Providence
Independent Investment Advisory

Global Outlook & Strategy

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1. KEY POINTS

- **Challenging investment environment, valuations stretched**
- **To protect & preserve capital, remain diversified across assets**
- **We have a value bias in equities**
- **There is a high level of speculation evident in markets**
- **Debt is uncomfortably high in the event of rising interest rates**

"If there is one common theme to the vast range of the world's financial crises, it is that excessive debt accumulation, whether by the government, banks, corporations, or consumers, often poses greater systemic risks than it seems during a boom."

Carmen Reinhart, 2009

In a world of negative real interest rates, record global debt levels, generational high PE's, rampant speculation, populist politics, and a virus that is claiming thousands of lives a day, it is difficult to be comfortable investing other people's wealth.

There is no rule book for the current state of the investment world. There is now a co-dependency between central banks and governments, and investors and debt issuers, which is troubling as there is no clear exit. It will take decades to unwind the current stimulus in an orderly fashion, which will result in lower long-term returns. Unless it happens overnight!

Without the ability to time any correction and with central banks underwriting all assets, the only course of action, if the aim is the protection and preservation of capital, is solid diversification with a focus on value.

So, with 2020 hindsight lets take stock of where we are now and how to plan for the future.

2. INVESTMENT OVERVIEW

Financial markets are in a difficult position. While the global economy is currently sick, the forward projections rely on a re-opening of economies supported by aggressive fiscal and monetary policies. So far, we have had US$22,000,000,000,000 (that is $22 trillion) of global fiscal and monetary stimulus that has created asset bubbles everywhere but no sign of inflation as it is traditionally measured. This is a dangerous time for investment markets, the 'blow-out' phase. This can be explosive with cautious conservative investors left in the wake of the super yacht powering past. Oh, to have that yacht! There are no icebergs on the horizon, full steam ahead.

The second half of 2020 saw a strong rebound in global economic growth with many bulls pointing to the shape of the economic recovery as justification for aggressive investment positioning. Much of this economic rebound in the developed world was consumer-led, driven by income support to households mandated by governments and funded by central banks. Unfortunately, late 2020 saw an acceleration in second and third wave outbreaks of COVID-19 across major developed markets being the US, UK, and Europe. These outbreaks have instigated renewed, and in some cases, more aggressive lockdowns that have now seen some global leading indicators deteriorate.

On a relative basis, Australia has fared well. Early and aggressive commitment to fiscal support allowed Australia to contain the outbreak without the level of economic damage to household income that one would expect from such strict lockdowns.

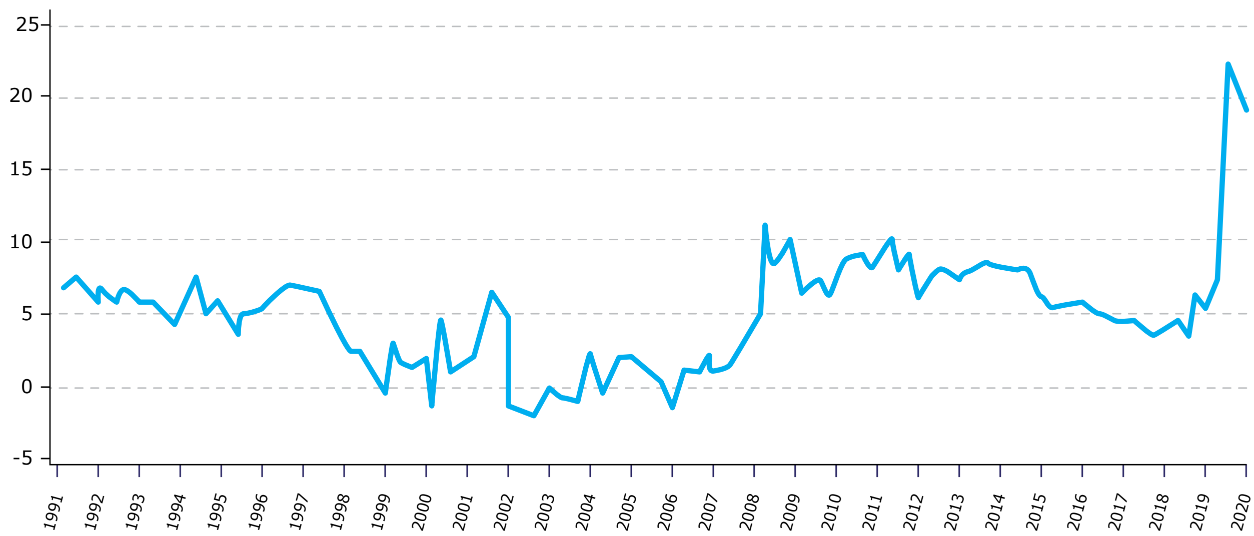
Whilst the negative impacts of COVID-19 have dominated the headlines, there have been some positives.

Australia has seen an internalizing of domestic demand, a spike in stay-at-home spending and a boost via domestic tourism as the "Grey Nomads" unable to travel offshore explore their backyard. This is supporting regional towns which, in many cases, are now also benefiting from the La Niña effect and the resulting increased rainfall and cropping conditions, with a rural profitability rebound ensuing. Finally, our terms of trade now stand at record levels, with China's insatiable appetite for our top-quality iron ore the main contributor, but also supported by strength in other key export commodities such as liquefied natural gas.

Taking stock domestically, households are better off than expected. Much of the Australian government income support payments went to household savings with this metric increasing to 22.1% at its peak in June before falling slightly to 18.9% in September (**Figure 1**). The result has been better than expected consumer spending for a recession and strong increases in Australia's favorite asset class, residential property. This relatively better positioning has seen a strong rise in the Australian dollar (AUD), creating some headaches for the RBA and no doubt played a part in their adoption of the now not-so-unconventional monetary policy of Quantitative Easing (QE).

Figure 1: Australian household saving ratio remains elevated, supporting prospects for better consumer spending

Source: Factset



China has been the beacon of hope when considering the post-COVID world. After a sharp economic contraction in Q1 of 2020 (-6.8%) related to the initial outbreak of COVID-19 in Wuhan, the Chinese economy looks poised to finish the year with impressive GDP growth of 6.5% year on year. Much of China's strong post-COVID growth can be attributed to a global re-stocking of supply chains with export growth being a primary contributor to their economic recovery. With outbreaks reigniting in the developed world likely putting a halt to this re-stocking effort, China is expected to rely on its fiscal lever of fixed asset investment to maintain its phenomenal run of economic expansion. Commodity prices are certainly indicating that this transition is underway with iron ore prices flirting with the record highs achieved during the post-GFC mining boom.

