Providence
Independent Investment Advisory

Global Outlook & Strategy

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20 Years of Independence

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1. KEY POINTS

- **Challenging investment environment**
- **Remain diversified across assets**
- **Inflation not yet an issue**
- **Longer-term returns challenging**

"I would say, at a time like this, it is more important to be on your game because the bad decisions will only become apparent down the track. They will not be as apparent now, when a flood of money, cheap money is covering all evils. It is a time, I think, for real specialization and it's time to be careful, and on your guard."

Peter Costello, Former Australian Treasurer and Chair of The Future Fund

As we navigate through our 20th year as stewards of our clients' capital, we reflect on the lessons learnt. It has been a remarkable two decades navigating the 2000 Tech Bust, 9/11, GFC and now Covid-19.

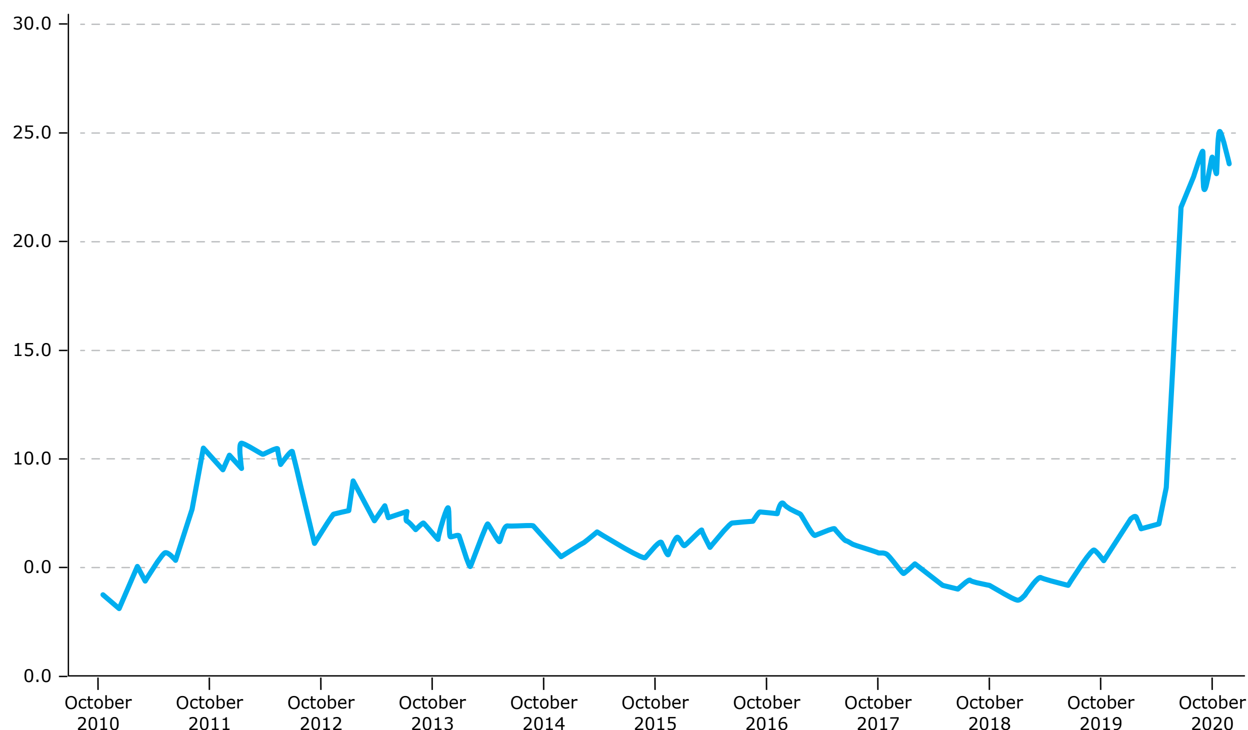
What does not change is the human behavior of fear and greed. Valuations do matter at the end of the day, but it is impossible to judge the timing of the readjustment. Markets can remain irrational longer than you can remain solvent.

The current investment and geopolitical environment is possibly the most complex and challenging we have witnessed in the past 20 years of managing clients' portfolios. Do we chase returns and endeavor to boost income, or remain true to our belief that valuations matter?

It may well be different this time, but history has taught us that the result will be the same. Diversified, disciplined and defensive are still our core themes to preserve and protect clients' wealth or corpus.

Global central banks and governments are now interdependent, working as one to create money and monetise debt. Monetary policy in the US is now reactive not preemptive, as the Federal Reserve is prepared to allow inflation to rise above the target range for some time. There is much dialogue within investment committees regarding the potential for inflation to finally show its face given the unprecedented surge in money supply (**Figure 1**).

Figure 1: Global M2 money supply has surged in response to Covid-19
Source: Factset



US Government bond yields have “surged” 20% since the August low of 0.50% to 0.78% but remain well below the pre-Covid levels of 1.90%. We believe it is too early to be claiming that the “inflation genie” is out of the bottle despite the massive fiscal and monetary response employed by governments and central banks around the world. The Covid-19 pandemic has accelerated and intensified several disinflationary forces such as decreasing globalized trade, corporates embracing technological advancements and low levels of net migration. This acceleration of disinflationary forces coupled with those existing secular disinflationary trends (demographics and heightened debt levels) and layers of excess capacity following the Covid-19 lockdowns, lead us to believe that the near-term prospect of an inflationary scare is limited. We continue to monitor leading inflationary indicators, as any meaningful pickup in the discount rate may expose those asset classes with lofty valuations.

The US election is, of course, taking centre stage. The first presidential debate was a farce and appalled most political observers. Whichever party wins in early November, fiscal stimulus in the US will be somewhere in the range of US$1.2tn to US$2.0tn, to help support the economy. The prospect of such significant fiscal intervention should be supportive of markets in the short term whatever the outcome, with the long-term consequences of either policy stance to be determined by the structure of the Senate.

