Providence
Independent Investment Advisory

Global Outlook & Strategy

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Valuations Matter in a Black Swan Event

1. KEY POINTS
2. INVESTMENT OVERVIEW
3. ASSET CLASS REVIEW
3.1 Equities
3.2 Property
3.3 Fixed Income
3.4 Alternatives
4. CONCLUSION
4.1 Opportunities
4.2 Risks
4.3 Implications
Thoughts from the Research Department
Thoughts from a Contrarian
Providence Investment Committee
Glossary of Terms
Contact

1. KEY POINTS

- **Valuations matter and are only back to fair value in our view**
- **This will be a long workout**
- **Attractive stressed opportunities will present themselves**
- **There is little transparency of future earnings**
- **Remain diversified, patient and liquid**

Valuations Matter in a Black Swan Event

My goodness, where do we begin? Perhaps a good start is where we left off.

These were the headlines from our last quarterly report in what seems a lifetime ago, January 2020:

- *Global asset valuations are stretched on all measures*
- *Global recession fears have subsided*
- *There are some signs of stress in the operation of markets*
- *Expect higher volatility*
- *Maintain a high level of diversification across portfolios*

"As Providence enters its 20th year of providing truly independent investment advice, we are reminded of tectonic shifts that can occur over time and the implications for portfolios.

A difficult investment climate to navigate given excessive valuations and ultra-low interest rates. Caution is warranted however returns from late cycle can be explosive.

There are some cracks showing in the operation of markets and we are concerned about the complacency and illusion of liquidity currently evident.

The preservation of capital in real terms is paramount. For a high-quality portfolio, we remain disciplined and ensure there is enough diversification. Providence's current stance on behalf of our clients is the most diversified we have been in our 20 years, reflecting our concerns and desire to plot a steady course."

Then came Covid-19, which was the trigger/black swan for the adjustment of valuations, not the cause in our view. If valuations were reasonable, equity markets would not have fallen 37% in 23 trading days - the fastest bear market in history.

And now we have Uncle Sam Inc. to the rescue, bailing out yet again, a flawed and leveraged capital market. The US central bank will expand its balance sheet to over $11 trillion (i.e. $11,000,000,000,000) in a few weeks' time. The "independent" Federal Reserve is now very dependent on Congress to lever its balance sheet and buy whatever it wants, even junk bonds and Exchange Traded Funds (ETF's).

Simply STUNNING.

Markets love a good bail out; the Fed "put" is alive and well. Embarking on this strategy originally back in 1987, again in November 2008 (QE1), then in November 2010 (QE2), September 2012 (QE3) and now once more. The problem being, this manifests a bigger crisis next time and the next, therefore each subsequent crisis requires even greater support.

Markets and policy are moving at such speeds that by the time this goes to print we may have a completely different regime.

Trading the markets in today's volatile climate can only be based on the narrative from policy makers as the fundamentals are unclear. Is the equity market cheap? Maybe, but what is the "E" in a Price Earnings ratio for example? Is credit attractive? Maybe, but who is going to buy the debt if not the central bank? Further, what are the likely quantum of defaults after a total global shutdown? Are government bonds attractive? Maybe, so long as countries are solvent and there are buyers for the massive issuance. Is property attractive? Maybe, but do we need as much office and retail space going forward?

We will eat, we will need a place to sleep, we will want holidays and we need less debt around the globe.

Once the global pandemic war has been won (the first time the entire world has been at war with the same enemy), there will be a long workout ahead. The world will change forever as it did after World War I, The Depression, World War II, September 11 and the GFC.

We remain of the view that valuations always matter, as does diversity and liquidity in the current uncertain environment. Long-term valuations seem fair to us at this point but not cheap. We will wait for the second and third derivative of this shakeout before committing cash to risk assets. There will be stressed assets that will provide an attractive risk/reward trade-off.

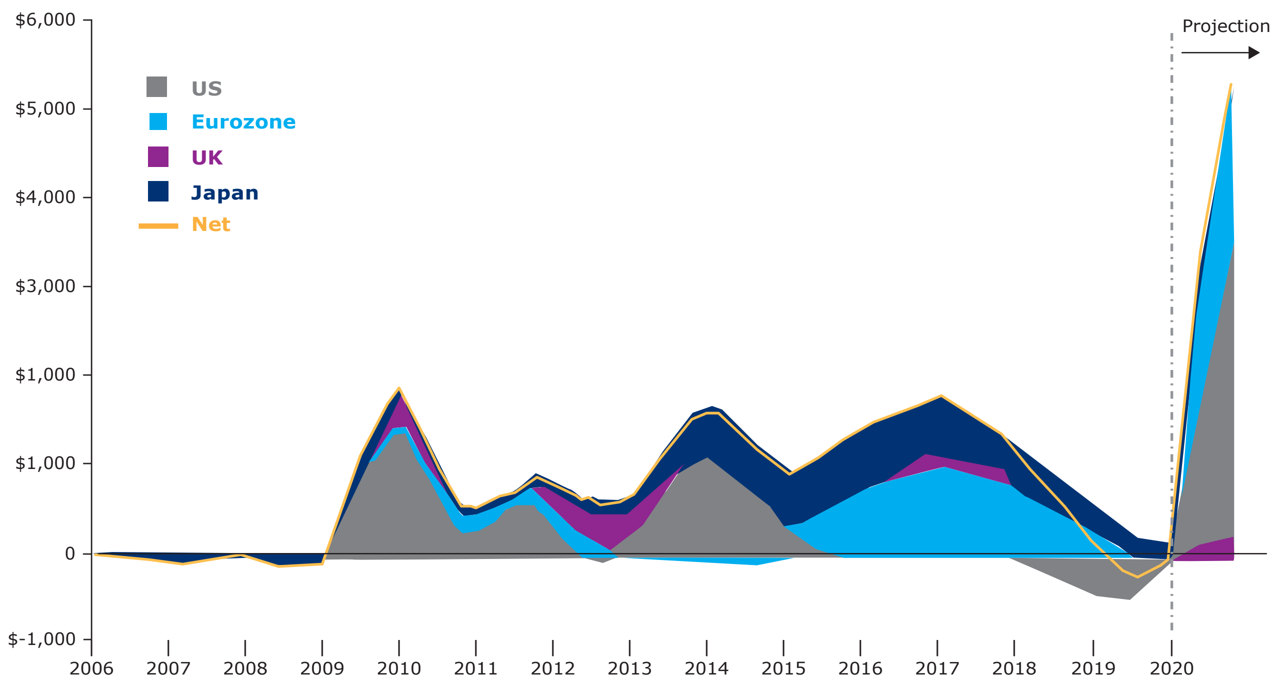
This will be a long road but with many opportunities along the way. Be patient, be selective, be diversified, be humble, be safe.