The challenge for the western world is how to accommodate China's place in the global economy. Tensions continue between China and the US, with some posturing by the Chinese Communist Party perhaps taking advantage of a weakened US economic and political system. China is now key to the global economy given its manufacturing prowess, and is ingrained in the global supply chain. Perhaps a transition and diversification of supply chains will occur, however this will take time and political and economic engagement is crucial in the interim.

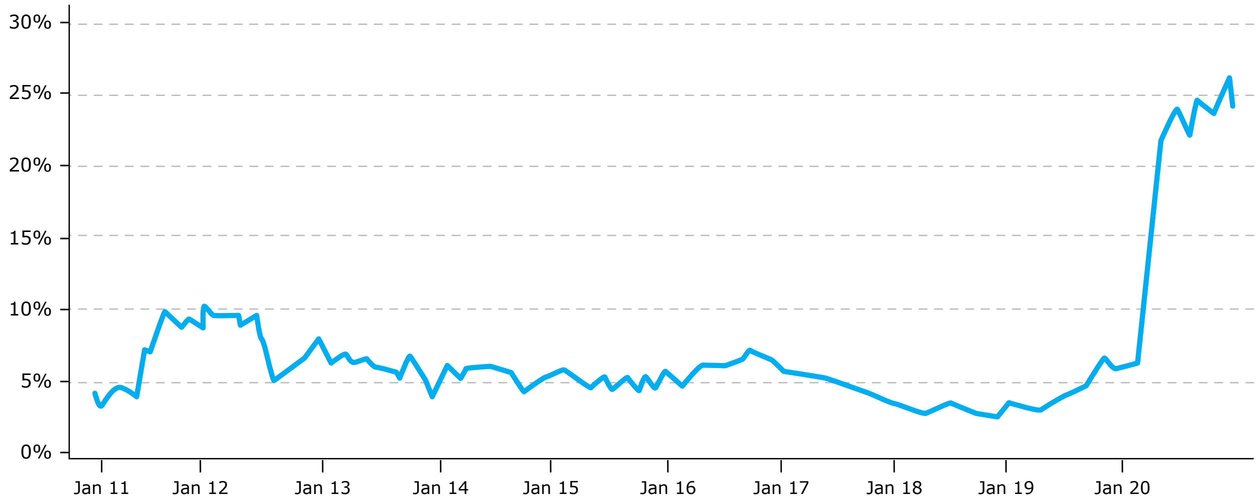
2020 was quite a year for the US, impacted by a pandemic, with Presidential election to boot. We will leave the arguments about the US's medical response to the pandemic to the scientists and focus on the economic impacts. The timing of the outbreak could not have been worse with the dominant Democratic and Republican political parties at their extremes of divergence leading into the US Presidential election. While they were able to provide immediate fiscal response through the $2.3tn Coronavirus Aid, Relief and Economy Security Act (CARES Act) and the $500bn Paycheck Protection Program for the initial outbreak in March, the subsequent response to second and third outbreaks has been sluggish due to political tension. The "Blue Sweep" or "Blue Wave" has opened the door for increased fiscal firepower with US President-elect, Joe Biden, pledging to expand on the $900bn stimulus package agreed to by a once divided House and Senate. Biden's first sweep emergency relief package announcement is seeking approval of an additional $1.9trn.

Looking forward, a commitment by the US Federal Reserve to maintain low policy rates even if inflation were to overshoot its 2% inflation target and a $120bn/month asset purchase program, coupled with a Democrat-controlled government with an expansionary fiscal agenda, positions the US for a strong rebound. Not until the vaccination program is substantially complete and COVID-19 is "controlled" can the underlying economy realistically contribute to any broad-based recovery. This path will be rocky as investors weigh the long-term impacts of the fiscal and monetary union with the short-term impacts of COVID-19 which are largely unpredictable. While this unification of fiscal and monetary policy paints a reasonable backdrop for risk assets on a stand-alone basis, valuations are at extremes in the US, suggesting that this may already be accounted for in asset prices.

Like the US, Europe has suffered under COVID-19, with another outbreak occurring as they entered the Northern hemisphere winter. With vaccinations only beginning their roll-out across the region, harsh lockdowns have been the only way to deal with strained health systems. These additional lockdowns are unlikely to appear in economic data for some time, but we would expect similar impacts to the initial lockdown – increases in unemployment, disruptions to supply chains, reduced industrial production and reduced retail sales. It also raises the specter of more aggressive rolling hard lockdowns in parts of Europe or the UK. That risk remains in the early stages of 2021 as a possible correction 'trigger', especially given lofty share market valuations. The roll-out of vaccines could not come any quicker. With growing budget deficits following the initial fiscal response to COVID-19, there is some risk to the size of any future fiscal response. Recent history, however, demonstrates that deteriorating budget positions has not put a halt to any fiscal intervention elsewhere.

We believe it is worthwhile commenting on the prospect of inflation. There is a growing chorus of market participants starting to muse about its return. Certainly, when looking at explosive money supply there is cause for concern (**Figure 2**).

Figure 2: US M2 money supply growth (% year on year)
Source: Factset



However, the secular forces of deflation remain: technology, demographics, economic scarring, output gap etc. We are yet to see a transmission of unified monetary and fiscal policy to velocity of money, suggesting no transfer of the stimulus to the economy. We remain watchful and mindful of the extraordinary liquidity in the system, however this seems to be flowing to asset price inflation, not goods and services.

We believe we are in for a period of extreme volatility and lower long-term returns. Our strategy to navigate through these times is to remain very, very diversified across asset classes, preferring value over growth, retaining gold and cash for protection, and looking for real assets (agriculture, selected property) for income. We are employing managers that dig deep into markets to find opportunities that may not appear in the headlines but provide a margin of safety above an index.

We have 'taken down the spinnaker' and 'deployed the jib'. We might take longer to reach our destination, but we will get there.

We can't change the direction of the wind,
but we can adjust our sails to always reach our destination.