A major concern is any delay in announcing the winner given the heavy reliance on mail-in voting, and the short-term volatility that would likely follow, although we believe this risk is overplayed.

The Australian Federal Budget outcomes were largely broadcast before the formal announcement. A pro-stimulus stance remains in place and appears appropriate given the uncertainty created by the Covid-19 pandemic. The headline announcements included an additional $10bn of infrastructure spend over the next 4 years, the transition from JobKeeper and JobSeeker to JobMaker, personal income tax cuts, business investment and asset write-off incentives. The budget outcomes have created some opportunities within Australian equities, infrastructure and regional Australia.

We are slowly shifting our focus to a post-vaccine world, a prospect everyone is looking forward to. Whilst undoubtedly a net positive, it will also likely be coupled with an increase in corporate insolvency as many of the direct government supports roll-off and the debt burdens require servicing once again. It is not known how many companies have been operating in an effective 'zombie' mode, only keeping their doors open via a life support mechanism provided by governments. In this environment, we see it highly unlikely that any meaningful increase in interest rates can occur. Indeed, the more recent posturing from the RBA suggests further monetary support measures are in the wings, be it via additional yield curve controls or further interest rate reductions. As token as they may be, they are now largely priced in.

There is likely to be some pressure on income generated from a balanced portfolio given many traditional 'defensive' investments are now providing little income. With longer-term returns expected to be well below historical averages, investors should manage their expectations of likely returns in a world of excess debt, disinflation, low interest rates and declining demographics.

Our independent asset consultant, Lonsec, undertook a Strategic Asset Allocation Review for 2020 resulting in significant downgrades to return forecasts for diversified portfolios. This is not unexpected in a world of extremely low cash rates and bond yields. A reduction in longer-term returns was driven by a material downward adjustment to income returns *"due to the cash rate being revised down from 3.0% p.a. to 1.7% p.a." (Lonsec 2020 Strategic Asset Allocation Review, October 2020)*.

2. INVESTMENT OVERVIEW

Portfolios have withstood the initial shock in March and have since posted modest gains on the back of rising stock markets. It is now time to look forward to when a vaccine is available. Although we have no visibility of the timetable, there seems some informed optimism that the vaccine may be available mid next year.

In the interim, investors will need to accept the prospect of periods of heightened volatility associated with increasing case numbers in various jurisdictions. We are currently seeing a further tightening of restrictions in the UK and increasing case numbers in parts of Europe as the Northern Hemisphere heads towards the cooler winter months. Perhaps containment measures will be more effective in a second wave, however any significant resurgence of the virus in Europe will likely test the resolve of jittery equity markets that have run very hard on the flood of liquidity injected into the system. Any signs that the healthcare systems are again under siege or at capacity, will certainly add to short-term volatility. Such an outcome of rolling lockdowns, should this occur, will no doubt see a resumption of further fiscal and monetary accommodation by somewhat reluctant governments, evidenced most recently by UK Prime Minister Boris Johnson's lack of enthusiasm for further London lockdown measures. The most important point is the over-arching ability for any healthcare system, in any jurisdiction, to manage another wave without being overwhelmed. A failure to do so is certainly a red flag for risk assets and indeed certain sub-sectors within equity markets that have arguably overshot many fundamentals.

Our primary theme at Providence in this environment is to ensure that portfolios remain well diversified.

Any extension in the period of unemployment, associated with further Covid-19-related restrictions, increases the prospect of longer-term economic scarring. Prolonged periods of unemployment erode labor force skills and can shallow-out the trajectory of a recovery as the labor force takes time to re-skill. The result can often lead to a contraction in long-term productivity growth. This theme is one of three economic scars that PIMCO has identified as impediments to long-term productivity growth in their recent secular outlook, alongside reduced business investment from uncertainty, and further corporate "zombification" due to extended periods of low rates and fiscal support.

The resulting policies, following an unprecedent and co-ordinated global central bank and government response, has yielded an environment of exceptionally low global interest rates. This, in essence, is now punishing those in the community who are the 'savers', in that they are effectively now earning returns below the rate of inflation, for the privilege of being historical wealth accumulators.

Often referred to as 'financial repression', this environment, whilst punishing the saver, is intended to 'seek a greater good' by allowing for cheap access to funding for banks and financial institutions who can then on-lend to corporates and indeed governments, ultimately reducing the overall burden of debt and the commensurate repayments. Rob Peter to pay Paul, if you like. In an environment that is already heavily debt-burdened, both at the government and corporate level, the prospect of an ultimate recovery is difficult to comprehend. It is no coincidence that some economic and financial observers have turned to the discussion of inflation as a way to 'inflate our way out of debt'.