2. INVESTMENT OVERVIEW

Current economic indicators are meaningless and future expectations uncertain given the current major supply and demand shock. We are witnessing the greatest global economic shock since the Great Depression. The speed and shape of the ultimate recovery will determine whether or not asset prices are back to good value. It is too early to make such a call. We need to remind ourselves that we are only 10-12 weeks into this. One thing we do know, is that there has been an enormous stimulus handed out by governments and central banks, the likes of which we have never witnessed (**Figure 1**).

Figure 1: Global Central Bank Purchases
Source: JP Morgan Asset Management

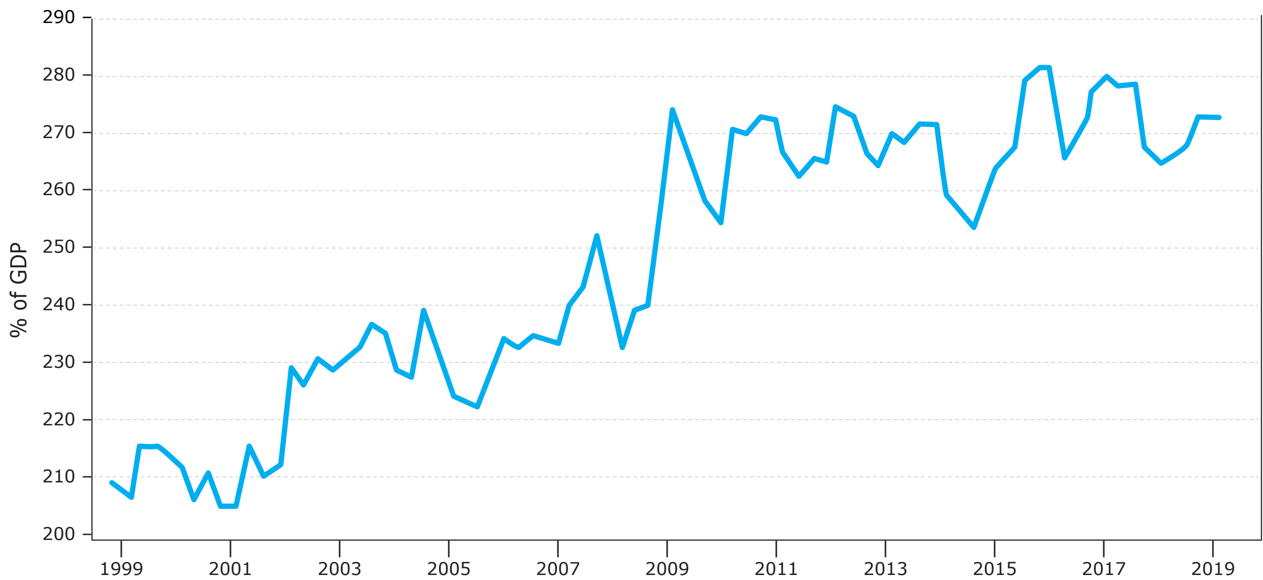
Central Bank Bond Purchases
Quarterly net bond purchases by G4 central banks, USD billions



This is to support households and businesses during the shutdown of global economies and to provide liquidity to capital markets to ensure the system does not freeze. So far this has been successful, and markets have taken some relief with the S&P 500 equity index up approximately 20% from its lows, and high yield credit spreads narrowing around 300 basis points from recent highs.

There will be a long period of payback for the huge collective government debt raised to fund the economic stimulus, the quantum of which has never been witnessed before. The global stimulus to date is now at a staggering US$8 trillion or approximately 10% of global GDP. All the while, non-financial debt remains at extremely elevated levels (**Figure 2**) having funded much of the economic growth as well as EPS growth through buybacks. Therefore, it is unlikely that global growth will rebound to previous levels and perhaps a decade of recapitalization is ahead of us. No more share buybacks but more equity issues.

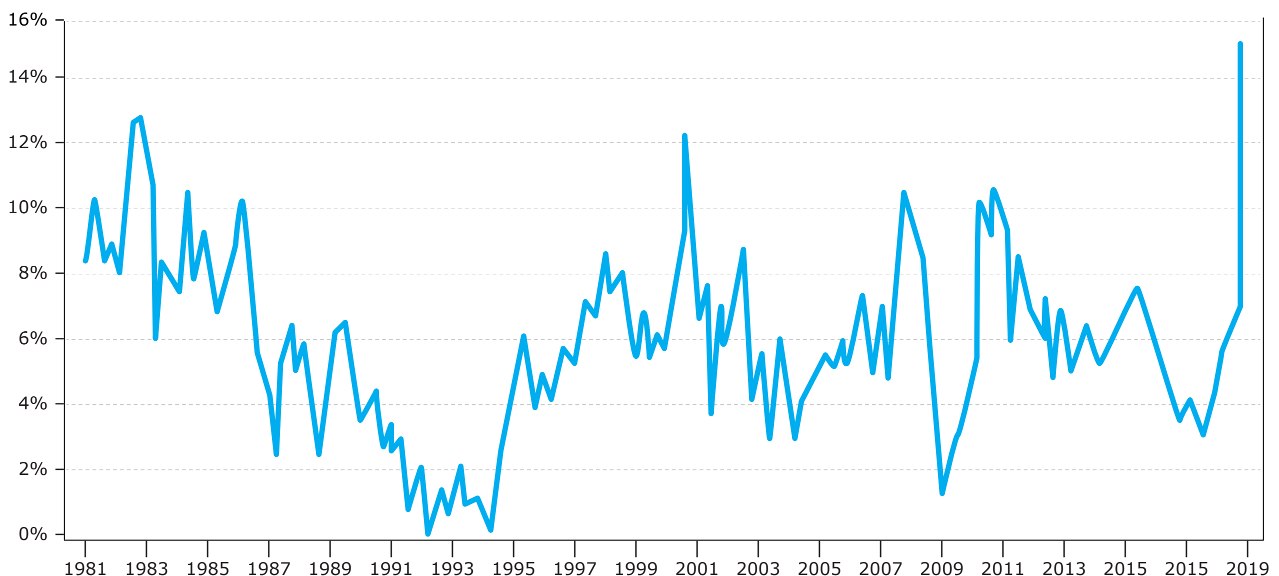
Figure 2: Advanced Economies Non-Financial Corporate Debt to GDP
Source: Factset



This raises the question of where inflation may be in years to come given the huge levels of stimulus.

Surging M2 (money supply) with low growth, points to the potential for an inflationary/stagflation environment (**Figure 3**). Therefore, the investment outlook is likely to be challenging and unclear for some time after the distortions of Covid-19.

