thirdlink

Third Link News

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'Nothing endures but change'

Constant exposure via the media to the turmoil being experienced around the world has I'm sure impacted us all.

When reflecting on current world events I am reminded of the now famous quote by the pre-Socratic Greek philosopher Heraclitus (c. 535 BC – c. 475 BC) – *'Nothing endures but change.'* Indeed change is enduring – since the last newsletter of only six months ago, we have had a considerable number of major and in some cases tragic events, many of which have triggered significant change.

On the international political front we have seen an uprising of people power that is shaking autocratic leaders across North Africa and the Middle East, including in Egypt, Bahrain, Yemen, Syria and Libya. On the local front we have also had our fair share of political change, with our hung parliament at a Federal level and unprecedented swings in election results in some states.

We have had a spate of large scale natural disasters around the world, including major earthquakes in Christchurch, the devastating Queensland and Victorian floods, cyclone Yassi in northern Queensland, the recent Japanese disaster (earthquake, tsunami and then nuclear meltdown fears), and just recently a large earthquake in Indonesia. And in financial circles we have seen the Australian dollar move to an all time high against the US dollar and large doses of fright about the size of sovereign debt in a number of European countries.

But despite these significant events, investment markets continue to operate… and in a relatively normal manner. Such major events of the last six months may scare some people away from taking risks, but the real risk is assuming that the world is out of control and black swans (the name often given to very rare events) are proliferating. To this end I am reminded of the lows of the recent global financial crisis and how, only two years ago, commentators were comparing the state of the economy to the Great Depression of the 1930s. But despite such pessimism the US share market has now doubled in value from its October 2007 low and is only around 10% away from its previous high.

Although Australia's share market is yet to recover from the global financial crisis to the same extent as the US, one of the very positive predicaments that Australia now finds itself in (yet again!) is the current mining and resources boom (the subject of the article below by economist Hans Kunnen). In this regard David Horne's famous phrase *'the lucky country'* has particular resonance. Since Horne wrote these words in 1964 they have been used countless times and in numerous ways to describe everything that is great about our nation, from weather, to lifestyle, to history and from gold booms to economic booms. Horne's irony, ironically, has been totally overlooked. In writing those words, Horne's inference to 'lucky' was literal: a 'not too clever country'… a country that showed less enterprise than almost any other prosperous industrial society. Australia, Horne continued, developed as a nation at an opportune time for us to reap the benefits of technological, economic, social and political innovations already developed by other nations. Those other nations were clever: Australia was simply lucky.

Let's hope Australia can reap the benefits of the current mining and resources boom in a sustainable and long lasting way rather than again simply being 'lucky'.

Thank you for your continuing investment in Third Link Growth Fund. All the net management fees of the Fund continue to go to support the non-profit sector through the inspirational work of Social Ventures Australia. To date, more than $925 000 has been donated.

Regards

Chris Cuffe, Director
Third Link Investment Managers Pty Limited

The resources sector in perspective

By Hans Kunnen

Our resources sector is never far from the headlines. Issues ranging from taxation to land rights, from the environment to investment levels, and from exports to inflation, have festooned our front pages.

What should we make of Australia's resources sector? How important is it? How does it stack up in terms of jobs created, income earned and taxes paid?

The basics

The basics are relatively easy to comprehend. It directly employs around 200,000 workers or just 1.8% of the working population. It then employs a similar number in mining related construction and support services.

While the sector employs only a small proportion of the workforce, it accounted for 64% of exports or $150 billion in 2010 and 8% of national income or GDP. Coal, iron ore and gold are three of Australia's largest exports.

The sector paid close to $15 billion in company tax to the Commonwealth Government in 2009-10 which amounts to around 25% of the government's company tax collection. It paid $5 billion in royalties to State governments and a further $2 billion to the Commonwealth Government in resource rent taxes. In 2008-09 taxes and royalties collected amounted to approximately 34%.

The resources sector accounted for 33% of the Australia's sharemarket capitalisation towards the end of 2010 with shares in the sector valued at $460 billion. During the Asian financial crisis of 1997 its market capitalisation fell to around 15%.

During 2010 projects in the mining sector accounted for almost $40 billion in capital expenditure on equipment and buildings. This amounted to 36% of all such investment in Australia for the year. Looking forward, the Australian Bureau of Statistics estimates similar spending (if not more) on capital works in the year ahead.