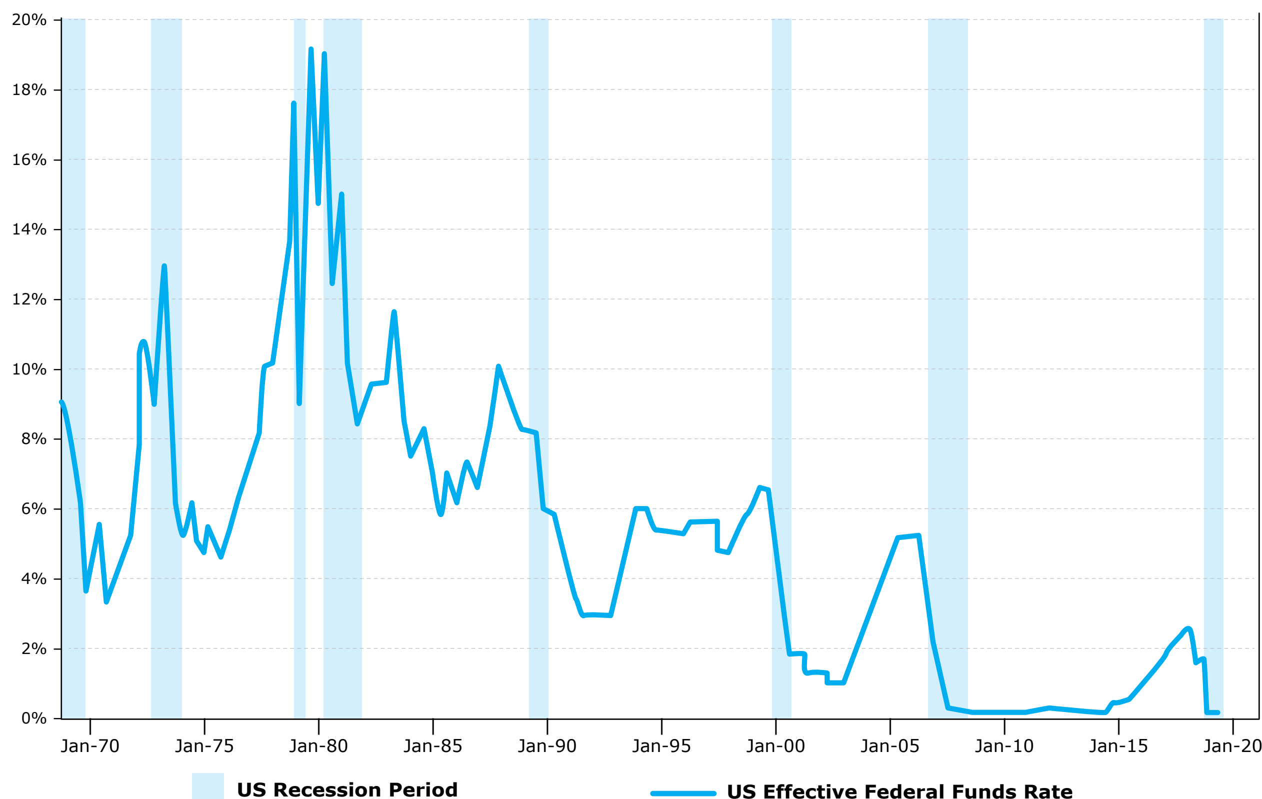
Many argue that we are currently in a 'Modern Monetary Theory' framework, in that 2020 has witnessed governments across the globe essentially injecting new reserves into the banking system to generate economic activity, as evidenced by the surge in M2 money supply. Whilst in practice this appears true, the other side of the equation requires the banking system to on-lend. This appears to be lacking. Central banks appear at ease with the concept of 'rolling issuance' of liquidity and indeed yield-curve control. The question remains as to the 'efficacy' of such policies, and how long can such an environment continue, and further, ultimately how much debt can be issued? For now, it appears this is a secondary thought in favour of firstly stability, and secondly, attempting to nudge the global economy onto an upward trajectory. The scale and duration of rolling issuance of debt appears for now to be an after-thought. In such an environment, governments and central banks are arguably very much interdependent – the major supporting evidence of a 'Modern Monetary Theory' framework – and something quite unprecedented.

Financialisation, that being the sheer size and dominance of the financial sector relative to the broader economy (not a new phenomenon but something that has been decades long in the making), has created an environment whereby the markets broadly have become the master, and the governments and central banks the apprentice. This embedded reality has now, and will for some time to come, create an overarching influence on the directive of government policy and indeed that of central banks.

In the US, we have seen a significant policy stance reversal from the Federal Reserve, from forward-looking to backward-looking. That is, a commitment to allow inflation to run above target for a period This change in directive, coupled with surging money supply, has seen a recent outperformance of inflation-linked bonds relative to nominal bonds and a strengthening gold price. An argument for an inflationary cycle down the track, even if short in duration, looks plausible. However, we continue to believe that the large build-up of debt, aging demographics, geopolitical risk and limited central bank ammunition (**Figure 2**) to deal with any subsequent crisis, are strong deflationary trends that offset these short-term inflationary signals.

Putting these themes together, we believe interest rates will remain low for a considerable time.

Figure 2: The fire-power of the US central bank and indeed other banks is largely depleted by virtue of how low cash rates currently are
Source: S&P Market Intelligence



Having put the near-term risk of inflation to one side, we expect interest rates to remain low for a considerable time. In such an environment, the opportunity cost of being overweight cash will be a drag on portfolio returns.

So, the challenge is to boost income whilst remaining defensive, given the uncertainties surrounding global growth and debt levels.

Under a continued disinflation scenario, higher yielding assets such as infrastructure and REITs can perform well. Lower discount rates can act to offset less optimistic earnings projections and longer-term headwinds to office and retail property. To the extent that these assets provide inflation hedges they would perform reasonably well in a modestly rising inflation scenario, particularly if bond yields are supressed.

Recent changes to asset allocation have seen an increased weighting to property, infrastructure, and government bonds at the expense of cash and credit.

3. ASSET CLASS REVIEW

3.1 Equities

Headline valuations, such as price-to-earnings or price-to-book multiples, for some global equity markets appear stretched with both trading well in excess of their long-term average (**Figure 3 and 4**). The main argument in support for this to continue, is low bond-yields making the value of discounted cash flows more attractive, and therefore allowing an investor to pay a higher present value (or price) for that stream of cashflows. The equity risk premium is one way to consider the impact that declining bond yields have on the relative attractiveness of equities, and on this metric, the US market appears more attractive (**Figure 5**).