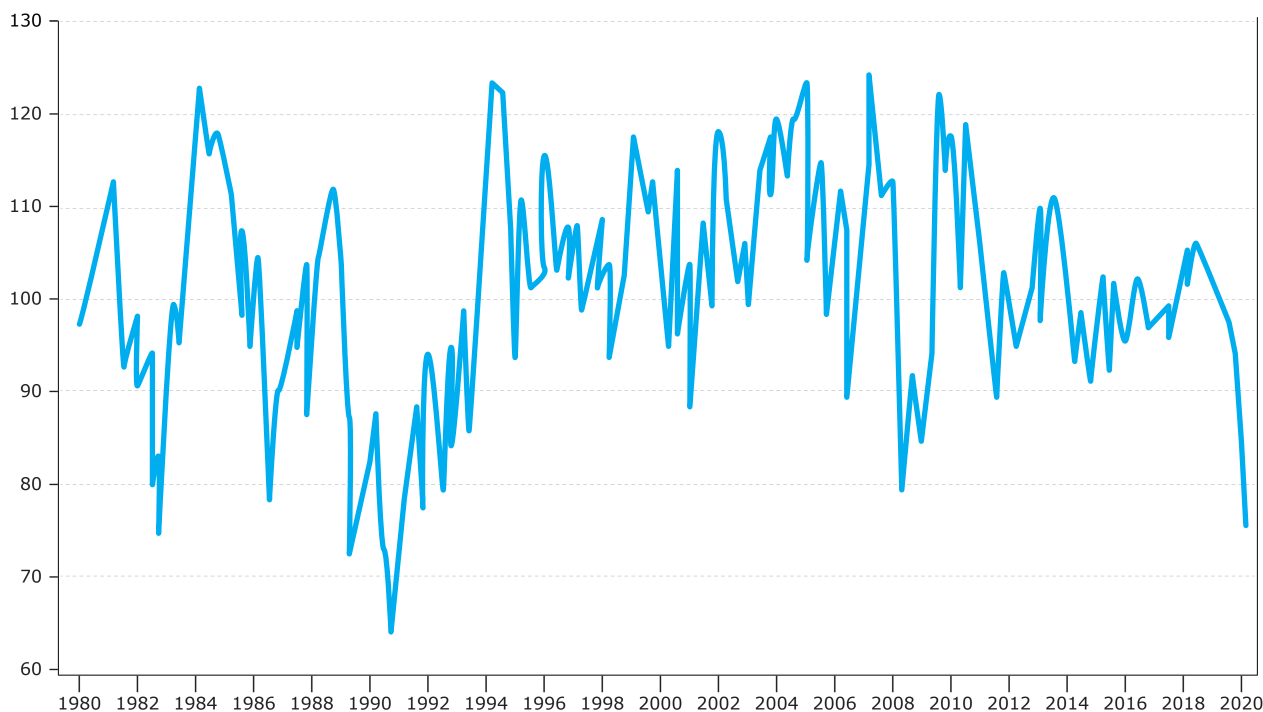
Figure 3: US M2 Money Stock (Money Supply) Year on Year Growth
Source: St Louis Fed



The Australian economy will suffer its first recession since 1990/91. Consumer sentiment is heading towards recessionary levels (**Figure 4**). After recently improving, savings will likely be depleted as consumers impacted through this calamity draw down on accumulated savings. Although interest rates will remain low, the highly leveraged household balance sheet will come under pressure in a low growth and higher unemployment environment, an important consideration given consumption represents close to 60% of Australian GDP.

Figure 4: Australian Consumer Sentiment Survey at Levels Last Seen in the 1990/91 Recession

Source: Westpac Melbourne Institute



A high level of diversification and liquidity will be key in protecting portfolios during these uncertain times.

We suspect that active value managers will finally have their time in the sun after the momentum of the herd mentality drove growth stocks and indices to unsustainable levels and many valuations ultimately became stretched.

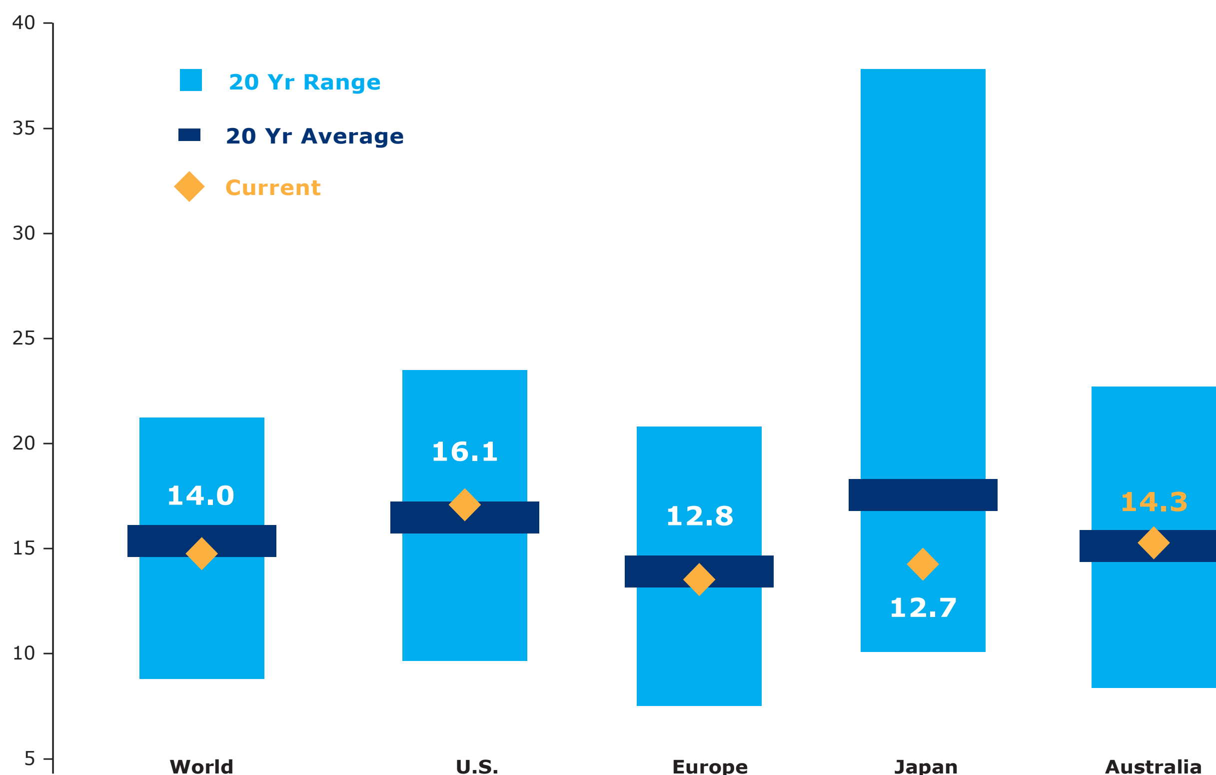
A patient, disciplined approach will be required, focusing on valuations in a potentially volatile and challenging economic and investment environment.

3. ASSET CLASS REVIEW

3.1 Equities

With so much uncertainty, the clarity of near-term earnings due to the Covid-19 outbreak is difficult to assess, as is the immediate value of various equity markets. **Figure 5** looks at global equity markets and current Price to Earnings (PE) valuations relative to the average and long-term ranges. From this, one could argue that most global equity markets are now fair value. However, it is important to dig deeper into this measure to determine what is being factored in by the market.

