

## Monthly activity report.

### March 2014

#### Product and manager reviews.

##### Acceptances.

**1 acceptance.**

##### Declines.

**9 declines.**

##### Presentations.

**6 presentations.**

Providence reviews a number of products each month on behalf of its clients, searching for investment opportunities that fit their individual requirements. Given our transparent fee structure, with all fees rebated in full to clients, each opportunity is based solely on its merits regarding risk and return.

We thought you may find it of some interest to see what we have reviewed and the basis of our decision.

## Providence™

**Strategy. Portfolio. Structuring. Investment. Compliance.**

**Contents.**

Activity summary.

**Section No1.**

**1 acceptance.**

Suncorp convertible preference shares

**Section No2.**

**9 Declines.**

Clime Capital capital raising

Automotive Holdings Group

Sub 161 capital raising

Cardno placement

Pioneer Credit Ltd IPO

Gold Road Resources placement

Strike Energy capital raising

Acorn Microcap LIC raising

Watermark Market Neutral Fund placement

**Section No3.**

**6 Presentations.**

Providence - Alternatives Sector Review.

Nanuk – Clean Energy Fund.

Denning Pryce – Tailored Fund.

Aurora – Fortitude Absolute Returns Fund.

Regal – Market Neutral and Long Short Fund.

Pengana – Absolute Returns Fund.

Blackrock – Multi Opportunity Absolute Returns Fund.

## Section 1: Acceptances.

### **Suncorp Convertible Preference Shares – Accepted.**

Suncorp Group launched a new \$250m convertible preference share offer (ASX code: SUNPE) as part of Suncorp's ongoing funding and capital management strategy. We believe the hybrid is attractively priced paying 3.40% over the 3 months Bank Bill Swap Rate (at the time of writing 2.65%). The initial floating rate would be 6.05% with an additional 1% rebate Providence has negotiated on behalf of our clients. We believe this is an attractive yield providing some yield pickup over cash/term deposit rates from a top 20 ASX listed bank.

## Section 2: Declines to offers.

### **Automotive Holdings Group – Declined.**

Automotive Holding Group (ASX code: AHG) is a diversified automotive retailing and logistics group. AHG is Australia's largest automotive retailer as well as Australia's largest cold logistics provider. AHE is raising capital to fund the acquisition of a leading temperature controlled transport business and an automotive retailing business. The purchase price of the new businesses at 4.6-5x EBITDA appear reasonable, however, a 3% discount to the last close and 5 day volume weighted average price for the capital raising was not compelling in our view. We will continue to watch AHE as it progresses.

### **Sub 161 capital raising – Declined.**

Sub161 provides overland energy supply and transport solutions that connect remote customers to cost effective natural gas via a 'virtual pipeline'. The company looked to raise \$13.5m to fund construction and development costs of a natural gas project and repay a bridging finance facility of \$5m. While the concept is interesting and could potentially be beneficial for end users, we would prefer to see further confirmed revenue before becoming a debt holder. We will keep an eye on this business as it continues to mature.

**Cardno Placement – Declined.**

Cardno Ltd (ASX code: CDD) is a professional infrastructure and environmental services company. We have been interested in Cardno in the past, although were concerned about their ongoing acquisitive nature as we would like to see them focus on consolidating and extracting value from the number of significant acquisitions they have made over the last few years. We will watch with interest to see how the integration proceeds.

**Pioneer Credit Ltd IPO – Declined.**

Pioneer Credit Ltd is a company that purchases outstanding debt from larger institutions with a focus on getting the customer back on track with their repayments. We have declined the IPO as market capitalisation is below our minimum size; new shareholders would have low liquidity on the secondary market as 45% of the company shares would be escrowed until FY15 results. In addition, pricing was not overly compelling with FY14 PE of 16–17x and dividend yield of 4.5%.

**Gold Road Resources placement – Declined.**

Gold Road Resources (ASX code: GOR) is a gold exploration company raising \$6m-\$8m capital for further exploration and conceptual studies. We chose not to participate given the size of the company (\$85m) and the high risk associated with exploration. We prefer investments in large cap, diversified and producing resource companies.