Figure 3: Price-to-earnings ratio versus 20-year range

Source: Factset

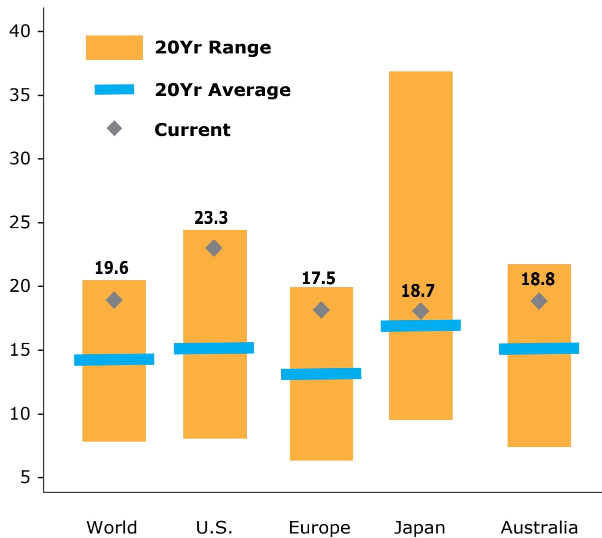


Figure 4: Price-to-book ratio versus 20-year range

Source: Factset

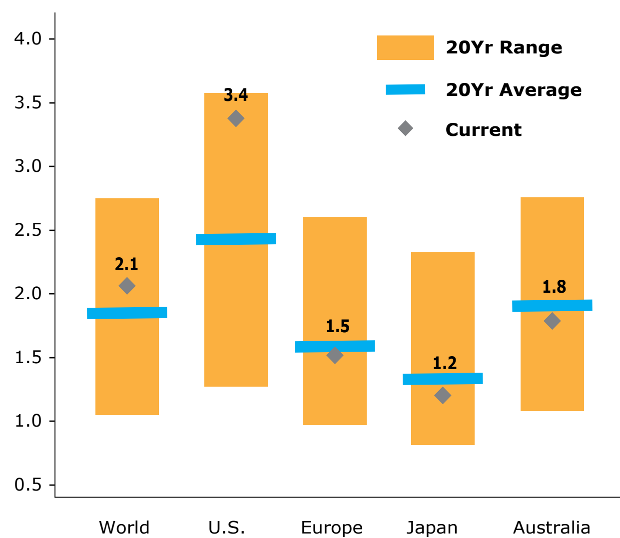
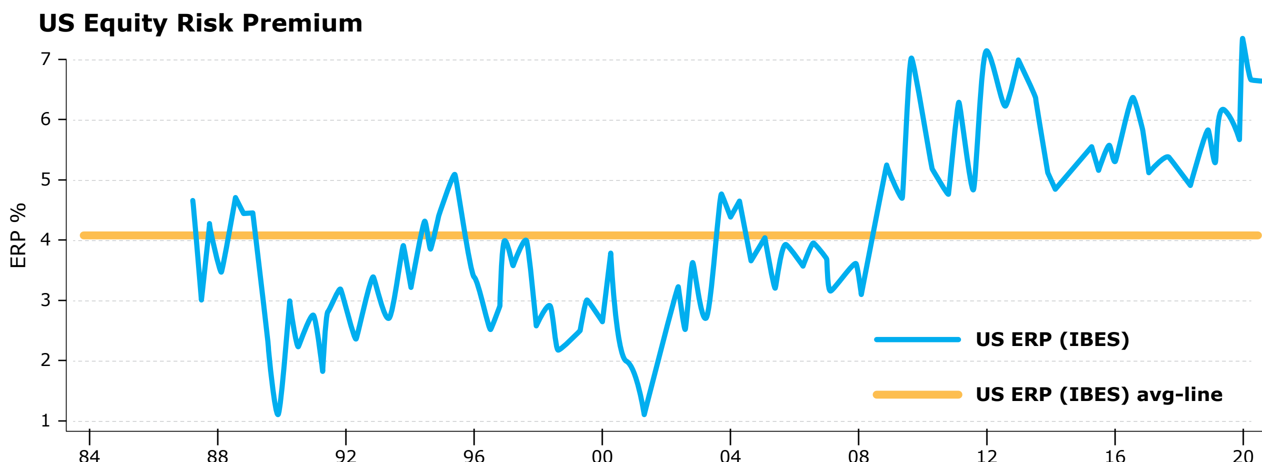


Figure 5: US equity risk premium remains attractive relative to longer-term levels despite the euphoric run of the broader S&P 500 Index

Source: Factset



More importantly, we question the relevance of an index as a broad barometer of a country's economic fortunes and those of its listed constituents. Using the United States as an example, the top 10 stocks of the broad S&P 500 Index now account for 29% of that index, the highest level in 30 years (**Figure 6**). Over the past 12 months, these top 10 stocks have exploded in value whilst the remaining companies are still hovering below their February 2020 peaks (**Figure 7**). With this sort of distortion, we believe active fund managers remain the appropriate approach to investing in global equity markets. Valuations matter...