3. ASSET CLASS REVIEW

3.1 Equities

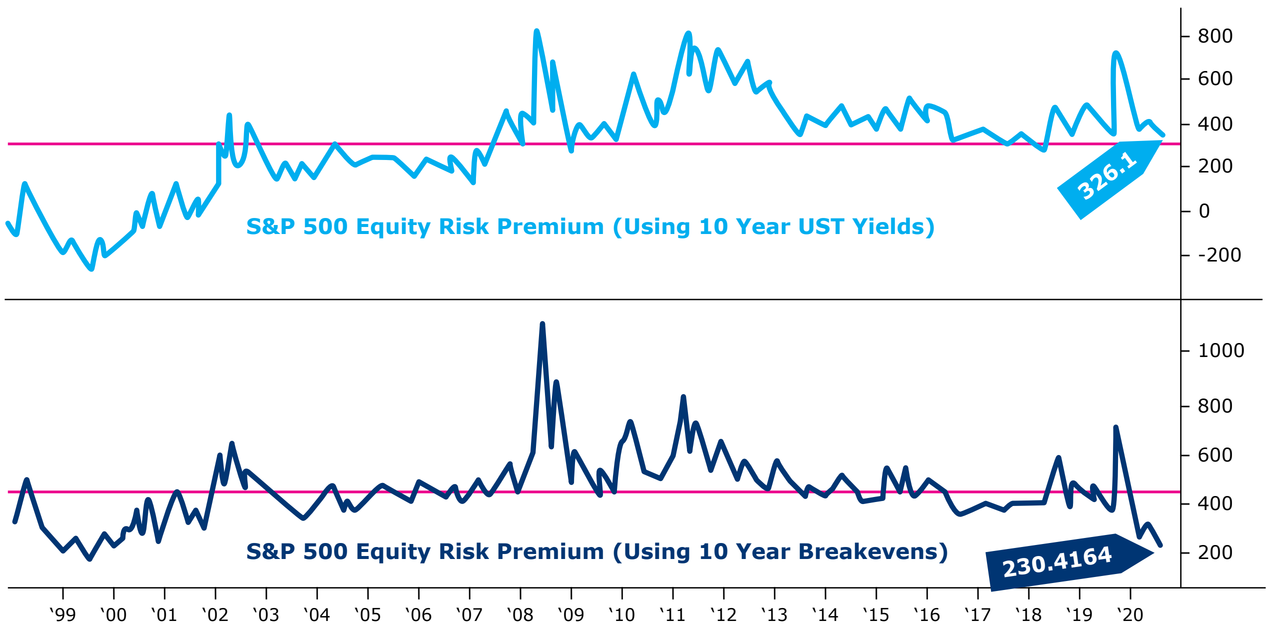
Equity markets around the globe have shrugged off the COVID-19 induced recession and have looked through the current downturn to the eventual economic recovery and rebound in earnings. The US equity market is up 70% from its March lows and the ASX up 50%.

As we enter the new year, not surprisingly equity market analysts are almost universally calling for a pullback. Over 90% of the S&P 500 is trading above its 200-day moving average, fractionally off all-time highs. This is in the context of the Volatility Index (VIX) remaining at a relatively subdued reading of 24, and as equity markets continue to march higher, we note a high (and growing) concentration and unprofitable companies' sales multiples expanding globally. Meanwhile the US Fed is not even thinking about raising rates, which of course begs the question; what could derail global equity markets?

From our perspective the key dynamic to watch in global equities will be the relationship between high (and rising) valuations in global markets, along with rising global bond yields. This is not a correlation that would typically be viewed as sustainable and in our view is exactly that, i.e. not sustainable. Borrowing a chart from our friends at Morgan Stanley (**Figure 3**) we are drawn to focus on the Equity Risk Premium (ERP) for the S&P 500. In recent years, the ERP has been one of the last few measures to show that value remained in equity markets from a holistic asset allocation perspective. This may well still hold against the US 10-year bond yield (US equities remain attractive vs. bonds) however, if we look at the relationship between the S&P 500 Index and the US 10-year bond yield break-even inflation measure, the message provides a resounding warning. Equity valuations can always hold at higher levels than most market forecasts can hold conviction, but looking at the relationship between the excess return earned by an investor above the US 10-year breakeven rate (i.e. the inflation-adjusted risk-free rate) for investing in equities, we are now roughly at levels last seen during the early 2000s tech bubble.

Figure 3: US Equity Risk Premium still elevated, but to tech boom levels when measured against breakevens

Source: Factset



Putting some of the recent US stock market performance into perspective, besides having 90% of all S&P 500 constituents trading above their 200-day moving average in the US, we have also just recently seen two months of double-digit index growth, something last seen in 1982. Looking at the current aggregated valuation of the US stock market, at the time of writing the rough valuation of the US market was $47.6tn, against an estimated GDP of $21.5tn. Using the well-known Buffet Indicator to gauge broader valuations, we are now roughly 2.7 standard deviations above historical averages. Combining these two data points (**Figure 4**), one of our preferred global asset managers, Platinum Asset Management, suggests that we may be in bubble territory.

Figure 4: US equity markets versus select prior bubble episodes

Source: Platinum Asset Management

	US 1929	US 1967	Japan 1989	US 2000	China 2007	US 2007	**US Current**
Market Cap to GDP (%)	100	75	140	153	126	138	**221**
Cyclically Adjusted P/E (x)	33	24	77	44	40	27	**34**

The key then becomes how to generate a reasonable risk-adjusted return for clients.

At this point in the cycle, we are not alone in advocating for exposure to domestic cyclicals in Australia. More recently we have also made an allocation to Japanese equities for several reasons. First and foremost, the make-up of the Japanese Index is weighted to global industrial cyclicals that should benefit from a pickup in global economic activity. In terms of valuation, the Japanese market enjoys the lowest relative price to book multiple compared to global equities in nearly 20 years, a reasonable dividend of 2%, a genuine embrace of technology which we see as helping to drive innovation and margin expansion, and most importantly in our eyes a significant push towards corporate governance reform and a greater focus on shareholder-friendly management. Combined, this provides us with valuation support in the event of a correction, earnings leverage to a broader global recovery and as a result, some level of correlation with a slow but steady uplift in inflation, should it materialise.

In a difficult investing environment with elevated valuations globally (**Figure 5 and 6**) we are largely focused on risk and volatility, but also on how and where we generate returns. Equities may in a broad sense look expensive, and we do see ample scope for a sharp pullback, but with a long-term view and a focus on investing with both valuation support and earnings leverage, we are comfortable that our equity exposure for clients reflects both the risks and the potential rewards of diligent and thoughtful asset allocation.

We prefer active management with a value bias. Currently 50% of our international equity exposure is hedged back into AUD.