**Strike Energy capital raising – Declined.**

Strike Energy (ASX code: STX) is an oil and gas exploration company with a focus on the cooper basin. The company looked to raise \$10m at \$0.12 per security which would be used to accelerate the Southern Cooper Basin Gas Project by drilling and testing up to 3 wells. We chose not to participate in the capital raising given the small size of the company (\$106m) and the high risk associated with exploration. We prefer investments in diversified, large cap, producing oil and gas companies.

**Acorn Microcap Listed Investment Company raising – Declined.**

The Acorn Capital Investment Fund is focused on listed and unlisted microcap investments. We have chosen not to participate in this offering given the potential for illiquidity in times of market distress. Historically, microcap investments and listed investment companies have been difficult to exit in times of market volatility. While we believe the strategy may well be successful, we would be more likely to participate if the offer were outside of a listed investment company.

**Clime Capital capital raising – Declined.**

Clime Capital Limited (ASX code: CAM) is a listed investment company who are raising capital to broaden their investment strategy by investing in international securities. Clime has a solid history of investing in Australian equities using a value approach. We would prefer to separate our international and domestic equity investments using specific fund managers and would favour managers with a track record before committing funds to the listed investment company.

**Watermark Market Neutral Fund placement – Declined.**

Watermark Market Neutral Fund is a listed long/short investment company who are raising \$10m at a 2% discount to NAV. We prefer to utilize fund managers over listed investment companies for our long/short exposure and also require a more substantial discount to net asset value when looking to participate in listed investment company placements.

## Section 3: Presentations.

### **Providence Alternatives Sector Review.**

Providence is currently undertaking an Alternatives Sector review on the basis of absolute returns, high alpha, lower volatility and uncorrelated returns to the market. Alternatives can provide diversification benefits and do not have significant reliance on the market direction. Given the strong rally in equity markets over the past year both domestically and abroad, we may look to allocate a portion of funds to a benchmark unaware, low risk, absolute returns manager and will be looking over various alternative strategies: long short, market neutral, global macro, international fixed interest and multi strategy.

### **Nanuk Asset Management – Clean Energy Fund.**

Providence hosted our client luncheon with guest speaker Tom King who is portfolio manager of the Nanuk Clean Energy Fund. The fund invests globally in listed companies involved in clean energy generation and the more efficient management, distribution, storage and use of energy. The fund is a long short fund aiming to achieve an absolute return through market cycles while maintaining a low net market exposure. The fund invests between 50-70 stocks across several thematic investment ideas and geographies. The fund has returned 7% pa since inception in June 2011 and we will continue to watch the fund as it progresses.

### **Denning Pryce – Tailored Fund.**

As part of our Alternatives sector review, we met with fund managers Michael Pryce and Robert Risk from Denning Pryce regarding their new Tailored Fund which they are bringing to market. The fund is a buy write fund over the ASX 100, with an average net market exposure of 50% and aims to deliver moderate capital growth + 5-6% distributions per annum on a monthly basis. We have known the managers for some time and highly regard their experience on buy-write option strategies. We like the idea behind the fund, low volatility and low risk approach with a less constrained income target. We will be watching the fund as it progresses.

**Aurora Fortitude – Absolute Returns Fund.**

As part of our Alternatives sector review, we met with Simon Lindsay director of Aurora Funds Management regarding the Fortitude Absolute Returns Fund. The fund is an absolute returns multi strategy, market neutral, domestic equities fund. The fund employs five strategies (long short, mergers and acquisitions, options, convergence and yield) taking a large number of small positions and purchases put and call options to provide protection against sudden market movements. To date the fund has performed exceptionally well, returning 8% pa since inception 2005 with very low volatility of 3% pa, even through the GFC and has shown non correlated returns.

