2008, around \$2,400,000 has been donated to the charitable sector, with the donations now running at approximately \$75,000 per month.

Regards

Chris Cuffe,
Founding Director & Portfolio Manager
Third Link Investment Managers Pty Limited

My eight rules for both wealth and health

by Noel Whittaker

This morning I was doing a workout at the gym, something I have been doing for more than 20 years. Keeping your body in good shape and building your finances requires similar strategies, as exactly the same principles apply to each. In the interests of good health and wealth for us all, I'll share the principles with you.

Rule 1 – You must have a concrete goal.

It is as pointless to say 'I want to lose a few kilos' as it is to say 'I want to have more money in the bank'. It is essential to have a specific goal and a timeframe.

Rule 2 – Focus on the benefits.

This is what will help you stay on track when the inevitable temptations arise. Shedding a few kilos will certainly improve your health and make you feel better; retiring with a substantial superannuation balance will open up a whole new world of freedom and choice.

Rule 3 – It must be a permanent lifestyle change.

Dr Gary Egger of Gutbusters said the word DIET was short for Diabolical Ineffective Expensive Timewaster. Most people who go on a crash diet put all the lost weight back on when the diet inevitably becomes too hard. It's exactly the same with money.

Scrimping and saving for a month is pointless. Becoming wealthy is usually the result of a process of managing your money well over the long haul and letting compound interest work its magic.

Rule 4 – Understand the 70/30 rule.

Seventy per cent of a successful weight loss program will be attributable to your eating habits, and thirty per cent to exercise. Seventy per cent of building wealth consists of managing your money to spend less than you earn, while the rest of it consists of good asset selection and tax effective strategies.

Rule 5 – Don't try to do too much too soon.

The reason most New Year Resolutions fail is that they are normally made in a moment of alcohol-induced euphoria and are not carried through in the harsh light of day. The trick is to start small and build on it. To lose weight you might decide to have two healthy-eating days a week. To get your finances in order you could start with a simple budget coupled with moving your home repayments from monthly to fortnightly.

Rule 6 – Expect roadblocks.

There will be times, especially around Christmas, when your budget and your belly will take a battering. By all means, prepare for these occasions to the best of your ability but don't give up if you have a setback. Just treat it as a period of consolidation while you prepare to start moving forward again.

Rule 7 – Keep track of your progress but don't do it too often.

Both your weight and your portfolio are going to be bouncing around for the rest of your life, and getting excited or depressed because of a good or bad day can put you on an emotional roller coaster which could lead to impulsive and flawed decisions. As long as you are making steady progress towards your goal you are on the right track.

Rule 8 – Mix with people who share your goals.

It's much easier to refuse dessert when nobody else at the table wants it than it is to watch everybody else eating it. It's easier to live within your income if your circle of friends shares your financial aspirations.

The great thing about having a variety of goals is the way you can make them work together. Much of our discretionary spending these days is on food and alcohol, and cutting back on these will save you dollars as well as kilos. It may be difficult at first, while you are slowly changing lifelong habits, but eventually new habits will form. Then you can enjoy the results. ■

Noel Whittaker is Australia's foremost financial adviser, a well-known media commentator and international best-selling author, including 'Making Money Made Simple'. He is Adjunct Professor with the Faculty of Business at the Queensland University of Technology. His advice is general in nature and readers should seek their own professional advice before making any financial decisions.

