

Monthly activity report.

April 2014

Product and manager reviews.

Acceptances.

1 acceptance.

Declines.

7 declines.

Presentations.

4 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.

Beacon Lighting Group IPO.

Section No2.

7 Declines.

Japara Healthcare IPO.

Maverick Drilling placement.

Energy and Australia capital.

PM Capital Asian Opportunities fund LIC.

Spotless Group IPO.

Burson IPO.

Pioneer Credit IPO.

Section No3.

4 Presentations.

Providence Alternatives Sector Review.

Standard Life – Global Absolute Returns Strategy.

Triple 3 Partners – Negatively Correlated Alpha Fund.

Goldman Sachs – Global Strategic Bond Fund.

Aurora Fortitude – Absolute Returns Fund.

Section 1: Acceptances.

Beacon Lighting Group IPO – Accepted.

Beacon Lighting Group (ASX code: BLX) is Australia's largest specialist retailer of lighting, ceiling fans and light globes with 85 stores and 4 commercial sales offices. The company had their IPO last month, issuing \$64m of new shares at \$0.66 per share. We have accepted the offer for a few clients, given the relatively higher risk of the retailing/consumer discretionary stock. We liked the offer as the company has a dominant market position, traded at 12x price earnings and has exposure to growth in the housing construction sector. We are pleased to see the stock trading at \$1.05 and have maintained our holding.

Section 2: Declines to offers.

Japara Healthcare IPO – Declined.

Japara Healthcare (ASX code: JHC) is a residential aged care operator of healthcare services operating 3,026 places across 35 aged care facilities located in Victoria, NSW, South Australia and Tasmania. The company had their IPO last month to raise \$350m-\$400m in new shares at \$2.00 per share. We believe the healthcare sector is trading at a large premium to the market, trading at 21.7x price earnings versus the broader ASX 200 at 14.9x PE. The stock has come on at a premium since listing, at the time of writing the stock is trading at \$2.61.

Maverick Drilling placement – Declined.

Maverick Drilling and Exploration limited (ASX code: MAD) is a diversified oil company focused on the development and drilling at its existing oil production and reserves. The company offered a placement at \$0.31 to raise \$20m to fund labour and infrastructure for the companies growing oil and gas capability. We have declined this offer as it is outside our mandate due to the size of the company and we believe there is greater value to be found in the currently producing, larger oil and gas companies listed in Australia. At the time of writing, the company is trading at \$0.25.

Energy and Australia capital raising – Declined.

Energy and Minerals Australia (ASX code: EMA) is an Australian mineral exploration company focused on the development of its Uranium deposit in Western Australia. The company was looking to raise \$10m through a capital raising at \$0.046 per share. We declined to participate in this offer given the small size of the business and believe more value can be found in already producing energy companies. At the time of writing, the company is trading at \$0.065.

PM Capital Asian Opportunities fund LIC – Declined.

The PM capital Asian Opportunity fund is an LIC focused on equity investments in the Asia (ex-Japan) region. The portfolio will be highly concentrated with around 15-35 listed securities. While the emerging Asian thematic is of interest, we prefer to play these opportunities through unlisted fund managers. Furthermore, we are only likely to invest in an LIC that is trading at a discount to its net asset Value (NAV).

Spotless Group IPO – Declined.

Spotless is an Australian owned integrated services company providing cleaning, catering, laundry services and facilities management in the Australian and New Zealand markets. The company is looking to raise \$1bn through an IPO at the end of May. While the thematic of continued outsourcing by governments and corporations puts spotless in a sound position to benefit, the pricing of the offer was not compelling enough to justify an investment. We also had difficulty reconciling the vast valuation uplift since de-listing in 2012.

Burson IPO – Declined.

Burson (ASX code: BAP) is an auto-parts retail business previously owned by Quadrant private equity group. The company was looking to raise \$297m through an IPO at \$1.82 per share. The offer price of 13.6x earnings represented a premium to the auto-retailing business of Super Retail Group. While the target market of these businesses are different ie Super Retail being a retailer and Burson being a

Trade distributor the underlying fundamentals of the industry are comparable and therefore a similar multiple should be applied. At the time of writing, the company is trading at \$2.05.

Pioneer Credit IPO – Declined.

Pioneer Credit (ASX code: PNC) purchases overdue credit greater than 180 days due to personal loans and credit card debts from larger institutions with the focus on getting the customer back on track. The company was looking to raise \$40m through an IPO between \$1.60-\$1.85 per share. We have declined the issue due to a number of issues. The key concern lies in the purchase of what is largely considered to be the highest credit risk end of the market. The size of the issue is also of concern, with the market capitalization of \$75m being below our minimum size limit. At the time of writing, the company is trading at \$1.60.