Some implications

While few of us work in the resources sector most of us are touched by it one way or another. It affects our superannuation, the value of our dollar, our levels of personal taxation and even house prices.

In short, the resources sector has a direct impact, for better or for worse, on the standard of living of all Australians.

Incomes

Income from the resources sector is broadly determined by the volume of output and the prices of the various commodities. The prices paid for Australian commodities have oscillated over the past 50 years as demand has risen and fallen. Output volumes have generally risen.

> *"The resources sector has a direct impact, for better or for worse, on the standard of living of all Australians."*

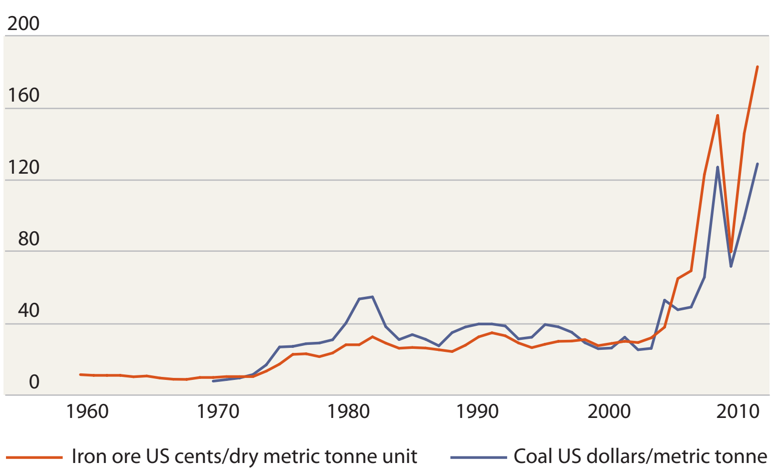
At present commodity prices are at close to record highs (despite the trauma in Japan) due to high levels of economic activity in China, India and other parts of Asia. It is widely expected that demand from the emerging nations in the Asian region will continue to expand over the next decade as these economies urbanise and industrialise just as Japan and Korea did in previous decades.

It seems likely that output from the resources sector will continue to rise and that prices will remain above trend for at least the next few years. The resulting higher than average income from the sector can put upward pressure on wages, house prices, interest and the demand for highly skilled labour.

While income rises in Australia during the resource boom times, it contracts when prices fall. Managing these fluctuations and the flow-on effects for taxation and employment is one of the challenges created by the resources sector.

The chart below shows how iron ore and coal prices have moved in recent decades.

Movement of iron ore and coal



Source: World Bank Data Base.

Exchange rates

A feature of the Australian economy is its freely floating exchange rate. During boom times in the resources sector the dollar tends to strengthen. While this may be good news for importers and those traveling overseas it does make life difficult for exporters within the employment intensive manufacturing sector.

Part of the challenge of managing a boom is creating a taxation system that provides the flexibility to adjust as economic circumstances change. This might see taxation collected from the resources sector used to provide taxation relief to other sectors.

The conclusion to this brief overview belongs to the Governor of the Reserve Bank of Australia, Glenn Stevens, who closed a recent speech with the following statement.

'We are now engaged in a national discussion about how to stretch the benefits of the resources boom over a long period, and how to manage the risks that it will bring. These are complex matters that involve a wide range of policy areas – macroeconomic, microeconomic, taxation, industrial and so on. But if that discussion can be conducted in a mature fashion, and followed up with sensible policies, then we have a good chance of leaving to the next generation a wealthier, more secure and more stable Australian economy.' ■

Mr Kunnen was formerly Head of Investor Markets Research at Colonial First State and Chief Economist at the State Bank of NSW.

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 are now almost three years into managing your Fund with the portfolio positioned as follows:

		31 March 2011	30 September 2010
Growth-oriented investments			
Australian listed shares	– general	39.0%	40.8%
	– smaller companies	10.8%	12.9%
International listed shares	– general	15.1%	10.5%
	– emerging markets	6.5%	8.6%
Property (Australian listed)		–	2.3%
Alternative assets		7.5%	3.4%
		78.9%	78.5%
Income-oriented investments			
Property/infrastructure trusts (Australian listed)		4.3%	2.0%
Hybrid securities (Australian listed)		9.4%	11.2%
High yielding global fixed interest securities		6.1%	2.7%
Cash on deposit		1.3%	5.6%
		21.1%	21.5%
		100.0%	100.0%

The majority of the Fund's assets are invested in other managed funds run by third party investment managers. The above figures do not 'look through' each underlying fund, but are based on the overall classification of each fund.