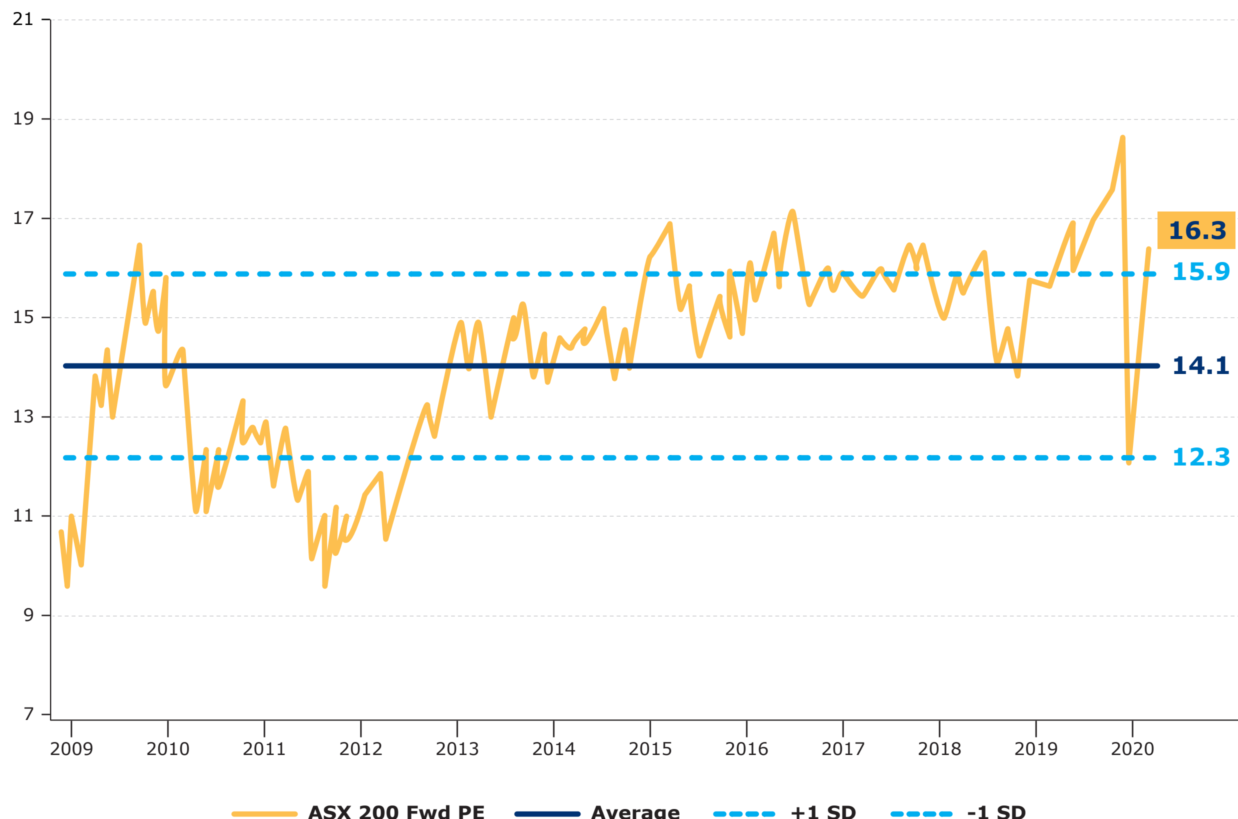
Figure 5: Forward PE Ratios Relative to 20-Year Average and Range
Source: Factset



The forward Price to Earnings ratio (**Figure 6**) is the current market price divided by the expected next year's earnings. Using Australia as an example, we know the measurable share market index price was down 29.1% from its February high to the end of March. But what are the expected earnings likely to be? Pick a number! At the end of March, next year's share market earnings expectations (at an index level) had been downgraded by -7.6% in Australia, but is that enough? At the most recent bottom of the market sell-off (the 23rd of March), the implied downgrades for this year's earnings forecast were -17%. The sharp rally since then suggests that the market thought this was too much. We simply don't know the ultimate earnings impact at this stage, as the extent of lockdowns remains unknown. We have already seen several large Australian companies indicate much more severe earnings downgrades than implied from the initial aggressive share market sell-off (Banks, Qantas, Sydney Airports, Transurban, Flight Centre etc.). We very much need to be cognisant of the 2nd and 3rd derivative impacts within the economy that are yet to present.

Figure 6: ASX 200 Forward PE Valuation

Source: Factset



Suppose we look further out, we must also consider what the likely longer-term growth rate will be given anticipated higher unemployment, huge global debt levels and governments trying to restore fiscal balances. Current assumptions are for a long-term earnings growth rate of 5.6% in Australia, however this seems too aggressive. If long-term growth is now potentially structurally lower for the medium term, then valuations must be structurally lower as well. Perhaps the low bond-yields we are now experiencing are a reasonable forward indicator of expected long-term earnings growth?

We run a similar analysis across multiple valuation methodologies to assess indications of earnings upgrades and downgrades. We utilise this approach to assess the potential returns from equity markets going forward. **Figure 7** indicates the markets' current implied earnings estimate of downgrades and the implied downgrade at the most recent market low (23 March 2020). This tells us that at the 23 March low point, the assumed earnings downgrade, by virtue of the share market level, suggested an earnings impact of -17% for the Australian share market and -19.2% for the S&P 500 in the US. It remains to be seen how accurate this is as an earnings yardstick, in what was an exceptionally volatile period of trading and information flow.

Figure 7: Implied Downgrades by Market Pricing

Source: Factset

Implied 2020 Earnings Downgrades	ASX 200	S&P 500
15 April 2020	+2.3%	+4.1%
31 March 2020	-6.7%	-5.7%
23 March 2020	-17.0%	-19.2%

Implied 2020 Asset Write-downs	ASX 200	S&P 500
15 April 2020	-21.1%	+12.6%
31 March 2020	-26.4%	+4.5%
23 March 2020	-33.4%	-9.6%