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: volatility, long short, market neutral, global macro, international fixed interest and multi strategy.

Aurora Fortitude - Absolute Returns Fund.

As part of our alternatives sector review, Providence spent an afternoon with Aurora in order to gain greater insight into the strategies that drive their performance. Aurora is entirely focused on outperforming the cash rate and will invest in a number of opportunities in order to outperform this benchmark with franking credits being an important factor. For many investors the ability to capitalize on arbitrage opportunities is limited by the associated costs (brokerage etc). However, Fortitude is able

to exploit these opportunities through low brokerage arrangements with various investment banks. This relationship also provides comfort with regard to counterparty risk. Risk management controls were vigorous with detailed quantitative analysis and stress testing assisting in the decision on whether or not to invest in opportunities. These risk management controls are also specific for the various investment strategies that they undertake ie the options strategy and event arbitrage risks are analyzed with concern to the specific risks associated with these strategies. Reconciliations between Auroras's prime brokerage, their internal systems and their risk management system are done on a daily basis with any variance reported and a detailed explanation required. While Providence was present, a three way reconciliation resulted in only a \$2 variance between the risk management system and the internal systems which resulted in detailed explanation and resolution.

Standard Life – Global Absolute Returns Strategy.

As part of our alternatives sector review, we met with Standard Life fund manager Guy Stern regarding their Global Absolute Returns Strategy which is a global macro, unconstrained, multi asset fund. The objective of the fund is to deliver cash plus returns with low volatility using an unconstrained and dynamic asset allocation approach. The fund is highly diversified over 35 active strategies (eg equities, credit, REITs, high yield, cash, derivatives etc) and has a broad mandate operating on a 'best ideas' structure. Volatility of the fund is kept low through derivatives and holding a large proportion in cash. We are pleased to see the fund return 8.5% pa from June 2006 with 1/3 of the volatility of the market.

Triple 3 Partners – Negatively Correlated Alpha Fund.

As part of our alternatives sector review, we met with fund manager Simon Ho regarding the Negatively Correlated Alpha Fund. The fund aims to be negatively correlated to equity indices (eg S&P500, ASX200) using liquid exchange traded VIX options. This is particularly beneficial when equity markets fall considerably, volatility rises and the pricing of volatility (implied versus actual) is mismatched. We are pleased to see that during the Greek Crisis in 2011 the S&P500 was down -15% versus the fund returning positive 16%, highlighting the alpha generated due to negative correlation in falling markets. During times when markets are rising or are flat, the fund will generate cash like returns. The fund has

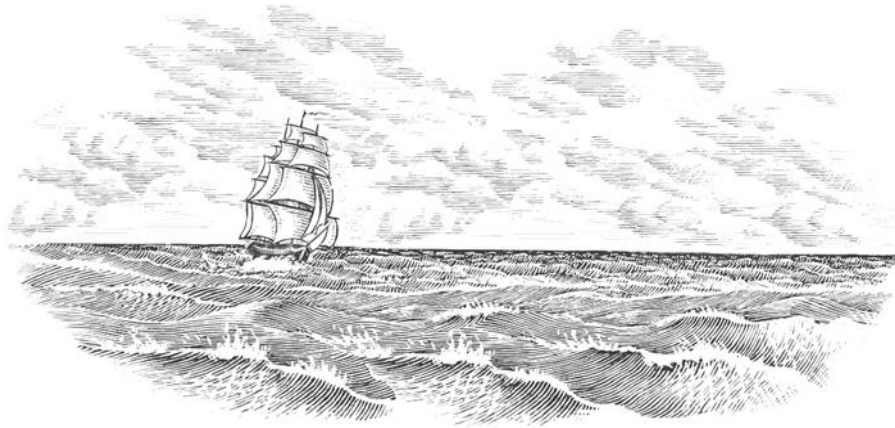
a 3½ year track record and has demonstrated its core negative correlation, low volatility and risk controls to minimize potential downside losses.

Goldman Sachs – Global Strategic Bond Fund.

As part of our alternatives sector review, we met with fund manager Mike Swell regarding the Goldman Sachs Global Strategic Bond fund. The fund actively invests in international fixed interest and is unconstrained, with the ability to opportunistically invest in traditional fixed income, emerging market debt, mortgage backed securities, investment grade credit and high yield. There is a total returns focus benchmarked to cash + 400 basis points with a target tracking error of 5-6%. We like the fund as it has a flexible mandate to dynamically alter fixed income exposures to take advantage of credit spread, interest rate and duration opportunities, whilst managing risk. We are pleased to see the representative AUD fund having returned 10.4% pa since inception with relatively low volatility.

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™