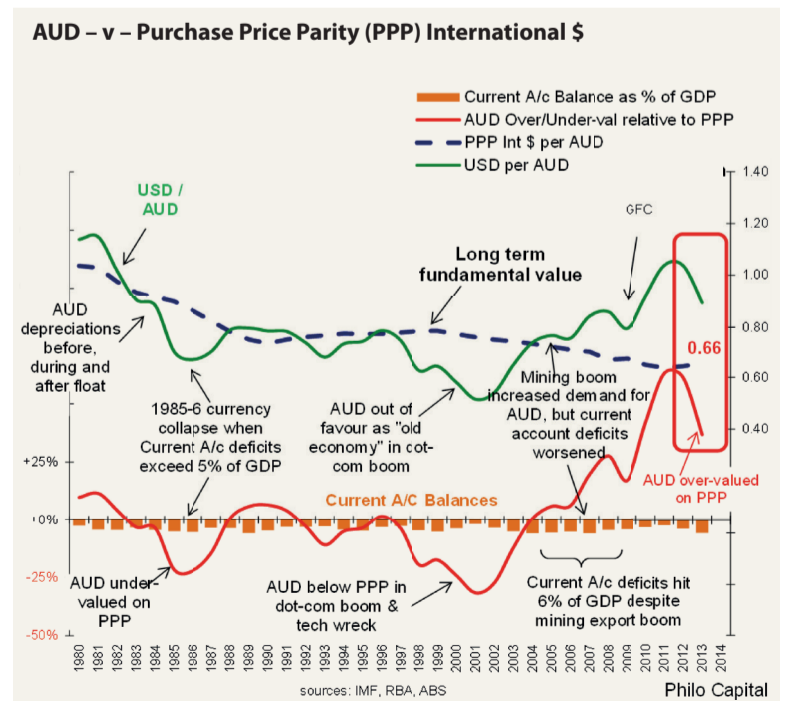
Aussie dollar still overvalued

by Ashley Owen

Over the very long term (periods of a several decades), currencies tend to revert to their fundamental values, determined by their relative purchasing power. In turn this is driven by their relative inflation rates, current accounts and reserve backing. On this basis the Australian dollar (AUD) is still significantly over-valued, even after the 15% decline over the past year. The chart below shows how the AUD has oscillated around its long term fundamental 'Purchase Price Parity' value over the past 35 years. The underlying fundamental PPP value of the AUD has been in decline over the past century due mainly

to: structurally high inflation relative to other developed markets; high relative interest rates; chronic current account deficits (we still have the worst current account deficits in the OECD despite our so-called mining export booms), and our heavy reliance on foreign debt at relatively high interest rates. The AUD remains at least 30% above its underlying fundamental PPP value (around 65-70 US cents) and it should fall further as China slows, over-capacity brings down commodities prices and global interest rates rise. ■

Ashley Owen is Joint Chief Executive Officer of Philo Capital Adviser and a director of Third Link Investment Managers.



Portfolio Update

The objective of the Third Link Growth Fund is to provide an investment in Australian listed shares. To achieve this, the Fund extensively invests in other managed investment funds run by professional third party investment managers.

As at the end of March 2014 the portfolio was invested as shown in the table opposite.

Over the last six months the changes to the portfolio, excluding movements in our cash investments, have been as follows:

- ▶ we added to our investment in the Goldman Sachs Premier Australian Equities Fund;
- ▶ we added to our investment in the Cooper Investors Australian Equities Fund;
- ▶ we added to our investment in the Eley Griffiths Group Small Companies Fund; and
- ▶ the Fund paid a distribution of income to investors in January 2014 in respect of the six months ended 31 December 2013.

No new managers were added to the Fund during the six months ended 31 March 2014.

As at the end of March 2014 the Third Link Growth Fund stood at \$67.2m in size (\$60.4m at the end of September 2013). During the last six months we

AUSTRALIAN EQUITIES		
General:		
JBWere Individually Managed Account	20.6%	
Bennelong Ex-20 Australian Equities Fund	10.9%	
Cooper Investors Australian Equities Fund	11.0%	
Greencape Wholesale High Conviction Fund	7.6%	
Goldman Sachs Premier Australian Equities Fund	8.2%	
Montgomery [Private] Fund	7.5%	
Paradise Mid Cap Fund	10.1%	75.9%
Small Caps:		
Aberdeen Australian Small Companies Fund	5.3%	
Eley Griffiths Group Small Companies Fund	3.5%	
Ophir Opportunities Fund	3.5%	
Pengana Emerging Companies Fund	10.7%	23.0%
		98.9%
CASH & CASH EQUIVALENTS		
Colonial First State Premium Cash Enhanced Fund	0.4%	
Custody Account & Other	0.7%	
		1.1%
TOTAL		100.0%

The figures shown against each Australian equities fund listed above do not 'look through' each fund and strip out any cash component.

received \$3.9m in new applications and processed redemptions totalling \$2.3m.

A description of each of the fund managers we invest with, including their funds listed in the table above, can be found on our website at www.thirdlink.com.au (see the section 'Fund Managers We Invest With').

Each of these managers rebates their management fees and performance fees which apply to the investment

of Third Link Growth Fund in their respective fund, meaning they are effectively managing the assets of Third Link Growth Fund for free. It is through this extraordinary generosity, together with that of other service providers (all listed on the Fund website), that Third Link is able to make sizeable donations to the charitable sector without diluting the returns to investors from the Fund. ■

Fund Performance

	three months	six months	one year	two years	three years	five years	Since inception (June 2008)
Third Link Growth Fund	+3.8%	+6.7%	+17.9%	+18.7%pa	+11.9%pa	+15.9%pa	+9.2% pa
Fund performance relative to its benchmark ¹	+1.8%	+1.3%	+4.9%	+2.7%pa	+1.2%pa	+4.1%pa	+3.9% pa

Returns are calculated after fees have been deducted and assuming reinvestment of distributions. No allowance is made for tax. The benefits of franking credits from dividends received have been ignored.

¹ Up until the end of January 2012 the benchmark was the Morningstar Multi-Sector Growth Market Index and from February 2012 onwards the benchmark was the S&P/ASX 300 Accumulation Index. The S&P/ASX 300 Accumulation Index covers the largest 300 shares listed on the Australian market. Being an accumulation index, it measures changes in both the value and income of the shares.

Third Link Growth Fund aims to outperform the S&P/ASX 300 Accumulation Index after fees over rolling five year periods. This objective is being achieved very satisfactorily.

As at the end of March 2014, the Fund performance relative to the Fund benchmark was as shown in the table above.