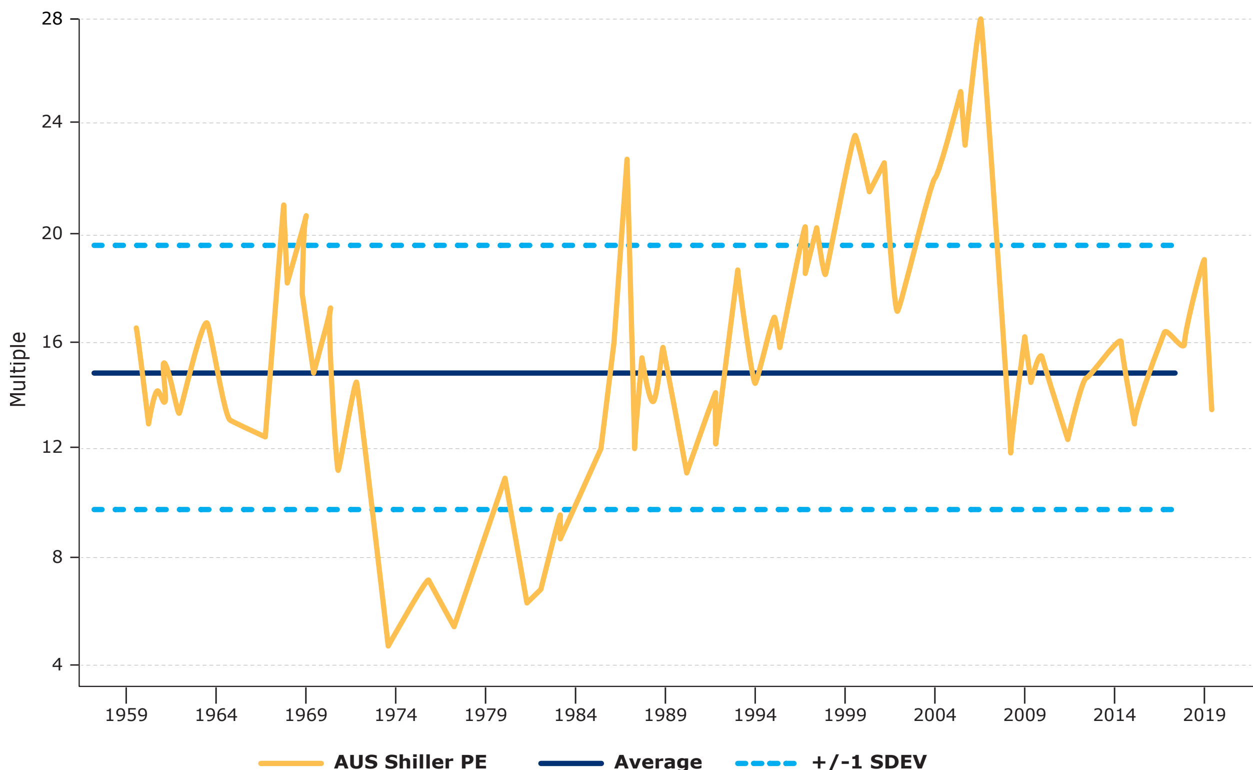
Our preferred valuation methodology, which considers both short-term and long-term expectations of growth, is the equity risk premium (ERP). This measures the amount of return above bonds that we could expect from investing in equities. Based on earnings down 50% in 2020 and future growth rates normalising to pre-coronavirus levels, the ASX 200 is trading on an ERP of 6.5%, versus the 30-year average of 5%. However, if the assumed long-term growth rate halves, the ERP becomes 5.8%, perhaps not quite enough of a buffer from fair value under a lower long-term growth rate scenario.

In addition to valuations, we also have markets manipulated and influenced by high frequency trading (HFT) and algorithms which are creating excessive volatility. It is difficult to make a rational investment decision when you have markets and stocks whipsawing to such extremes.

Longer-term cyclically adjusted earnings suggest that PE's are around fair value (**Figure 8**).

Figure 8: Australian Shiller PE

Source: Factset



3.2 Property

The AREIT's have been smashed and were down approximately 49% at their lows in March, due to the uncertainties surrounding rents and potential vacancies. It is difficult to gauge what the long-term impact will be regarding this, but the implied cap rate (net operating income received from the property) has blown out from 5% to 7.2% (**Figure 9**). This equates to an approximate 31% drop in valuations, although the sector is now heavily influenced by management earnings rather than just property income and valuations. Similarly, the price to NAV (**Figure 10**) of the sector, having recently traded at a significant premium has now reduced to levels that indicate fair value. We would not look to be overweight the sector until we saw prices indicating a significant discount to their net asset value.

Figure 9: ASX 300 A-REIT Implied Cap Rates Have Widened
Source: SG Hiscock

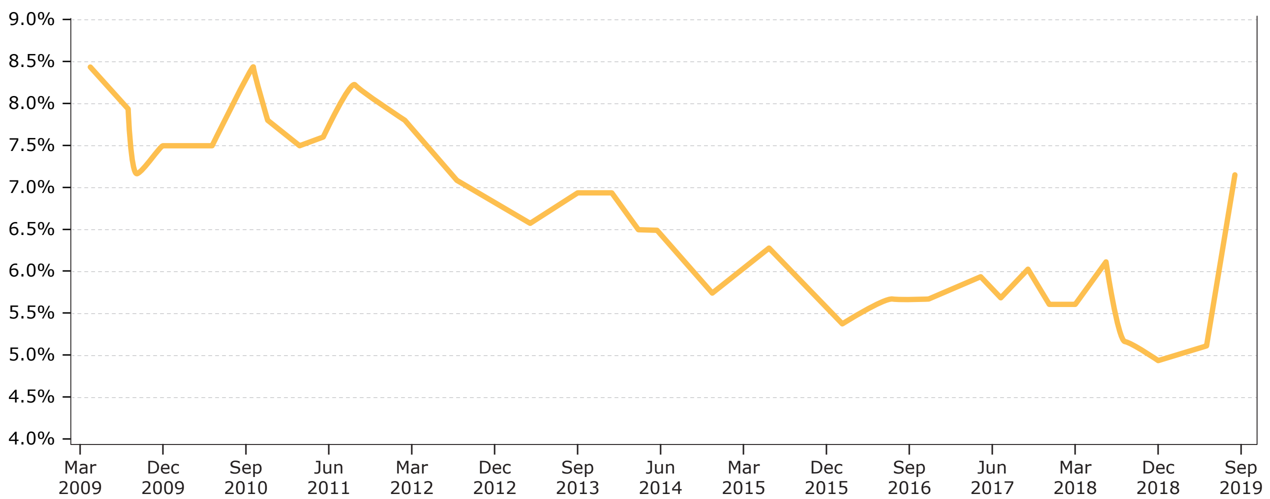
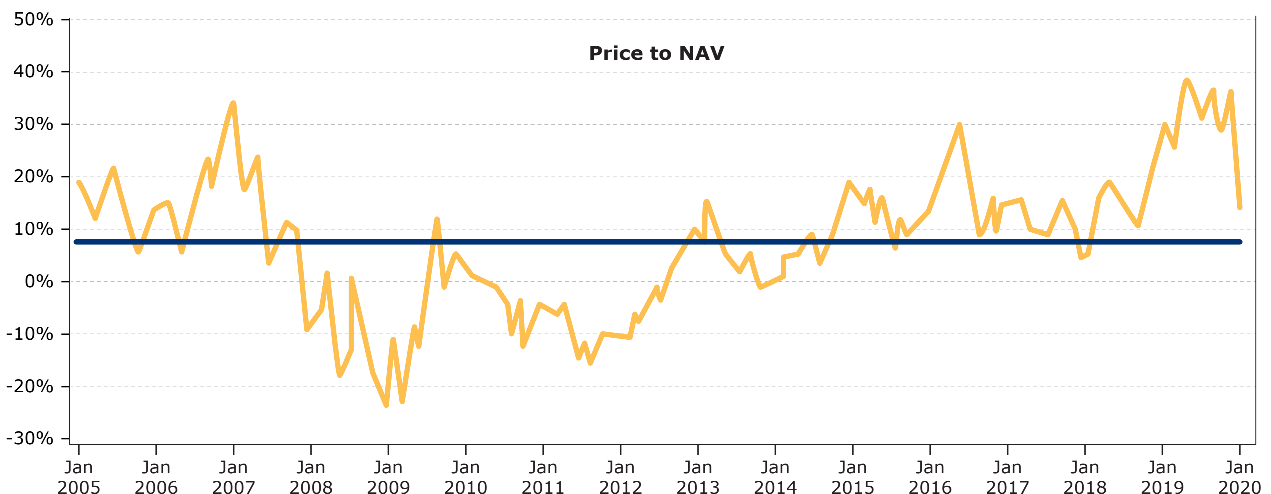