Figure 5:
PE ratio versus 20-year range
Source: Factset

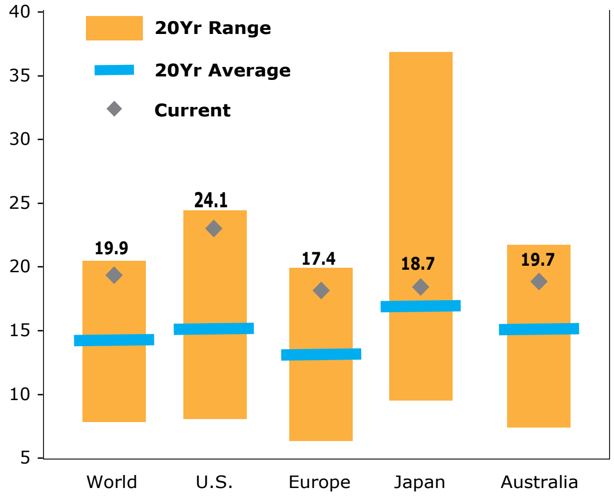
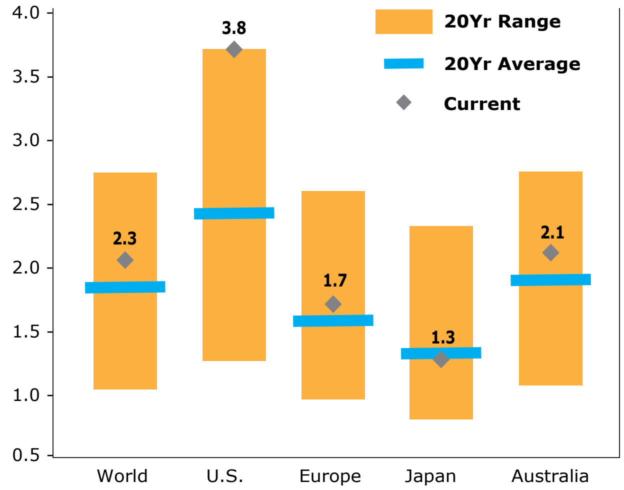


Figure 6:
PB ratio versus 20-year range
Source: Factset



3.2 Property

There is a high degree of uncertainty along with speculation of where rents and occupancy levels will settle post-COVID in the retail and commercial office space. Are we all going to shop online and work from home, or return to the office and congregate at the shopping mall? We presume the outcome lies somewhere in between. Last year was the worst year for demand on record in office space with Sydney and Melbourne vacancy rates around 12-13% (**Figure 7**) and heading higher due to negative net absorption rates. There is also record sub-lease space available in those major markets. Sydney incentives are now around 30% which is not as high as the peak levels of 50% seen on the 1992 property crash, but still very elevated (**Figure 8**). The one attraction which is gaining the attention of international funds is the record high spread between cap rates and the bond rate (**Figure 9**). Like equities, the sector only looks reasonable value if bond rates stay at these record low levels. The retail shopping centre fundamentals look a little more stable, particularly in suburban and regional areas. Underpinned by anchor tenants in the grocery sector with some repositioning of retail space, rental income has recovered back to almost pre-COVID levels. Logistics and the explosion of online shopping has underpinned the very strong industrial sector. The overall sector still provides attractive income compared to the cash rate. We prefer the retail sector in the present climate.

Figure 7: Vacancy in Sydney and Melbourne are 12% and 13% respectively
Source: Macquarie Research

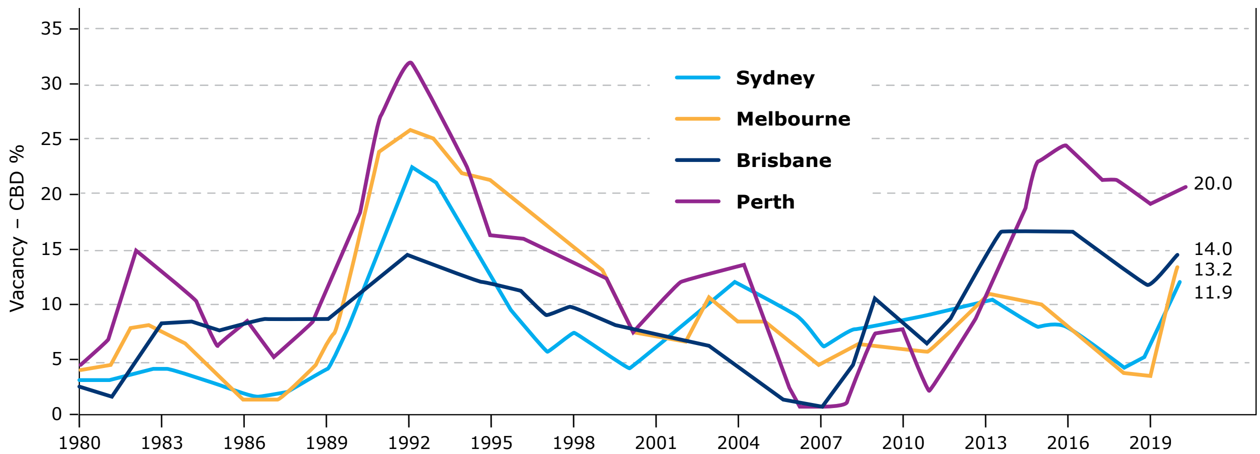


Figure 8: Incentives for prime CBD office space in Sydney are around 30%
Source: Macquarie Research