Figure 6: The sheer size of the top 5 and top 10 stocks in the S&P 500 in the US now dominate the overall index

Source: JP Morgan Asset Management

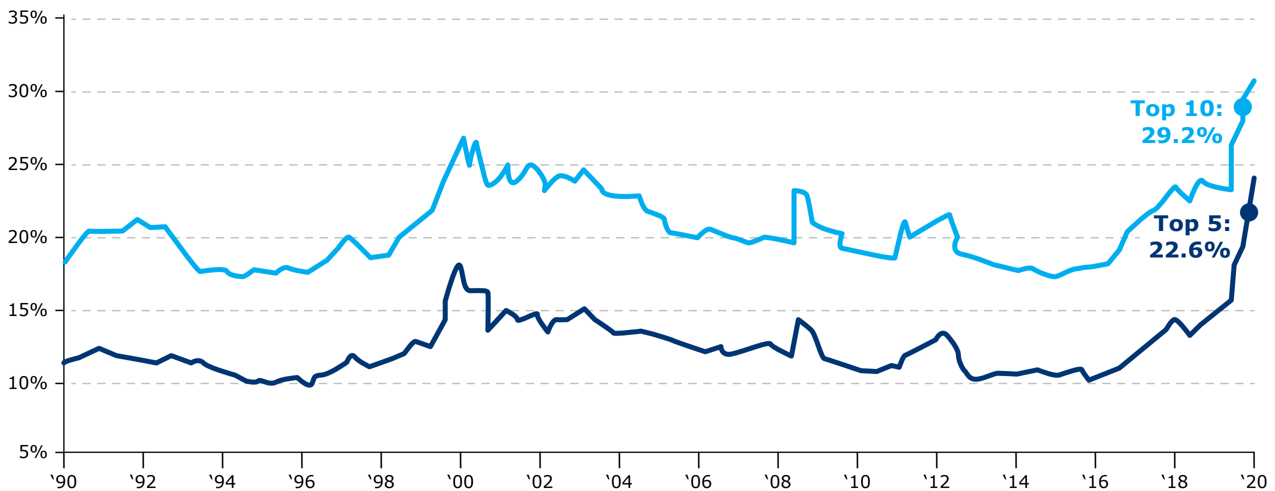
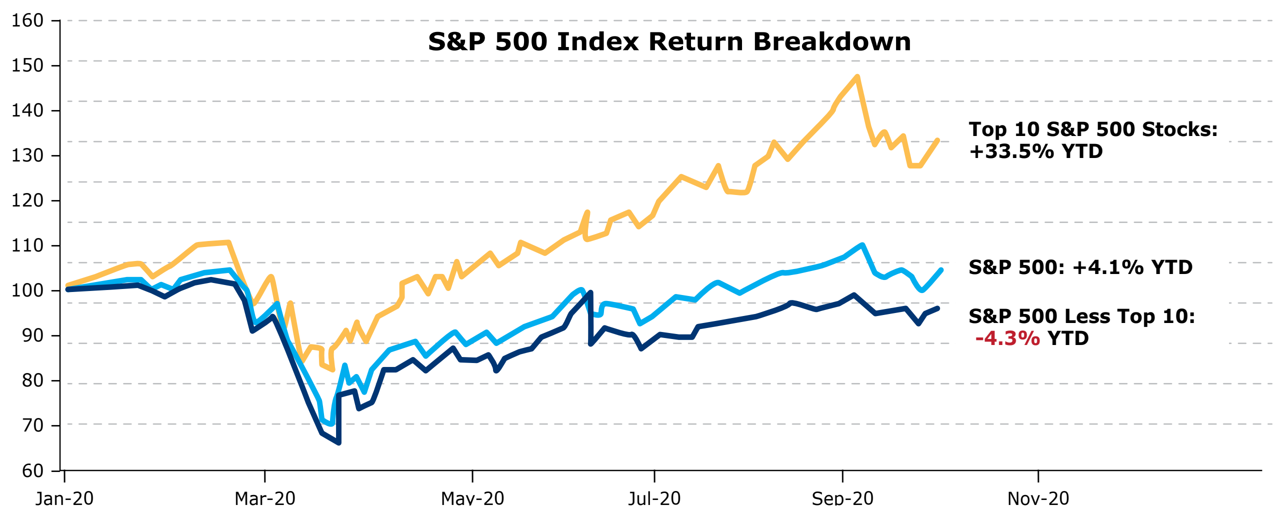


Figure 7: The broader S&P 500 Index performance this calendar year (light blue line) has been heavily influenced by the material outperformance of the top 10 stocks (orange line). Index constituents (ex-top 10) have struggled to perform (dark blue line) highlighting main street has been left behind in this momentum and targeted rally

Source: Factset



Within equities, there is a huge divide in valuations between technology and growth stocks versus cyclical and value stocks. Technology valuations have soared on the back of increased usage during lockdown, minimal discount rates and the rise of the retail speculator. Covid-19 has also fast-tracked some important mega-trends and in many ways, a broader acceptance of many things digital (cashless payments, telehealth, click and collect etc.) thus fuelling the share price of a select few, some of which capture these themes.

We are wary of valuations in the US tech sector, experiencing in many instances remarkable multiple expansion. As such we have a preference towards cyclicals or value stocks at this point of the cycle. There is little attraction in the Australian equity market due to the high weightings of financials with the long-term underperformance likely to continue.