Figure 10: ASX 300 A-REIT Price to NAV
Source: SG Hiscock



This will flow through to the unlisted direct property market in the months to follow. At this stage banks are very supportive and gearing levels do not appear excessive, unlike before the GFC. However, we expect net income during this period to be lower which will flow through to asset values. While a short-term reduction in rent is disappointing, in most cases they are being negotiated in conjunction with a longer lease expiry.

The good quality assets which are conservatively geared will be able to ride through this storm and may provide a reasonable income stream. Domestic tourism is anticipated to recover strongly, particularly as international borders are likely to be closed until a vaccine is available. There may be structural changes at the margin in shopping habits and the workplace, which may see some pressure on the Office and Retail sectors.

Higher levels of unemployment are likely to result in residential property prices remaining subdued for considerable time despite cheap funding costs.

3.3 Fixed Income

Our concern for some time in credit markets has been non-financial corporates, which have seen exploding levels of debt in recent years to fund share buybacks and bonuses to senior executives. The US central bank has now decided to reward such behavior by bailing out junk bond markets. The plumbing in credit markets was broken and the Federal Reserve will do whatever it takes to keep liquidity in the system. This will provide a cap for corporate credit spreads. The FED has in essence become the backstop to liquidity for certain classes of corporate debt that have, or potentially will be, downgraded from investment grade (IG) to junk.

Globally the corporate cost of debt must rise, and investors will seek a higher rate of return given the risks to economies and the potential for defaults.

Government bonds are extremely expensive but remain supported by global central banks underwriting the government's fiscal spending. They are hugely vulnerable to any pickup in inflation but for the moment are seen as a safe haven, despite guaranteeing a negative real return in many cases.

The Reserve Bank of Australia (RBA) has made its first foray into unconventional monetary policy by introducing a 0.25% target on the 3-year Australian government bond yield. This will be achieved by purchases of government and semi-government securities across the yield curve. This was announced in conjunction with its first inter-month rate cut since July-1997 (albeit a different RBA regime) coupled with funding and pricing facilities that will support the Australian banking sector. The 3-year government bond yield target is of most interest given it is not only QE, but a targeted approach to try to control the shape of the Australian yield curve and to provide stability within the local bond market.

We are currently considering inflation protected securities as a hedge to a faster than expected recovery from the Covid-19 outbreak. Our base case is that the recovery will be more subdued than many are expecting, however if the recovery is rapid, the size of economic stimulus may well create some inflationary pressures.

We prefer asset backed securities and fully secured debt. Opportunities may arise within distressed debt. As always, it is about what reward you are being paid for the risk you are undertaking. A balanced and diversified approach makes sense to us.

3.4 Alternatives

There are a few managers in the "hedge fund" space that have failed to perform true to their label. This has been seen in "Market Neutral" funds primarily, which aim to remove much of the market exposure and provide returns primarily from stock selection. We have noted a number of

managed funds provide returns very similar to the underlying index in which they are invested, raising questions about how and indeed why they should be positioned in client portfolios. Many of our peers have been using these funds to diversify portfolios away from equities and would be tremendously disappointed with the equity-like return that they have offered during this downturn. We have stayed away from this sector as we have always considered this style of funds as equity-like investments despite the rhetoric.

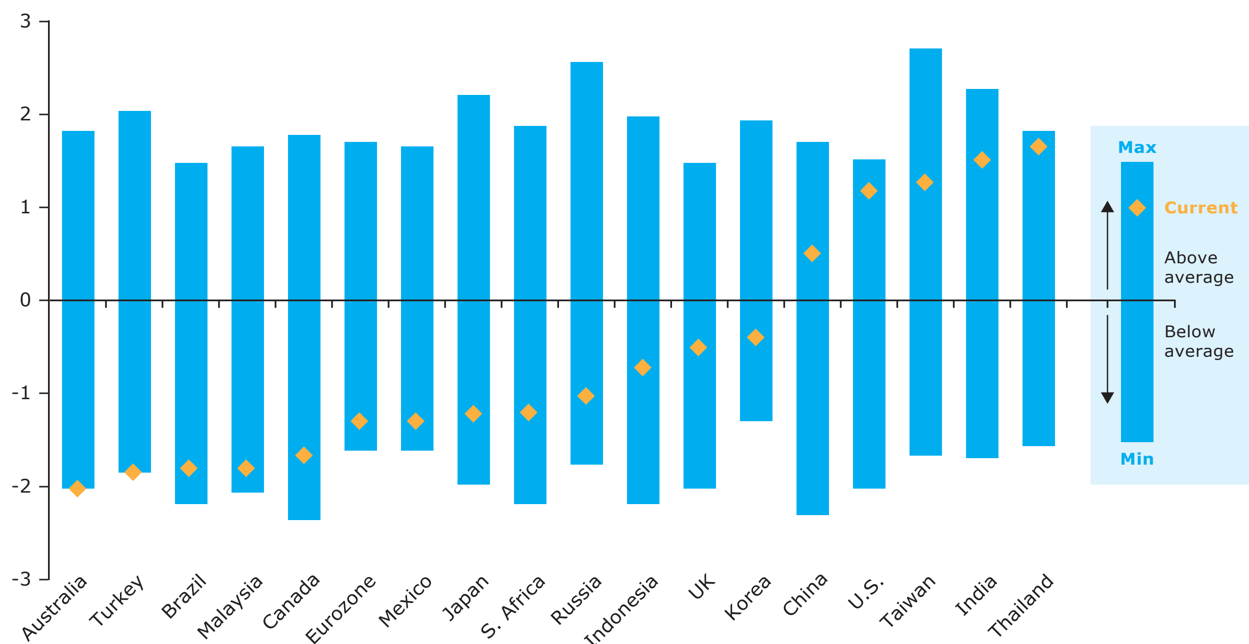
The hedge fund industry overall has received some backlash, with many market commentators suggesting they have exacerbated the speed of this market downturn (like the impact of "Portfolio Insurance" and the 1987 market crash). While there would likely have been some forced selling from highly leveraged alternative strategies, there are broader market forces. Arguably, tightening of banking regulations has seen risk transferred from a few tightly regulated players (investment banks) to a wider universe of less regulated and more aggressive players (hedge funds, illiquid credit funds etc.). However, an environment of artificially low interest rates fuelled by global QE has driven the demand (and creation) for such products. So, where does the responsibility lie?