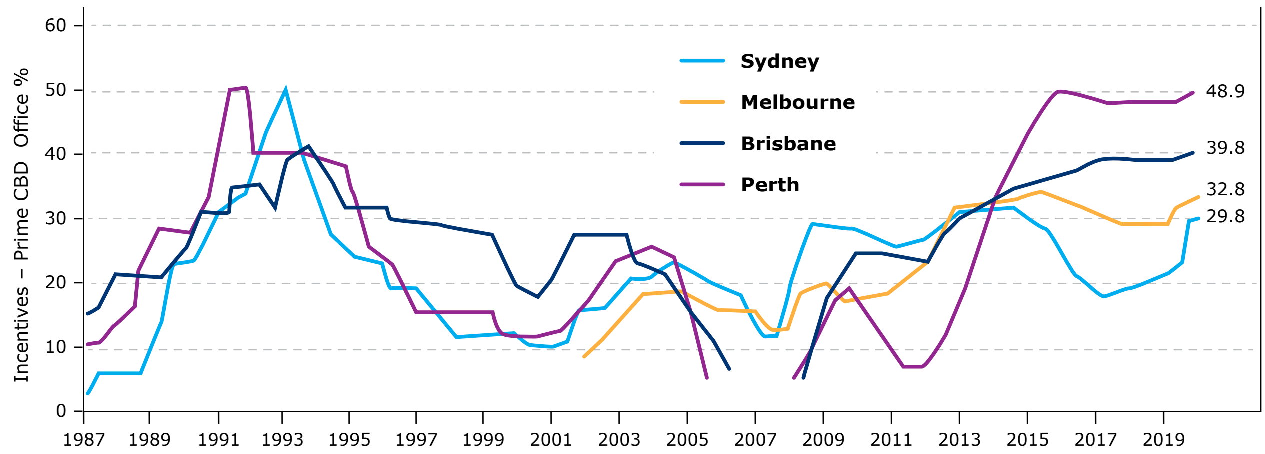
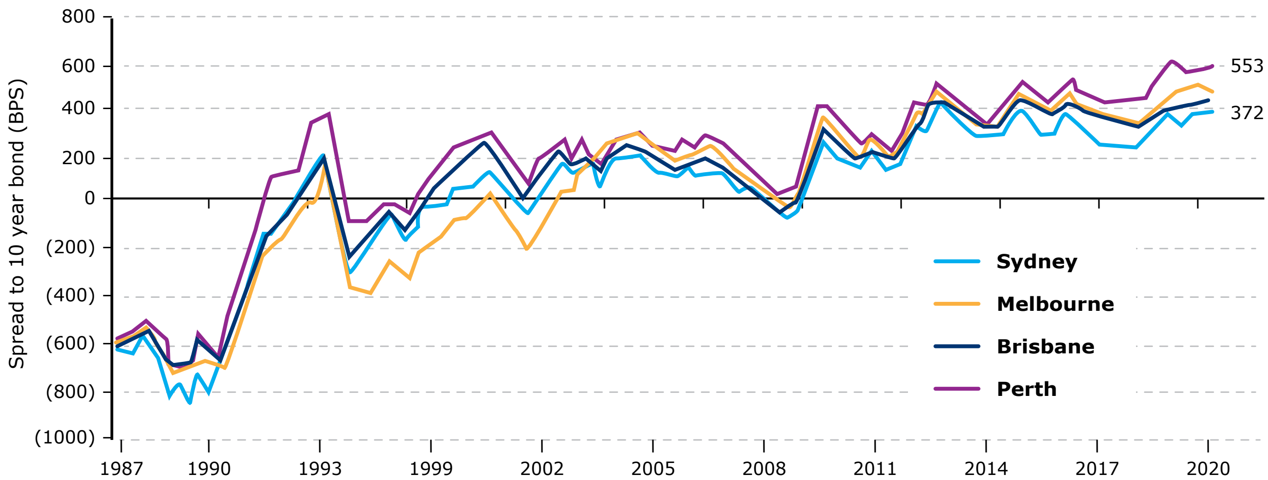


Figure 9: However, the cap rate spread to bonds remain at record highs, making property look attractive relative to bonds
Source: Macquarie Research



Within direct property we believe there are some attractive opportunities in regional hospitality, specialist disability housing, and community lifestyle housing estates. These niche areas are underpinned by solid demand, government support and lifestyle changes, and we believe these can add value to portfolios.

If inflation does start to resurface after a long slumber, property assets should be somewhat immune due to higher rents if interest rates do not move substantially higher and leverage has risen to unsustainable levels.

We do not normally comment on residential property although we are somewhat surprised by the recent strength supported by ultra-low interest rates, a relaxation of regulatory requirements of the banks, and a surging income level provided by government. Rental yields however are in decline. Regional property prices have surged over the past 12 months with the assumption that more workers will work from home and away from the capital cities.

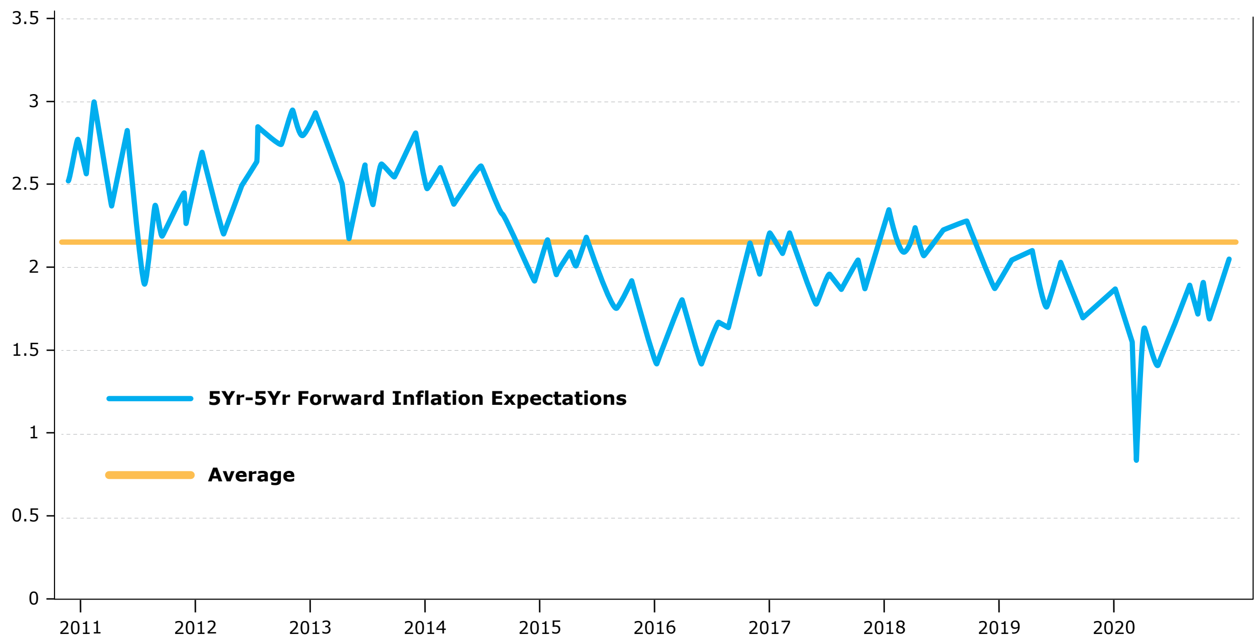
3.3 Fixed Income

US and Australian longer-term rates are cheap on a relative basis when compared to negative rates in parts of Europe. We believe in a world of safe asset security; they can still play a defensive role for portfolios. The risk here is obviously duration risk, if inflation expectations, and therefore bond yields start to rise significantly.

Inflation expectations in the US have risen since the post-GFC low of 0.86% in March 2020. Whilst the recent rise in inflation expectations has been rapid, we are only now back to levels consistent with the past 10 years (**Figure 10**). No doubt the prospect of inflation is increasing with the quantum of fiscal and monetary stimulus globally, however structural forces continue to place downward pressure on inflation, namely an ageing population, technological advancements, and corporate zombification.