**Regal – Market Neutral and Long Short funds.**

As part of our Alternatives sector review, we met with Steve Baldwin and Julian Babarczy of Regal Funds Management regarding their Market Neutral and Long Short domestic equity funds. Providence currently utilize both the market neutral strategy and long short funds and are pleased to see strong returns from both funds. The Regal Market Neutral fund has recently returned 25% over the rolling year and 21% pa since inception in May 2007. The Regal Long Short fund (130% long/30% short active extension) has returned 30% over the rolling year and 22% pa since inception August 2009. Regal have a strong bottom up valuation stock selection process, review top down macro factors and show good understanding of catalysts which move valuations. We have high regard for the manager Phillip King and Julian Babarczy to continue adding alpha and are happy to continue using the funds.

**Pengana - Absolute Returns Fund.**

As part of our Alternatives sector review, we met with fund manager Phillip Boustridge of Pengana to discuss their Market Neutral fund. The Market Neutral fund will typically hold 150% long and 150% short to have no market exposure, targeting 5 – 10% above the RBA cash rate after fees, with a volatility between 8 – 10%. The fund will focus on three

objectives: risk, return and correlation. The benefit of a market neutral strategy is having no exposure to the market in the event of a market collapse, while profiting from market mispricing in stocks both on the upside and downside. We like the fund as it has no correlation to market; has delivered strong returns of 9.4% pa since inception Sep-08; and has strong institutional support from National Australia Bank as a minority strategic investor in the business.

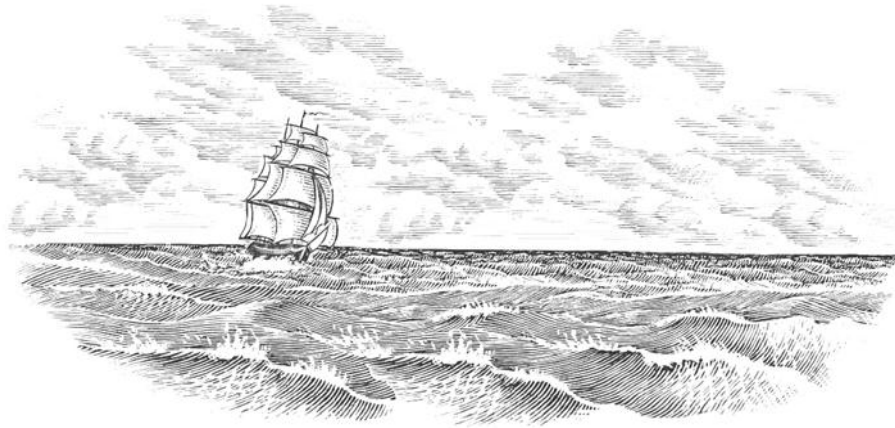
### **Blackrock - Multi Opportunity Absolute Returns Fund.**

As part of our Alternatives sector review, we met with Blackrock fund managers Michael McCorry and Karsten Kumpf regarding their Multi Opportunity Absolute Returns Fund. The fund is a multi strategy fund-of-funds without the double layer of fees, utilising diverse sources of alpha from various absolute returns funds within the Blackrock business (it currently invests in 15 sub funds). The benefit of the Multi Opportunity Fund is access to institutional grade investments taken across a broad array of asset classes (eg domestic and international equities long/short, global fixed income long/short, global macro, commodities etc). The target of the fund is to return 8% above the RBA cash rate with volatility around 1/3 of that to the market. The fund has only recently launched here in Australia last year, however, it was noted the overseas fund class has returned 11.6% pa since July 2004.

Providence Wealth Advisory Group ( AFSL 245643 ) has made every effort to ensure that the information in this report is accurate, however its accuracy, reliability or completeness is not guaranteed. Although consideration has been given as to the appropriateness of information to the recipient, no warranty is made to the accuracy or reliability of neither the information contained nor the specific recommendation for the recipient. Providence Wealth Advisory Group, its subsidiaries, affiliates or employees may have interests in securities or investment opportunities mentioned in this report. This document should only be read by the intended recipients. Providence Wealth Advisory Group, and its employees, disclaims all liability and responsibility for any direct or indirect loss or damage, which may be suffered by the recipient through relying on anything contained or omitted in this report and/or its recommendations.



*"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.**

**Providence™**