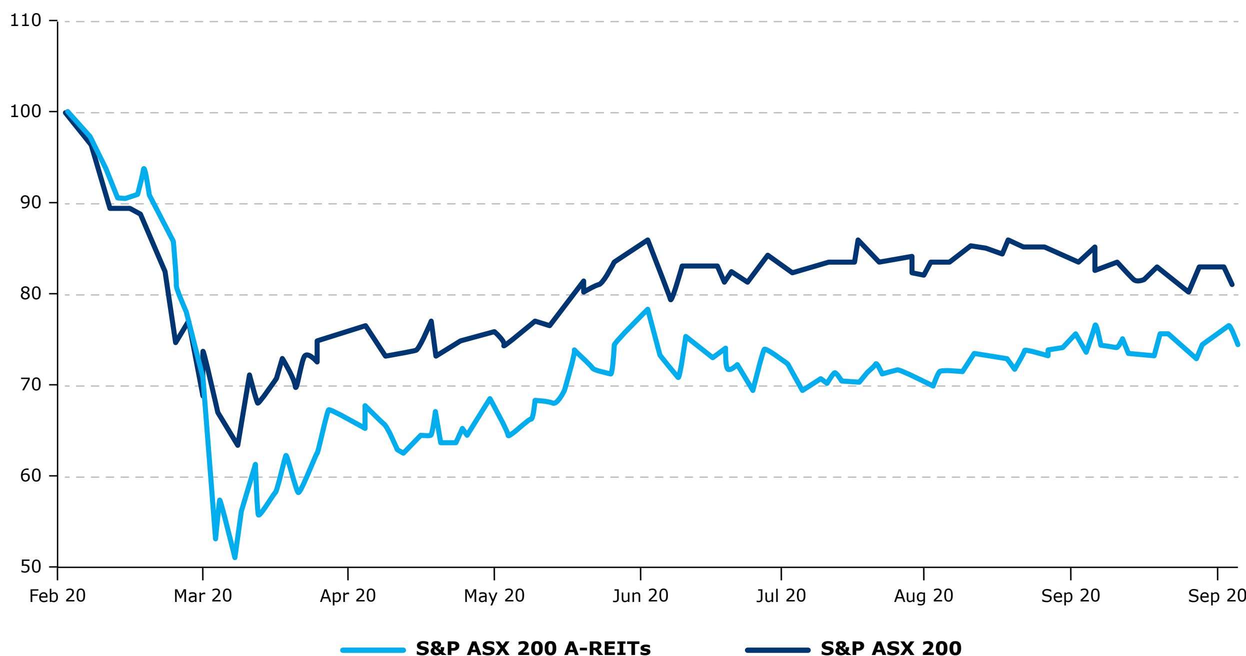
Japanese and European equities along with emerging markets are preferred with both jurisdictions providing exposure to cyclical industries that will benefit from an improving global economic picture.

3.2 Property

AREITs, particularly in the retail sector look attractive. The lockdowns, loss of foot traffic in malls and shopping centres with an increase in online shopping, is well understood regarding the impact on rental income. However, despite rental relief, most suburban shopping centres are now reporting an increase in foot traffic. Retail sales are strong, up 3.3% in July and 12% on the previous corresponding period, driven by the income support through JobKeeper/JobSeeker. The AREIT sector remains approximately 26% below its high, lagging the rebound in equity markets (**Figure 8**). We have observed within the broader AREIT sector, based on some rational and realistic assumptions, there are a number of REITS that are currently trading close to land value and in many instances below NTA, providing attractive opportunities within the sector.

Figure 8: AREITs have underperformed the broader Australian market during Covid-19, creating selective opportunities

Source: Factset



In what has been a volatile year across most asset classes, Providence has been actively exploring opportunities within the property sector. We see elements of mispricing during the uncertainty, and lack of short-term visibility, unearthing attractive opportunities in niche areas of the Australian direct property landscape.

Specifically, at the start of this calendar year we completed three years of due diligence on the regional hospitality sector. As a sector, we find asset valuations compelling but are equally attracted to the high single digit (net of fees) cash yields, with the added bonus of recent government fiscal policy benefits and a surging domestic tourism market. We certainly did not envisage a global pandemic paralysing global markets and consequently international travel, however we are now, more than ever, seeing a noticeable and visible surge in demand in terms of visitation to regional areas. We expect these observations and initiatives (via the Federal Budget) to be a significant tailwind for regional hospitality assets.

Separately, Providence has been actively exploring a way to generate economic returns for our clients while also supporting or enabling a genuine positive social impact for the broader community. We have been extensively researching the Specialist Disability Accommodation ('SDA') sector, which will help fund the construction and provision of high quality, disability-friendly accommodation throughout Australia. Returns are expected to be favourable and in the low double-digits (i.e. 10-11%). With bipartisan support for the government-backed rental streams, we feel this is an attractive sector and well worth supporting. We also anticipate ample institutional appeal in an ultra-low rate environment.

In what bridges the gap between property and fixed income, we continue to explore selective first mortgage fully secured loans with no development risk, that provide an attractive yield of around 7-9% with an LVR of 50-65%.