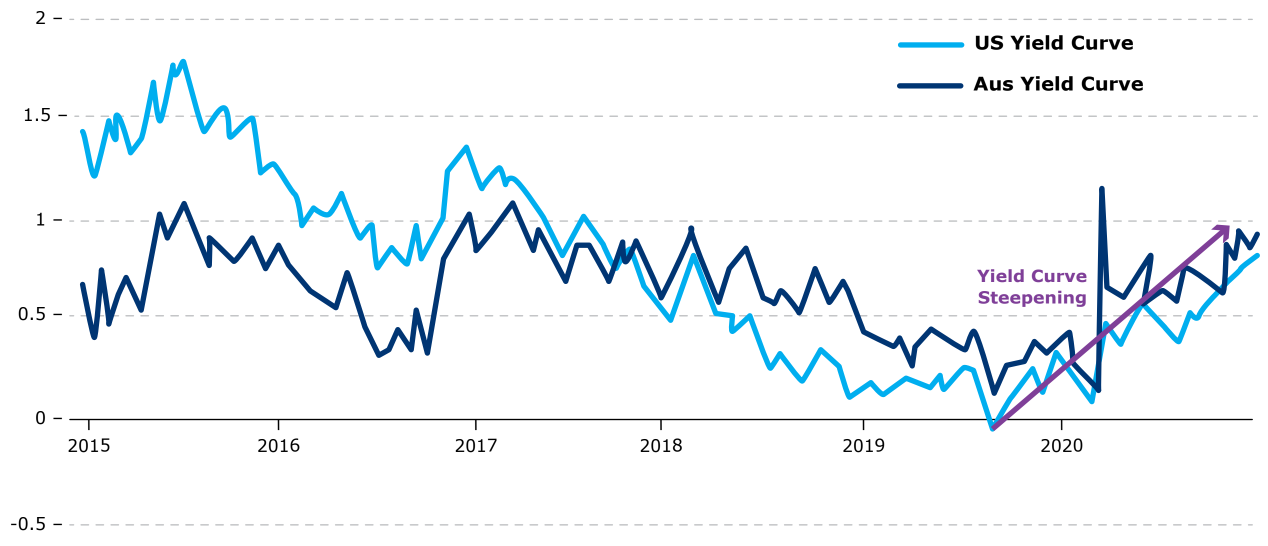
Figure 10: 5 year - 5 year forward inflation expectations have moved up recently, but only to levels consistent with the past 10 years

Source: Factset



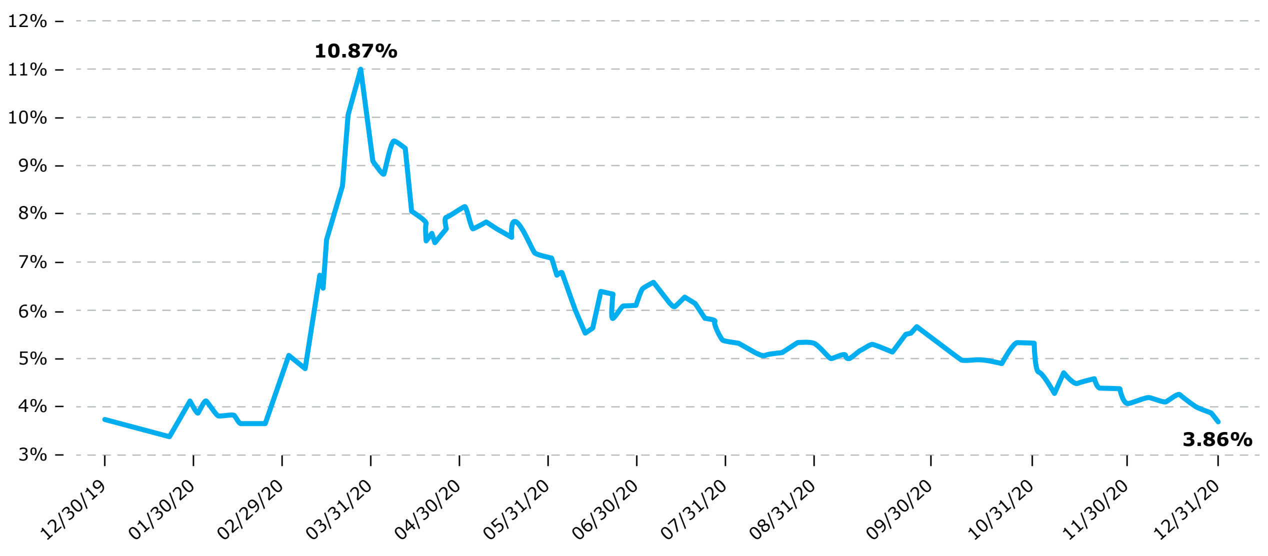
In conjunction with the rising inflation expectations, we have started to see Australian and US government yield curves steepen (**Figure 11**) to reflect the anticipated fiscal spending, improving growth prospects, and central bank commitments to keep interest rates low until a post-COVID economic recovery is well entrenched.

Figure 11: Australian and US yield curves are steepening as fiscal spending and improved economic growth prospects are reflected in the 10-year maturities, while short-dated bonds are anchored by central bank commitments to cash rates
Source: Factset



Credit markets had a rollercoaster year with US high yield credit spreads widening to 1087bps (10.87%) and a capital drawdown of 22.3% in March 2020. The subsequent reversal has been astonishing, with US high yield credit spreads finishing the year back at 386bps (3.86%) only 45bps wider than their pre-COVID levels (**Figure 12**). When considering the additional reduction in bond yields that these securities are priced off, US high yield credit ended the year with a positive approximately 4% return. With credit spreads at such low levels, we continue to believe that investors are not being rewarded for the risk that is inherent in these securities.

Figure 12: US high yield option adjusted spreads have shown a stunning reversal from the March highs
Source: Factset



