

Monthly activity report.

September & October 2013

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Presentations.

6 presentations.

An important part of our wealth creation and preservation is to review the many opportunities that arise each month on behalf of our clients. These are discovered from a vast and differing array of sources. For our team this creates an opportunity rich environment, but also important to our success in wealth preservation is what our team deliberates on and chooses not to invest in. This month's report is a commentary on our activity.

Providence[™]

Strategy. Portfolio. Structuring. Investment. Compliance.

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Section 1: Acceptances.

Australian Industrial REIT IPO - Accepted.

Providence participated in the IPO of the Australian industrial REIT on behalf of our clients. We believe that the industrial property market in Australia offers the most compelling fundamentals of the property sector given global-leading yields and the increased demand for warehousing and distribution floor space due to the relocation of manufacturing from industrialized nations to the emerging markets.

The Australian Industrial REIT offers high quality exposure to this sector with the underlying assets located in major metropolitan areas and nearby to major road, rail, air or port infrastructure. Despite the offer being priced at a 3.5% premium to NTA, the 8.50% yield will offer significant price support and attract plenty of interest from yield deprived retail investors. As at the time of writing, the shares are trading at a 4.5% premium to the initial listing price.

Corval Industry House Trust early sale – Accepted.

Providence recently voted to accept the early sale of Corval Industry House Trust to Brompton Asset Management. We are pleased with the outcome as the agreed sale price of \$152m is considerably above the purchase price of \$123m back in Jan-2010, in addition to the solid 8.5% distributions the property delivered. There are a number of property opportunities that have come to market for IPO, we will continue to review these on a case by case basis for potential capital growth and as an enhanced yield over declining cash rates.

Section 2: Declines to offers.

Duet Group \$100m placement– Declined.

Duet Group is an ASX listed owner of energy utility assets in Australia. Providence does not hold Duet in our model equity portfolio, with APA being our preferred infrastructure business given it is entirely exposed to the distribution of the growing natural gas infrastructure sector. Furthermore, the Duet placement was priced at a 0.1% premium to the 5-day volume weighted average price, therefore was not compelling from a pricing perspective.

BKI Investments \$55m Placement – Declined.

BKI Investment Company is a closed end listed investment company on the ASX. Providence does not hold BKI Investments in our model equity portfolio given it is not included in the ASX 200 index and offers limited liquidity. Generally we do not invest in LIC's unless they are trading at a significant discount to net assets. At the time of writing, shares were only trading at a 3% discount to net assets.

Dart Energy \$11.9m Placement and \$8.8m Entitlement – Declined.

Dart Energy is an exploration and production company in the unconventional gas industry – natural gas extracted from coal beds and shale. Providence does not hold Dart Energy in our model equity portfolio given it is not included in the ASX 200 index and offers limited liquidity. Furthermore, Dart Energy is involved in unconventional gas exploration with limited production to date. We believe there is better value in currently producing energy companies.

Pura Vida Energy \$7m Placement – Declined.

Pure Vida Energy is an Australian based oil explorer building a portfolio of high quality assets in Africa. Providence does not hold Pura Vida Energy in our model equity portfolio given it is not included in the ASX 200 index and offers limited liquidity. Furthermore, Pura Vida Energy is focused on oil exploration in offshore Africa and we believe there is better value in currently producing energy companies in more stable political environments.

Section 3: Presentations.

Walter Scott Global Fund.

We were invited to attend Walter Scott's global fund presentation hosted by Rodger Nesbit and Francis Sempill. Walter Scott is a long term, bottom up, benchmark unaware, concentrated portfolio manager which focuses on high quality global companies. The fund returned 32% for the rolling year to Aug-13 versus the MSCI World ex-Australia benchmark of 37%. The fund has recently underperformed for the rolling year with lower exposure to US by region, and a lower exposure to financials which have both impacted on relative performance. Currently the fund has overweight exposure to Information Technology (Cisco, Adobe, Intel) and Energy (EOG Resources, CNOOC, Petroleo Brasileiro). We are pleased to see the blended performance of our three preferred managers: Walter Scott, Platinum International and Magellan, having delivered excess returns above the benchmark over the cycle.

SG Hiscock Property Fund.