3.3 Fixed Income

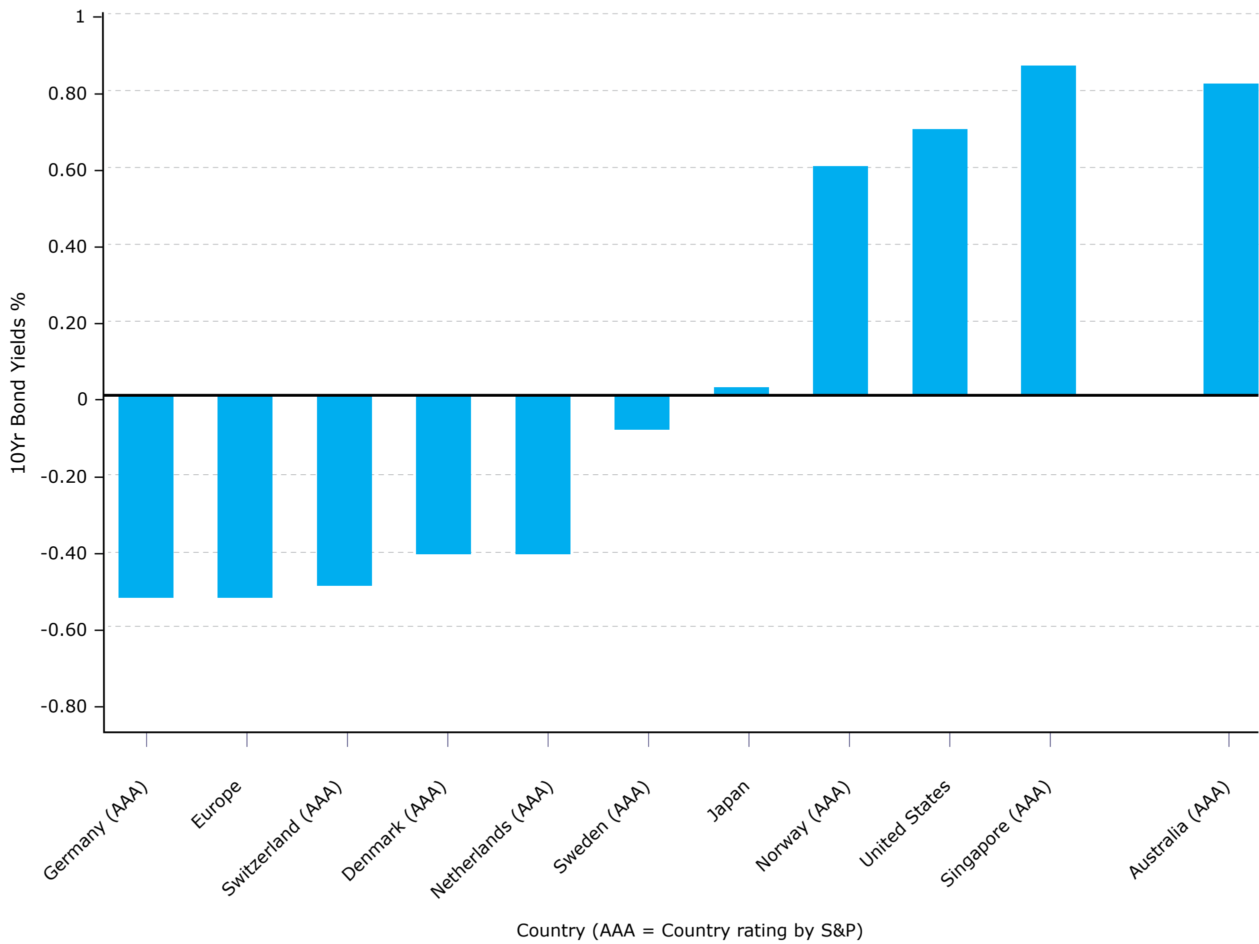
There has been a significant surge in corporate debt over 2020. This is not surprising given the low level of global interest rates which act as a reference rate for many corporate debt securities. However, whilst servicing costs remain extremely low, the absolute level of debt is extended. We also note a significant deterioration in covenants and other investor protections within the corporate debt issuance space.

At present, with easy monetary policy and significant government support, high levels of debt may well be supported, however we are keenly aware that a surge in defaults and insolvencies is possible as government life-support measures are gradually withdrawn. In the face of this risk, we are avoiding the speculative high-yield end of the market which has seen the greatest deterioration of investor protection, and prefer investment grade and asset-backed securities, where lending standards have been maintained.

Australian Government bonds look attractive versus global comparisons (**Figure 9**) as was evidenced in the recent Government Bond auction. We noted over $60bn of demand for the $24bn offering, a large proportion of which came from international investors. Although yields are low by any historical measure and any pickup in inflation or inflationary expectations may result in poor returns, portfolio risk management necessitates a core holding.

Figure 9: Australian Government bond yields still look attractive relative to AAA rated countries and other major bond markets

Source: Factset



Additionally, central banks have made it very clear that they will continue to ensure that long-term interest rates do not rise to a level that would impede growth or valuations (most commonly referred to as yield-curve control). In such an environment, we believe including long-duration Australian Government bonds in portfolios will allow us to increase risk assets and income.

3.4 Alternatives

Within alternatives, gold will remain a core holding for the diversification benefit it offers to portfolios and the limited opportunity cost of gold relative to bonds in the current low yield environment. We were pleased to see the diversification benefit playout (**Figure 10**) during the recent equity market sell-off which increases our conviction in holding this asset for the longer term.

Figure 10: Gold provided a significant buffer to portfolios during the Q1 sell-off and retains a place in portfolios for diversification and portfolio risk mitigation

Source: Factset

Gold in AUD vs S&P ASX 200 YTD (common base)

Similarly, the relative value bond strategies that we have employed helped dampen the volatility that portfolios experienced during the recent market sell-off. Providence continues to explore alternative sources of return given the low-yielding environment and stretched asset valuations. These strategies need to demonstrate limited correlation to existing assets in our portfolio, have a demonstrable source of return and a heavy focus on risk management.

We continue to maintain 50% of our offshore risk assets hedged to Australian dollars (which was implemented initially at the start of April 2020, when the AUD was at $0.60 versus USD). This has performed well in the recent offshore equity market rally and was coupled with a strong appreciation in the Australian dollar relative to the USD. At this juncture, we do not have a strong opinion on the direction of the Australian dollar.

4. CONCLUSION

4.1 Opportunities

- Selective first mortgage fully secured property loans
- Regional hospitality assets, specialist disability housing
- Long duration assets, Australian Government bonds/Infrastructure
- Selected AREITs
- Gold for protection

4.2 Risks

- Resurgence of Covid-19 leading to further lockdowns
- Geopolitical tensions
- US Presidential election uncertainty
- Unwind of fiscal and monetary stimulus packages
- An unexpected inflation flare-up

4.3 Implications

- Visibility is still lacking but governments are providing huge fiscal response
- Stay the course and remain very diversified and disciplined
- Expect volatility in markets to continue

Asset Class	Strategic*	Range	Tactical	Overweight/ Underweight
Australian Shares	23%	10% – 50%	15%	Underweight
International Shares	26%	10% – 40%	25%	Neutral
Property	11%	0% – 25%	15%	Overweight
Infrastructure	n/a	0% – 20%	0%	n/a
Government Bonds	35%	0% – 50%	15%	Underweight
Corporate Bonds/Credit	0%	0% – 50%	10%	Overweight
Cash (term deposits)	5%	2% – 50%	10%	Overweight
Alternatives/Hedge Funds	n/a	n/a	10%	n/a

*Strategic Benchmark is the Lonsec Balanced Strategic Asset Allocation, updated in October 2018.