3.4 Alternatives

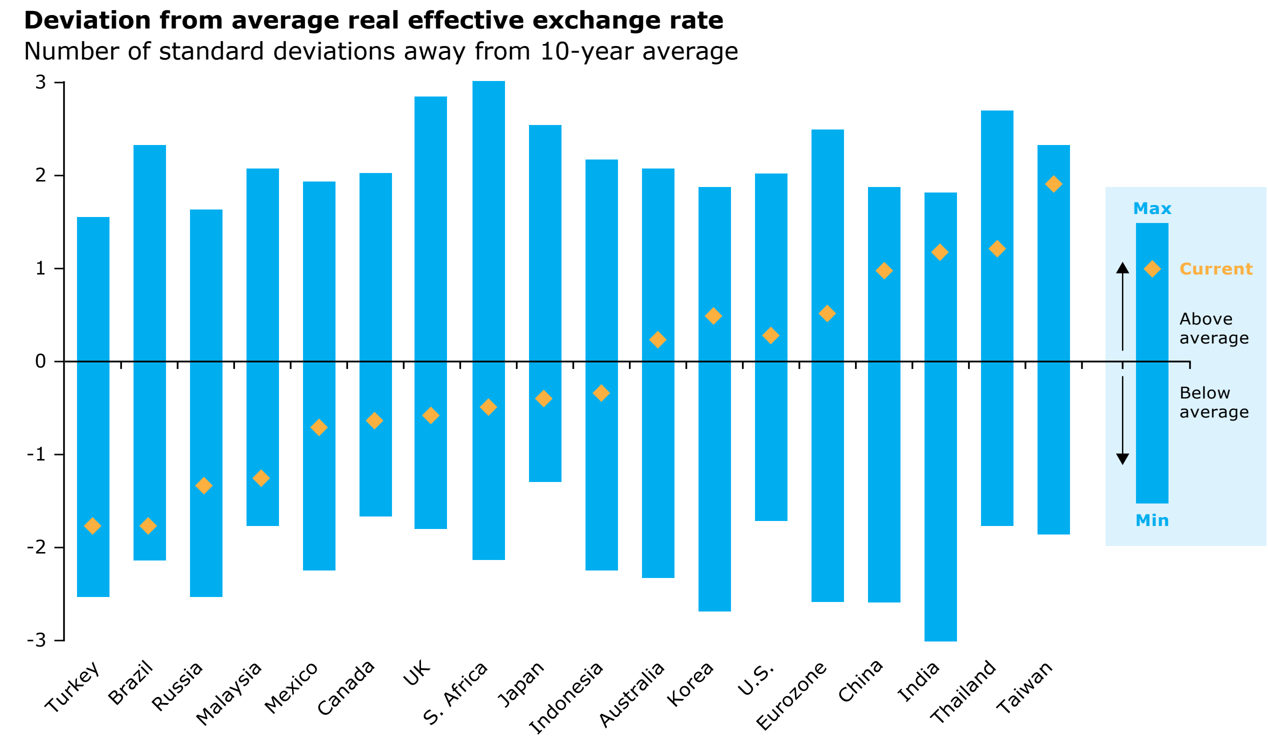
Our alternative managers continue to play an important diversifying role to our core holdings. We continue to explore active equity long/short managers who provide attractive risk-adjusted returns while removing some equity market exposure. These managers are complimented by relative value managers in fixed income markets who aim to exploit short-term pricing inefficiencies whilst removing duration risk. Our intention with any alternative investment opportunity is to ensure that we are gaining access to a source of return that differs from those returns we gain from traditional asset classes.

Gold will remain a core holding for client portfolios while global central banks and governments undertake stimulus programs. We believe that gold will provide important diversification benefits to sovereign risk and currency erosion that may result from this stimulus.

Our currency exposure remains 50% hedged to offshore assets. This has provided some buffer to the appreciation we have seen in the Australian dollar against most major currency pairs recently. With a relatively attractive bond yield and China's insatiable appetite for key Australian commodities there is an argument for the Australian dollar to continue to climb higher. However, we believe the current level of hedging is prudent to protect portfolios from any unforeseen equity market volatility and the subsequent sell-off in the Australian dollar as a "flight-to-safety" ensues. Furthermore, the Australian dollar looks fair value on a real effective exchange rate basis. The USD is now approaching fair value after being more than one standard deviation more expensive this time last year (**Figure 13**).

Figure 13: The Australian dollar looks fair value against major currencies on a real effective exchange rate measure

Source: JP Morgan Asset Management



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4. CONCLUSION

4.1 Opportunities

- Selective property loans, first mortgage and fully secured
- Regional hospitality assets, specialist disability housing, agricultural land
- Japanese equities
- Gold for protection

4.2 Risks

- A sharply rising government bond interest rate
- Unwind of fiscal and monetary stimulus packages
- An unexpected inflation flare-up
- Defaults and insolvencies

4.3 Implications

- Stay the course, remain very diversified and disciplined
- Expect an increase in volatility
- Lower income generated for portfolios

Asset Class	Strategic*	Range	Tactical	Overweight/ Underweight
Australian Shares	23%	10% – 50%	20%	Neutral
International Shares	26%	10% – 40%	25%	Neutral
Property/ Infrastructure	11%	0% – 25%	15%	Neutral
Government Bonds	35%	0% – 50%	10%	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 a Contrarian

If you were to take a straw poll of fund managers for consensus themes going into 2021, you would likely find two at the top of the list. Firstly, the rotation out of mega cap growth stocks into cyclical value plays, and secondly, a coming boom in 'green metals' as government responses to global warming trigger targeted stimulus in electrification and renewable energy. Granted, Elon Musk just became the richest man in the world and multi-decade lows in temperatures have triggered all-time highs in liquefied natural gas prices, but it is only January. It's hard to argue with the logic despite the shaky start and it's possible that once the rotation kicks off, that at least a portion of funds currently parked in large cap growth stocks may chase the 'green metals' play.

It's instructive therefore to have a look at what such a rotation may look like in practice, given the demand for 'green metals' unleashed by simultaneously moving the current vehicle fleet to electricity and the source of that electricity to renewable energy, as well as the massive capitalisation and liquidity mismatch between growth stocks and value stocks. The rotation could be extremely disorderly. Imagine trying to fill a wine glass with a fire hose and you have got an idea of what switching from large caps to a given small cap value theme may look like. The logic applies to any number of sectors but 'green metals' are a good example as they are current flavour of the month. That is not surprising as a Biden presidency is likely to unleash a torrent of stimulus focused on the sector. Politicians of all persuasions in most countries have a habit of making grand gestures relating to targets for carbon emissions or renewable energy in 2030 or 2040. You do not have to be too much of a cynic to believe they are hoping everyone forgets in the 20 odd years they have given themselves to deliver. Biden, however, is a special case. Let's face it, he is no spring chicken. If the targets are missed or everything does not quite go as planned, he will be long gone before the proverbial hits the wind turbine. His legacy will be announcing the policy not implementing it. He is incentivised to go all in, and he will be applauded for doing it.

A simultaneous move to electric vehicles and renewable energy would require a massive amount of copper in particular. There is a heap of copper in electric cars, it is needed for building renewable energy and more would be needed to upgrade the grid as energy currently generated by internal combustion engines needs to pass along the wires. I am not sure many people have thought this through. Roughly 70% of copper comes from mines that were discovered last century. We are going to need new ones. It is not an insurmountable problem, but it is only going to happen if the copper price rises. That would generate interest in copper stocks and some of the money in large caps may look to rotate to gain leverage. Good luck with that one. If you take the combined market cap of the FANG stocks and add Tesla as a benchmark, you are looking at roughly $7 trillion. Of the top 50 mining companies in the world, seven are copper miners with a combined market cap of $130 billion, less than one fifth of the Tesla market cap alone. I have chosen the green metals and copper as an example, but the same math applies over most industries. If the expected rotation kicks off in 2021, markets will become extremely volatile and some price rises will be huge as a massive amount of pent-up liquidity chases stocks and sectors that are simply unable to absorb the buying.