You can see from the above that there has been little change in the split between growth assets and income assets compared to six months ago. However, within these two broad categories the following key changes have occurred during this period:

- Using new application money received during the period, we allowed the exposure to Australian shares to decrease while we increased the exposure to international shares primarily because of the high Australian dollar;
- We redeemed our holding in the *Perennial Australian Listed Property Securities Trust* and invested directly into a small number of Australian listed real estate trusts which we have categorised as income assets due to their low gearing and consistent, high quality income flows;
- We added an additional Alternative Assets fund, being the *Tasman Market Neutral Fund* (managed by Regal Funds Management), a market neutral fund that seeks to exploit equity market inefficiencies through holding both long and short positions in predominantly Australian listed shares;
- We added to our position in high yielding global fixed interest securities (via the *Colonial First State Wholesale Global Credit Income Fund*) given abating concerns about European sovereign debt and the attractive yields still being generated.

We believe that the economic outlook for Australia (where we continue to have a strong bias, with Australian equities representing around half of the portfolio) remains positive and that equity markets are still within their fair value range (being neither cheap nor expensive).

Net inflows to the Third Link Growth Fund over the past six months totalled $9.36 million, with the overall Fund size now at $49.0 million.

The key portfolio changes that occurred over the last six months (since our last newsletter) in addition to those already mentioned were as follows:

- We added to the position in the listed *Adelaide Managed Funds Asset Backed Yield Trust* given its attractive discount to net tangible asset backing and near term wind up;
- We added to our position in the listed *Australian Infrastructure Fund* given the attractive and diverse nature of its portfolio of primarily airport assets and its discount to net tangible asset backing;
- The Fund redeemed its holding in the *Orion Australian Share Fund* to make way for a position in a new Australian share fund, the *Montgomery [Private] Fund* that utilises unique proprietary measures of quality and intrinsic value;
- We added to our holdings in *Arkx Clean Energy Fund* as a counter to rising oil prices and *Colonial First State Global Soft Commodity Share Fund*, particularly given the strength of the Australian dollar;
- We redeemed our holding in the *Schroder Global Emerging Markets Fund* in favour of a larger position in the *Aberdeen Emerging Opportunities Fund*;
- We redeemed our holding in the *Intrinsic Value Investments Global Equity Fund* in favour of a larger position in the *Magellan Global Fund*;
- We added to our holdings in the *Pengana Emerging Companies Fund, Paradice Mid Cap Fund* and *Platypus Australian Equities Trust*;
- We sold out of our position in the listed *Contango Microcap Limited* given our concern for the valuations of small resource companies;
- We switched some hybrid securities, booking a good profit; and
- The Fund paid out $596,250 of income distributions in December, with $335,075 reinvested by investors.

The majority of the Fund's assets continue to be invested in other managed funds run by third party investment managers. A description of each of these managers/funds can be found on our website at www.thirdlink.com.au ■

Fund Performance

We aim to outperform the returns of the Morningstar Multi-Sector Growth Market Index after fees over rolling five year periods.

This index is constructed by the Morningstar group 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. In order to achieve this objective, we have considerable flexibility in the type of investments and exposure to each that the Fund may hold.

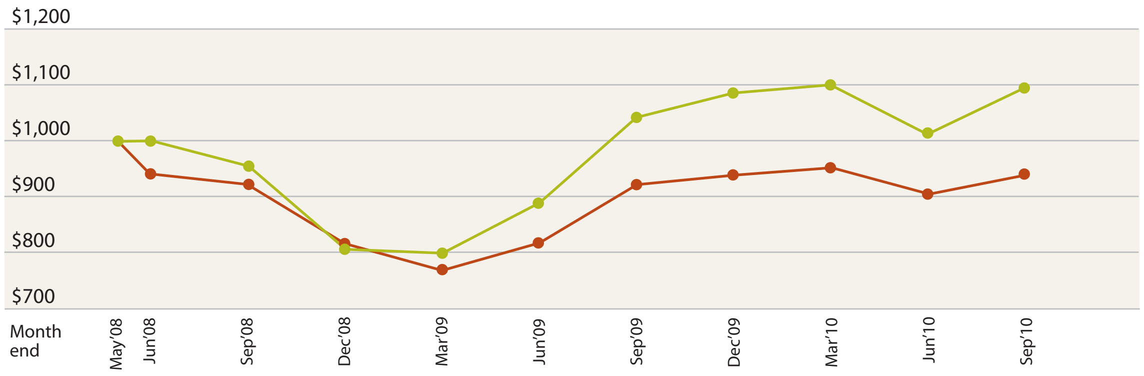
The above table shows Fund performance after fees relative to the Morningstar Multi-Sector Growth Market Index as at the end of March 2011. To provide useful points of comparison, the table also shows the returns from the Australian share market and from cash on deposit over the same period.