Thoughts from the Research Department

Lower Longer-Term Returns

In 2017 we published a Whitepaper titled "Lower Longer-Term Returns". At the time we proffered that investment returns from a traditional balanced portfolio (60% growth assets and 40% defensive assets) would likely be structurally lower. We inferred that unless return expectations were adjusted (lower, as in to expect lower overall returns) a more aggressive investment stance would be required to meet previous aspirational goals.

The primary drivers behind our assertion still stand today, and indeed the forces behind them are even more apparent. They were:

- Demographic changes
- Income inequality
- Excessive debt levels

Such headwinds were expected to feed into a sustained period of low inflation and low cash and bond yields, a situation that we find ourselves in at present. While in 2017 we did not foresee a global pandemic, we noted that the above points were indeed interrelated, and key inputs into any sustained improvement in global growth and productivity, thus impacted asset class performances and valuations.

Our conclusion was that investors previously seeking returns of 4.5 – 5.5% above CPI for the purposes of meeting actuarial schedules, contractual liabilities or mandatory annual distributions, would have to either adjust their aspirational goals and income requirements, or take on a higher level of risk to meet investment returns. Investors face such a choice now.

We also note in Lonsec's most recent longer-term Strategic Asset Allocation Review (August 2020) that they have adjusted down longer-term return assumptions.

If you would like a hard copy of the Whitepaper, please contact the Providence office and we would be delighted to send you a copy.

Thoughts from a Contrarian

It won't be news to anyone that the combination of indefinite free money and central bank printing presses have pushed asset prices to extreme levels. A select group of mega cap growth stocks continue to grind higher, even in the face of the catastrophic economic consequences of a global pandemic. Apples' market cap has reached $2.8 trillion, Facebook is valued at $1 trillion odd in the local currency, and Tesla is valued at $500 billion. Companies such as Apple, Facebook and Amazon are champions of the new economy and hold unassailable market positions in sectors that have actually seen accelerated growth from global lockdowns. So, who knows, the valuations may be rational, give or take a few hundred billion. Tesla, on the other hand, sells cars, and not all that many at that. If this leaves me open to the accusation of 'not getting it' then so be it. I didn't 'get' the Dotcom boom and I never understood why anyone gave any money to Alan Bond. Looking stupid for a few years at a time, every now and then, is the price you pay for being a contrarian.

In Australia we like to punch above our weight and not to be outdone, the Australian market has placed local growth champion Afterpay on a PE multiple of 200, giving it a market cap larger than Coles. Given the opportunity of owning Afterpay outright or owning Coles outright with a few billion in spending money left over, I think I'd probably go the latter. Afterpay operates in the buy-now-pay-later sector, where consumers, largely millennials, pay for a product via instalments. This is looked upon as a great financial innovation. In 1984 I purchased a skateboard through the local toy store which I paid for in a series of instalments. The owner of the store made a modest living selling Star Wars figurines, Cabbage Patch Kids and hacky sacks, when all along he was apparently a brilliant financial disrupter needing only the internet, zero interest rates and a stock market that had completely lost the plot to achieve billionaire status.

Afterpay is the perfect storm of the zero interest rate boom. It is the beneficiary of a virtuous circle that will continue to feed on itself until it reverses. Low rates give the company access to cheap funding, cheap funding allows it to offer generous terms to customers, government stimulus and low rates encourage and enable consumers to spend, future earnings are given a high valuation because rates are so low, the company can issue shares at a very high price fuelling growth and lowering its cost of capital, which takes us back to the start. Overlay the explosion of passive investing vehicles that pile into growth stocks, and the arrival of the Robin Hood generation of investors who are also likely to be Afterpay customers, and you have a recipe for a truly epic bubble.

It's not hard to miss the Achilles heel in the circle. When and if interest rates move upwards, or Afterpay's cost of capital increases for some other reason (regulation for instance), the whole circle will kick into reverse and those who 'get it' will really get it. When that happens is anyone's guess and the virtuous circle could continue for a long time to come. So rather than look silly by predicting the end of the Afterpay bubble only to watch it rise another 30%, I'd like to add one more ingredient that could take the price much higher and make Afterpay for bubbles what Mozart was for music. Why not allow Afterpay to provide the ability to pay for its own stock in installments. Surely this would create the financial equivalent of a perpetual motion machine. Sure, financing the purchase of your own shares is illegal but so is frontrunning and the entire High Frequency Trading industry is making money out of that. A buy-now-pay-later company that finances the purchase of buy-now-pay-later shares. I'm joking of course, but that doesn't mean it won't happen.

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

Term	Definition
Covenant	In debt terms, levels of liquidity that must be maintained by the borrower to avoid the debt being "called" or repaid in full
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
Earnings guidance	Reference to corporates providing an estimate of their expected upcoming earnings
Equity Risk Premium	What an investor is prepared to pay for equities and take that ownership risk vs. investing in secure government bonds
Gearing	The value of a company's debt to the value of its equity
Inflation	The rate at which average prices increase over a period
Liquidity (economic context)	The use of fiscal and monetary measures to support the economy
Liquidity (trading context)	The ability to transact in securities with limited impact on price
NTA	Net Tangible Asset - total assets of a company minus intangibles and all liabilities
P/B	Price to Book Ratio - the current share price divided by the book value of their assets per share
P/E	Price to Earnings Ratio - the current share price divided by the earnings per share
Probability of default	An estimate of the likelihood a company will default on their loans
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
Risk assets	Higher risk investments - Providence generally considers Equities, Property and Credit as risk assets

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