Thoughts from the Research Department

Why Risk-Adjusted Returns Matter

Providence continues to discuss with clients the importance of risk-adjusted returns for portfolios. In this brief commentary, we aim to demonstrate that portfolios with stronger risk-adjusted returns provide greater certainty to investors that their objectives will be met versus portfolios with lower risk-adjusted returns.

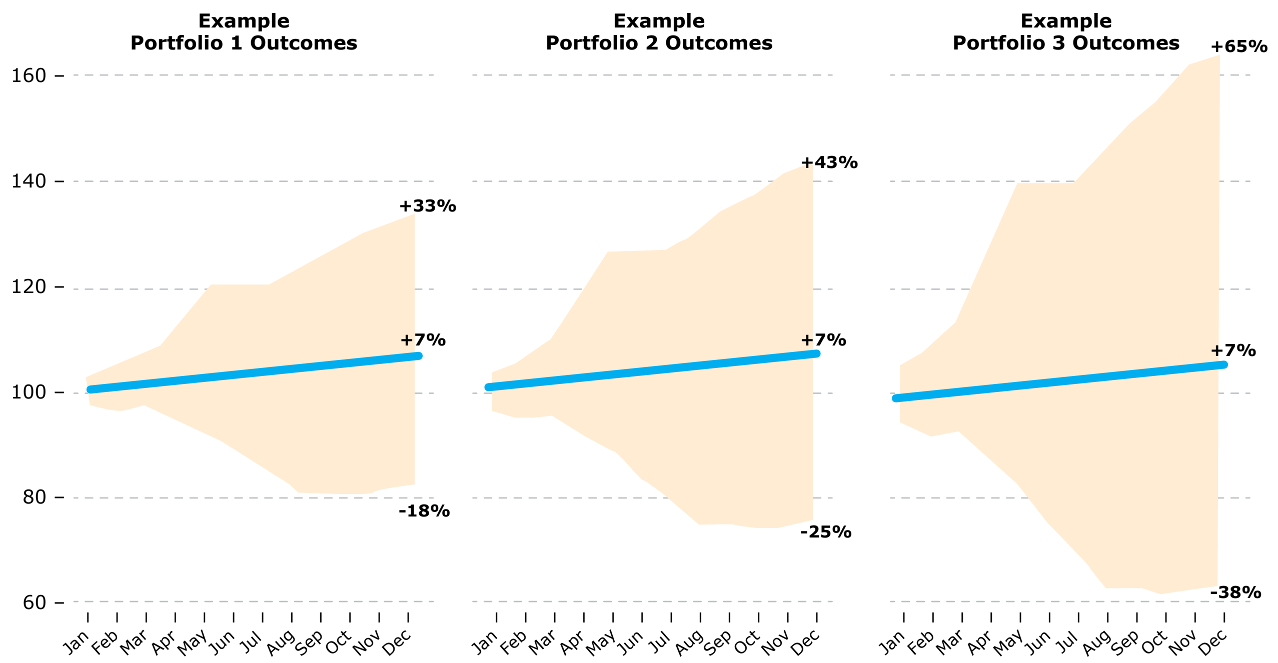
We believe it is crucial to understand the risk taken to achieve any given return. Whilst a robust return is most welcome, if the risk taken to achieve said return is elevated, this may not sit well with the investor's objectives. Any portfolio that seeks to achieve a given return whilst ignoring or dismissing the risk is lacking prudent oversight.

To illustrate this, the following table includes three hypothetical portfolios with the same expected return but differing volatility, to produce varied Sharpe Ratios[1]:

	Example Portfolio 1	Example Portfolio 2	Example Portfolio 3
Expected 1-Yr Return	7.0%	7.0%	7.0%
Volatility	7.0%	9.3%	14.0%
Sharpe Ratio[2]	1.0	0.75	0.50

With these assumed portfolio returns and volatilities we can run a simulation of the expected 1-year return outcomes and importantly the potential return range (maximum expected upside and maximum expected downside). In fact, we have run the simulation a total of 10,000 times to develop a reasonable indication of the possible path of returns for these portfolios (**Figure 14**).

Figure 14: Possible path of return for three example portfolios
Source: Providence



1. Sharpe = $\frac{\text{Return-Risk Free Rate}}{\text{Volatility}}$ 2. Assumes a risk-free rate of 0% for illustrative purposes.

Portfolio 1 with the highest Sharpe Ratio, has a much narrower spread of possible outcomes relative to Portfolio 2 and 3 which have lower Sharpe ratios of 0.75 and 0.5, respectively. This illustrates that the higher the Sharpe Ratio, the lower the volatility around generating returns.

It is also notable, that whilst the potential for much higher returns exists for those portfolios with lower Sharpe Ratios this is offset by the potential for much more severe drawdowns. These factors exist, despite the average return for these portfolios all being identical.

In this demonstration, we have only adjusted the volatility of returns whilst leaving the expected return the same. While we can generally expect a higher return as we take on more risk (as measured by volatility in this demonstration), we are attempting to highlight that this additional return should be considered in conjunction with the amount of additional risk that the portfolio is taking on to achieve it.

It would be remiss not to mention that relying solely on the Sharpe Ratio when constructing portfolios will tend to significantly reduce portfolio returns. This is due to cash as an asset class, providing the highest possible Sharpe Ratio given its constant (albeit minimal) positive return and subsequently low volatility level. Despite providing an annualised return of only 1.60% over the past 5 years, cash has produced a Sharpe Ratio of 8.1 given the volatility of just 0.20%. It is for this reason, that practitioners will reduce their expected return in the Sharpe Ratio calculation by the "risk-free" rate or the return expected from cash.

Providence utilises the use of Sharpe Ratios (among other risk metrics) in the determination of asset allocation as well as the underlying investments within that asset allocation for all client portfolios. In doing so, we are trying to maximise both the return we can expect as well as the certainty of achieving that return.

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

Australian household savings ratio	The ratio of household income saved relative to the net disposable income of that household during a certain period of time.
Cap rate	The ratio of the operating income generated from an asset relative to its value.
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
Real effective exchange rate	The ratio of a currency relative to a basket of foreign currencies on a trade weighted basis.
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
Sharpe ratio	A ratio of the return relative to the risk taken. In this document, it is calculated as the return of a portfolio divided by the volatility of those returns.

Safe Passage

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