	Since inception (June'08) (pa)	2 year (pa)	1 year	6 mths	3 mths	1 mth
Third Link Growth Fund	+6.3%	+22.2%	+8.0%	+8.5%	+2.8%	+0.8%
Morningstar Multi Sector Growth Market Index	–0.3%	+13.5%	+4.1%	+5.5%	+2.9%	–0.5%
Fund relative performance	+6.6%	+8.7%	+3.9%	+3.0%	–0.1%	+1.3%
Australian Share Market	–1.2%	+22.9%	+4.8%	+8.4%	+2.9%	+0.6%
Cash	+4.9%	+4.2%	+4.9%	+2.5%	+1.2%	+0.4%

Returns are calculated after fees have been deducted and assuming reinvestment of distributions. No allowance is made for tax. The figures for the 'Australian share market' and 'cash' are measured by reference to the All Ordinaries Accumulation Index and UBS Bank Bill Index respectively.

The Fund has produced a satisfactory investment result since inception, outperforming its benchmark, the Australian share market and cash. As the table shows, stronger results, particularly in absolute terms, are reported over other periods, due to the impact of the global financial crisis on the since-inception figure. The graph below shows the value of $1,000 invested in the Third Link Growth Fund since the start of June 2008, tracked on a quarterly basis and assuming income distributions were reinvested. This is compared to the value of $1,000 invested in the Morningstar Multi-Sector Growth Market Index over the same period. ■

Performance of Third Link Growth Fund vs Morningstar Multi-Sector Growth Index



The Third Link Growth Fund was established on 12 March 2008 (though it was not open for investment until 10 April 2008, being the date of the first PDS). 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. This restriction was removed from the beginning of June 2008, at which time the Fund was free to invest in accordance with its objective.

Returns are calculated after fees have been deducted and assuming reinvestment of distributions. No allowance is made for tax.

Social Ventures Australia Activity Update

Like many young Indigenous people, Shannon Forrester-Jeffery was a smart guy with a lot of potential, but left high school at aged 15.

Nearing his twentieth birthday, he had no clear career plan or direction, not knowing what job opportunities might be available to him or how to go about tapping in to them. All that changed, however, when Shannon joined a Ganbina Employment Program.

Ganbina, based in Shepparton, Victoria, is a school-to-work transition agency for young Indigenous people. For many years Social Ventures Australia (SVA) has recognised the critical need for agencies such as Ganbina and that's why SVA has partnered with Ganbina since 2003.

Ganbina works with Indigenous students on a long-term basis throughout their high school years, making sure these young people gain the skills, knowledge and tools to enable them to reach their full potential, and make a smooth transition from school to work, or further education.

Ganbina also works with young people who fall outside these parameters, people who find themselves in their late teens or early twenties with little education or confidence to secure employment. Shannon's story is just one such example.

Very quickly after joining Ganbina's program, Shannon's aptitudes were assessed and he was given practical assistance to write a CV, learn how to conduct a job search, communicate with prospective employers and choose appropriate clothes to wear for job interviews.

Shannon applied for and won a casual job at one of Shepparton's largest retailers, Officeworks, which turned into a part-time job, then full-time employment as a permanent Customer Service Officer. Ganbina helped Shannon settle into his new job and will continue to support him as long as he wants them there. Shannon loves and excels at his job, which has opened the door to on the job training and further career development with the company. In fact, Shannon is now in training for a management position at an Officeworks store in western Sydney.

Shannon is a great example of how, with the right guidance, young Indigenous people can shine.

For Shannon, his job is a dream come true, bringing financial independence, increased confidence and self-esteem. He said, "I have always wanted to work in retail and Officeworks is a fantastic employer. The management and work environment are great and everyone supports each other…I'm so glad I dropped my résumé in and gave it a go."

Your investment commitment to the Third Link Growth Fund, the management fee of which contributes to SVA's work, enables SVA to support organisations like Ganbina – and more importantly, help transform lives. SVA thanks you for your support. ■

www.socialventures.com.au