Gold has a place in portfolios as a hedge against inflation and global uncertainty. The question is, in what currency do you hold the gold? We have been invested in Gold in Australian Dollars (AUD) which has performed as expected, however given the current levels of the AUD relative to the US Dollar (USD) the currency exposure may be revisited.

We have recently hedged part of our offshore currency exposure back into AUD. We do not actively seek to add portfolio returns from the currency; however, we do make adjustments when market extremes occur. Our choice to remove all hedging when the AUD traded at parity to the USD in 2010 was driven by an extreme overvaluation of the AUD at that time. Conversely, we are now seeing some measures of currency valuation suggest that we are at an extreme level of undervaluation. The Real Effective Exchange Rate (REER) for example is suggesting that the AUD is trading at 2 standard deviations below its long-term average (**Figure 11**).

Figure 11: Currency Deviations from 10-Year Average in REER Terms
Source: JP Morgan Asset Management

Number of Standard Deviations Away From Average



4. CONCLUSION

4.1 Opportunities

- Distressed hospitality assets leveraged to domestic tourism
- Distressed debt
- First mortgage fully secured loans

4.2 Risks

- Anything is on the table; inflation/ stagflation/ depression/ recession/ social unrest
- Watch for 2nd and 3rd derivative impacts as global economies stall
- Further collateral damage as a result of lockdowns for companies across the globe
- Continuation of extremely volatile markets

4.3 Implications

- A patient, liquid and diversified approach is required
- There is likely to be a long-term workout period ahead
- High quality active managers are likely to outperform the index
- Consider hedging some overseas risk assets back into AUD
- Other stressed assets are likely to come to the surface

Thoughts from the Research Department

After the quickest draw down in recent history, followed by a concentrated and aggressive rally in risk assets, global equity investors are now rightly questioning how they should be positioning during one of the biggest simultaneous supply and demand shocks in the last hundred years. The key issue being explored is the shape of the recovery, whether it be a 'U', 'L', 'W', 'lightning bolt' or any other shape! We take the approach that our positioning should consider not only how quickly companies will be able to recover as society progressively re-opens, but also and just as importantly, what their earnings will be once 'normality' returns.'

To that end, our approach now is remarkably similar to that of the last 18 months. Looking back, we saw a fundamental earnings backdrop for listed corporate Australia growing at a tepid rate at best. Carving out commodity price driven growth, we saw regulation and restriction hampering innovation and growth, coupled with high levels of household debt restricting household consumption and low interest rates promoting excessive leverage. These factors suggested that capital was not being allocated in a way that promoted productivity gains – a pre-requisite for becoming more bullish on the Australian industrials.

With that front of mind, our positioning has been focussed on companies with defensive earnings that would perform through the cycle, from waste management companies (Cleanaway - CWY), glass (wine) bottles and aluminium can manufacturers (Orora - ORA), to supermarkets (Woolworths - WOW) and logistics companies that support them (Qube Logistics - QUB and Brambles - BXB). Our thesis on each of these companies, and on the broader equity portfolio is that we saw clear opportunities for management to create shareholder value in the immediate term through top line growth and cost management, and in the longer term through sensible capital management to promote either asset development, margin growth or both.

Considering Orora (ORA) – a stock often forgotten by the market - we saw a company with significant latent value. At the time of our purchase the business operated essentially as a fibre, glass bottle and aluminium can packaging company, with some point of sale/point of purchase and advertising display creation as part of the American 'Orora Visual' business. Our attraction however was the dependable bottle and can manufacturing division, which provided exposure to an increase in global wine consumption, along with the well-established trend towards craft beer consumption (where cans are the dominant container), and larger beer companies adopting cans as consumer preferences shifted.

Whilst unpredictable in how and when it would evolve, our belief was that the company would be able to extract value from its undervalued operations, either organically through cost out, through additional acquisitions to achieve scale, or, eventually through the trade sale/spin off route. Subsequently the decision was made by ORA management to sell the Australian Fibre Business for AUD$1.72bn and will (at the time of writing) be expecting to receive the AUD$1.550bn net proceeds imminently. For a company with a market cap of slightly over $3bn this is clearly a material amount of cash to hold and has a significant amount of optionality for shareholder value creation.

Whilst this is one example, we have long held Nufarm (NUF) and Caltex (CTX) as two businesses operating through a cyclical trough in their respective earnings cycles, whilst, like ORA, in our eyes having significant unrealised value on their balance sheets.

In all three instances the Providence Direct Equity Team held stocks where we saw significant latent value in the company, either as a combination of clear volatility and cyclicality in earnings, or from a lack of recognition from listed markets. In each case our positions were sized accordingly, and where possible (as in the case of Nufarm) we have previously added to our positions on weakness, as we look forward to the market sensibly repricing the business as the cycle turns and earnings momentum accelerates to the upside.

Thoughts from a Contrarian

The stock market, as we have come to know it, began its modern evolution in the late 1960's – early 1970's. Prior to that, not many investors went anywhere near stocks and the large institutional investors were mainly allocating funds to bonds. The 1929 stock market crash, the Great Depression and World War 2 had ingrained a deep sense of conservatism. All this changed in the 1970's when firms such as Merrill Lynch in the US started enticing mums and dads into the market and a new collection of aggressively marketed equity funds managers emerged chasing the same clientele. This combination of factors; larger pools of capital allocated to aggressive young asset managers, gave birth to the Nifty Fifty, a collection of stocks deemed to be worth owning at any price because of their unlimited growth potential. A review of some of the names in the Nifty Fifty is all that's needed to pass judgement on the theory; Kodak, Polaroid, Xerox….Despite the collapse in the mid 1970's, the concept that some companies are worth owning regardless of valuations has lived on and even gained momentum. The second trend that has occurred concurrently has been the increasing acceptance of large levels of debt in corporate structures. At the beginning of the time period discussed most companies had little debt and a tendency to hold large amounts of cash. As interest rates have fallen, this has changed dramatically with the rise of the leveraged buyout (LBO) in the 1980's which seemed monumental at the time but appears almost quaint by today's standards. In fact, many large listed companies in the US have become effectively slow-motion LBOs as they load up on debt and buy back shares.