We were given an update by Stephen Hiscock and Grant Berry regarding their Property Income Fund of which we are invested on behalf of our clients. A-REIT's have experienced a strong rally over the rolling year, the fund being up 18% to Aug-13. The sector has de-risked with much lower gearing, conservative property valuations, lower borrowing costs, improved debt covenants, increased transparency, and much more sustainable payout ratios. Excluding Westfield Group and Goodman Group, the sector is trading at a 5% discount to fair value. Property remains an attractive asset class on valuations and fundamentals. The combination of strong yields, inflation protection, and normalisation uplift to fair value provides a strong backdrop for returns going forward.

Antares High Growth Fund.

We had a one-to-one meeting with fund manager Richard Dixon to discuss their long short fund. Richard commented on the difficulty for the fund recently given the lack of consistent themes, less conviction and the market being driven by momentum (particularly with ongoing Quantitative Easing) rather than quality. We believe the fund has performed well over the long term returning 6.3%pa and 6.4%pa for 5 yrs and 7 years respectively to Aug-13.

Ability Capital

Ability Capital portfolio manager and CEO Stephen Richards presented their new fund to Providence. Ability Capital is a specialist investment manager with a focus on the use of financial derivatives. The fund has returned 13.1% since inception (21 Jan 2011 – September 2013), outperforming the index by 4.5% with reduced volatility. The fund is separated between a long position in their Turquoise Australian Equity Fund and a downside portfolio protection strategy. Given the separated nature of the overall position and the short history of the fund, we will not participate at this stage but will continue to monitor its performance.

GLG Partners

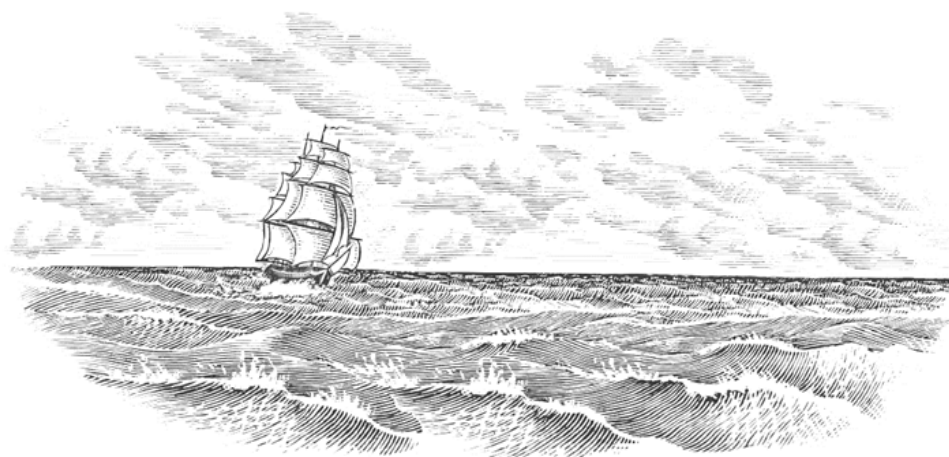
GLG Partners Co-Manager and Co-Founder Pierre Lagrange presented their GLG European Long Short Fund to Providence. GLG has one of the world's most widely respected investment teams and was recently acquired by Man Investments to become one of the largest global hedge fund providers. The GLG European Long Short Fund is a market neutral long-short equity fund that seeks to achieve absolute returns with low volatility through all market environments. The 12 year track record of the fund identifies an annualized net return of 9.75% with annualized volatility of 8.14%. Despite the strong returns and impressive investment team, we will not be participating in the fund at this stage given the attractive returns that can be found in less risky asset classes in Australia.

Morphic Asset Management

Morphic Asset Management's Chief Investment officer and Managing Director Jack Lowenstein and Risk Manager Geoff Wood presented their new Global opportunities Fund to Providence. The fund is investment style agnostic although has a value bias. The fund was established in August 2012 and has returned 39.32% to September 2013, underperforming the MSCI AC world total return index in AUD by 0.44%. Given the short history of the fund, we will not participate at this stage but will continue to monitor its performance.

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*"I can't change the direction of the wind, but I can adjust my sails
to always reach my destination." - Jimmy Dean*



We wish you. Safe passage.

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