The Fund has produced another very satisfactory performance over the last six months, producing a return of +6.7% after fees. Over the same period, cash on deposit yielded just +1.3%. Four of the last six months showed positive results, with a 6.0% return in the month of February being the standout.

The longer-term performance of the Fund, as shown in the table, also

continues to be very pleasing. As an example, the five year return of 15.9% pa compound after fees has been particularly good for our investors, especially considering cash on deposit over the same period yielded just +3.9% pa. Such returns show, yet again, the importance of having a long term time horizon when investing in shares.

The performance of Third Link Growth Fund has been above its benchmark over all time periods shown in the table. This has been achieved because of solid long-term investment results achieved by the fund managers utilised by the Fund, validating their continuing inclusion. This result also continues to demonstrate that our active approach to adding value for investors is proving to be rewarding. ■

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 20 February 2012, which includes references to additional information which forms part of this PDS. A Product Disclosure Statement can be obtained 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.

The charities we support

All fees we receive from managing the investments of Third Link Growth Fund, net of expenses incurred, are donated to various charities, being quality organisations that help Australian children and young people to thrive, not just survive.

One such group supported is Australian Indigenous Mentoring Experience (AIME). AIME works towards education equality, where Indigenous students perform and finish school at the same rate as every Australian child. They promote unity between Indigenous and non-Indigenous cultures and build Australia's future leaders.

AIME began in 2005 as a pilot mentoring program at Alexandria Park Community School in Sydney. 25 Indigenous students were partnered with 25 Indigenous and non-Indigenous volunteer mentors from the University of Sydney. Jack Manning Bancroft, AIME's CEO, was only 19 when he walked into the school with those volunteer mentors. The first year produced feedback and results for the school which reported a 40% increase in attendance by students in the program.

This year, AIME will work with 15 universities in six states across Australia with over 1,500 volunteer mentors.

A dynamic educational program

AIME provides a dynamic educational program that gives Indigenous high school students the skills, opportunities, belief and confidence to finish school at the same rate as their peers. AIME has dramatically improved the chances of Indigenous children finishing school. It also connects students with post Year 12 opportunities, including further education and employment.

AIME strengthens links between universities and local high schools, as well as encouraging teachers to be more optimistic about tertiary

education as a realistic option for their Indigenous students. Through a strong relationship with AIME, parents' belief in their child's chances of pursuing a university education is also increased. This, combined with program sessions such as Aboriginality, helps children identify, be proud of and strong in, their culture.

Young people helping each other

AIME bridges the gap, helping Australians see Indigenous Australia as an opportunity, not an obligation. AIME also gives everyday Australians the chance to have a meaningful connection with Indigenous Australia.

AIME demystifies the university environment for Indigenous youth. It teaches



'With the help of Third Link, we could become the largest Indigenous organisation, reaching 10,000 students annually and assisting them to finish school at the same rate as all Australian kids.'

JACK MANNING BANCROFT

them that universities are places for anybody to attend and continue their journey. The program also has a great impact on the volunteer university mentors, most of whom have had little or no contact with Indigenous Australia prior to joining AIME. This allows for a near future where non-Indigenous Australians feel closer to Indigenous culture through meaningful interaction.

Stories of success

Jack Manning Bancroft, CEO, explains: 'In the years that AIME has been in operation we have seen many stories of success and of overcoming adversity. These stories are not just reflected in the consistently strong school progression data, but also in the achievements our mentees have attained. Achievements include becoming the first Aboriginal school captain at their school, being the first person in their family to progress to university, or even continuing their education in spite of difficulties. AIME strongly emphasises that Indigenous can mean success, and it does this to all stakeholders that walk with AIME: mentees, mentors, teachers, principals, supporters and increasingly to the greater population via the media.'

AIME takes pride in not relying on Government funding and will always look to be sustainable with its funding model to ensure that AIME can remain supporting Indigenous students for years to come. Jack Manning Bancroft says: 'With the help of Third Link, we could become the largest Indigenous organisation, reaching 10,000 students annually and assisting them to finish school at the same rate as all Australian kids.'

Other charities we support

In addition to AIME, Third Link also supports the following organisations.

Batyr – bringing young people's social and mental health issues out in the open. Using peer success stories to engage, educate and empower young people Batyr also advocates the many support services available.

Beacon Foundation – influencing the attitudes and culture of Australians to prevent young Australians leaving secondary school from moving into unproductive or insecure pathways, becoming marginalised or dropping out.

Children's Ground – starting from the ambition of Aboriginal people to change their future and helping their kids to be 'strong both ways': strong in the oldest living culture in the world and fully engaged in the Western world.

National Centre for Childhood Grief – professional support and guidance in a safe place where children grieving a death can share their experience as they learn to live with the impact on their lives.

Outward Bound Australia – providing challenging outdoor experiences that help young people to discover, develop and achieve their full potential.

Rural Education Australia Program with FRRR – responding to the ongoing need for an independent and flexible source of funding for community-based early childhood and education service providers in Australia's rural and remote communities. ■