These two trends have reached a new peak coming into the latest crisis and I believe they share a common flaw. Namely, an irrational overconfidence in our ability to predict the future. If you are going to pay a very high price for a share or add a lot of debt to a balance sheet, you are making assumptions about a company's ability to grow earnings or service debt for years into the future. Over the period in question we have had a collapse in markets in the mid-1970's: the 1987 stock market crash; the tech stock collapse in 2000; the GFC in 2008 and now the latest, ongoing, crisis. Most of these can be classified as Black Swan events, nobody really saw them coming at the time they came. We have business models and industries based on the assumption of large amounts of debt and valuation models that suggest we can predict macro, industry, and company specific conditions years into the future. Meanwhile in the real world we have pretty conclusive evidence that once every 10 years or so something completely unexpected will happen that will turn everything upside down. Paying high multiples for earnings growth years into the future, or taking on debt levels that will still be substantial in a decade, doesn't seem like a particularly smart idea given that we should now accept that one of these 'events' seems to come up every 10-12 years.

The view expressed in this article is an independent view and does not necessarily represent the views of Providence

Providence Investment Committee

Stephen Christie

Steve has over 20 years of investment and finance experience, including Director and Head of Private Wealth for Ord Minnett, Chairman of the Ord Minnett Investment Committee and Head of Asset Allocation for Goldman Sachs JBWere Private Wealth Management. Steve holds a PhD in Applied Finance, is an Honorary Fellow at Macquarie University, an Adjunct Professor at Notre Dame University Sydney and a Trustee Director of major industry super fund QSuper.

Steven Crane

Steven has over 40 years of investment experience having started in financial markets in the early 1970s. He has held such positions as Senior Portfolio Manager and member of the Asset Allocation Committee at AMP. For seven years he was the Chief Executive of ABN Amro. His current directorships include: Chair of NIB Holdings limited, APA Group, Bank of Queensland and Transfield Services.

Chris Grubb

Chris has held senior fund management and broking positions within the Jardine Fleming Group in Japan, Hong Kong and Singapore. He was also a Director of Jardine Fleming Ord Minnett and Chairman of Investor's Mutual and Investor Web and is currently a Director of several Asian-focused investment funds. He also chairs Boardroom Australia and is a Director of Boardroom Limited in Singapore. Chris also acts as an executive coach.

Peter Hooker

Peter has held such positions as an Industrial Analyst at BZW Australia (now ABN Amro), Director reporting to Head of Research, was on the Equities Executive Committee and Director and Head of Industrial Research. He has a B.Sc. in Chemistry, B.E. in Chemical and Materials Engineering, and Graduate Diploma in Finance and Investment. He has over 25 years of experience in investment markets.

Richard Nicholas

Richard has over 30 years of experience in private client portfolio management in London, Hong Kong and Australia. Richard started his career with Deloittes in London before cutting his investment teeth with the Rothschild family. He was the founding Research Director at S&P Fund Research UK and Investment Director at Hill Samuel Pacific in Hong Kong. He has also held senior positions with Hambros Pacific in Hong Kong, Alliance Capital in Asia and ANZ Private Bank. He is currently Director at Peak Investment Partners.

Michael Ogg

Michael has over 20 years of experience in investments, starting his career at JPMorgan Investment Management in London in the early 90s. In Australia, Michael worked for AMP Asset Management holding senior roles in Institutional Equities and for Deutsche Bank as a Client Advisor in Private Banking. Michael has an MA (Honours) Economics from Aberdeen University.

Jonathan Pain

Jonathan has 30 years of international investment experience. He has held such positions as Chief Investment Strategist of HFA Asset Management, Chief Investment Officer of Rothschild Australia Asset Management, Head of Investments at Gulf International Bank in Bahrain and Chair of the International Asset Allocation Committee at Paribas Asset Management in London. He holds a joint honours degree in Economics and Politics from Keele University and a Masters degree in the Economics of Finance and Investment from Exeter University.

Grant Patterson

Grant has over 30 years of experience in equity markets. Prior to forming Providence he was a Director of ABN Amro and Head of Retail Broking. He has also held other senior positions such as Senior Institutional Dealer, Head of the Sydney Institutional Dealing Desk and also Head of Corporate Liaison.

Stephen Roberts

Stephen has over 40 years of experience as an economist and financial markets strategist in banking, broking and funds management. He has worked as Chief Economist with Equitilink and UBS. He worked on the Secretariat of the Australian Financial System Inquiry (Campbell Committee) in 1980, helping draft recommendations that led to the deregulation of the Australian financial system. He is an honours graduate in Monetary Economics from the London School of Economics.

James Smith

James has over 20 years of investment market experience (cash equities). Prior to joining Providence, he held the position of Deputy Head of Domestic Sales at CIMB Securities (Australia) and was a member of the CIMB Equities (Australia) Management Committee. He has also held positions as Director - Sales at RBS, ABN AMRO and Sales at Deutsche Bank. James was responsible for Melbourne Sales/Account management in his previous roles over the last decade and in the last two years, was also responsible for New Zealand.

Marc Wait

Marc has over twenty years of investment experience. He began his career in Sydney with HSBC and Citigroup Global Asset Management (CGAM) managing Fixed Income and Money Market portfolios. Marc has also held positions in London with CGAM as a Fixed Income Portfolio Manager and Fidelity International where he was the Group Leader, Short Dated Bonds and chaired the Fixed Income Asset Allocation meetings for the firm. Marc was subsequently the Head of Treasury at the Abu Dhabi Investment Authority. Marc has a B.Agr. Ec (Honours) from the University of Sydney and is a Chartered Financial Analyst.

Ian Wenham

Ian has over 30 years of experience in equity research, investment strategy and portfolio management. He has held such positions as Equity Analyst with Meares and Philips and Research Director of BZW Australia covering equity strategy and industrial research. He was also Regional Research Director with BZW Asia and Director of Asian Research at Lehman Brothers Asia where he chaired the Investment Policy Committee and was the firm's supervisory Analyst for the Asia-Pacific Region. He has also managed strategic global equity investments for the Lowy Family Private Fund. He currently heads his own investment firm.

Glossary of Terms

Buyback	When a corporation purchases its own shares to reduce the number of shares outstanding, thereby increasing the EPS
Capitalisation Rate	Income yield from a property investment
Credit Spread	The margin over a benchmark (generally government securities) that a credit issuer pays on debt
Default	Failure to fulfil an obligation on a loan, e.g. a missed interest or principal repayment
Equity Risk Premium	What an investor is prepared to pay for equities and take that ownership risk vs. investing in secure government bonds
High Yield Credit	High yielding security, issued by a corporate with a no credit rating or a credit rating below BBB
Inflation	The rate at which average prices increase over a period
Junk Bonds	See High Yield Credit
Liquidity	The ability to transact in securities with limited impact on price
Price to Earnings	Price Earnings Ratio - the share price divided by earnings per share of the company
Price to NAV	A ratio of the price of a security to the company's total assets less its liabilities
QE	An increase in the money supply by a central bank
Recession	A period of economic decline, technically identified by 2 successive quarters of GDP decline
REER	Real effective exchange rate, the average of a country's currency in relation to a basket of other major currencies
Stagflation	A period where inflation is high, economic growth slows and unemployment is high
Stimulus	Using monetary policy or fiscal policy to attempt to stimulate economic growth

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