Providence
Independent Investment Advisory

Activity Report

January - April 2021

About this Report

Information Only, No Action Required

As part of our ongoing commitment to being a trusted partner for our clients, Providence reviews a number of products each month, searching for investment opportunities that fit our clients' individual requirements. Being an independent company, each opportunity is assessed solely on its merits regarding risk and return.

True to Providence's promise of transparency and independent analysis, we share the basis of our decisions with our clients in this Activity Report.

Acceptances

1. Magellan Partnership Offer
2. Ausbil Global Essential Infrastructure Fund

Magellan Partnership Offer

We participated in the Magellan partnership offer, which allowed for $1 of new closed class units for every $4 currently held in the Magellan Open Class Fund (MGOC) and the Magellan Global Fund Closed Class (MGF). The offer price was at the NAV of the closed class units at the allotment date. The benefit of the partnership offer included 7.5% bonus closed class units and the MGF options (3-year expiry). We participated for clients if they held the relevant Magellan Global Unhedged Fund, however the majority of clients own the Magellan Global Hedged Fund which was not eligible for this offer.

Ausbil Global Essential Infrastructure Fund

We reviewed the Ausbil Global Essential Infrastructure Fund which provides exposure to monopolistic, regulated, or long-term contracted essential infrastructure. The fund aims to achieve returns (before fees) above the OECD G7 CPI Index +5.5% p.a. over the long term. The fund is attracted to infrastructure with both downside protection and upside potential for growth consisting of increased compounding income. We note the fund has successfully navigated the Covid-19 period through an increased cash position from January to February to a peak of 8.7%, subsequently, deploying cash to a low of 1.7% in March and April with investments into higher quality assets. The fund prefers the Utilities sector and believes the Energy sector is becoming increasingly uncertain. Electric Utilities (renewables, batteries, energy grids) are currently deemed most attractive. The fund expects returns of 8.5% p.a., 3.5% coming from yield which is expected to grow between 6 - 7% for the next 3 years. For clients that do not have as much exposure to unlisted direct investments, we believe this is a suitable product for consideration as infrastructure has long duration benefits similar to direct property and can pass through inflation risk through CPI increases.

Declines

1. Lincoln Place Community Lifestyle Bendigo Fund
2. Eagle Farm & Brendale Investment Trust
3. Macquarie Capital Notes V Offer
4. Antler Global Fund
5. Barwon First Mortgage Fund (BFMF)
6. One Ventures Growth Fund V

Lincoln Place Community Lifestyle Bendigo Fund

We have a high respect for the manager and the Community Living sector, however we prefer not to invest in land bank developments given higher risk nature. We have recently made a number of investments in direct property and wish to stagger the liquidity profile of investment portfolios.

Eagle Farm & Brendale Investment Trust

Though we are attracted to the industrial property sector, recent investment in Regional Hospitality Fund and Social Disability Housing has meant that current capacity is limited for new investments. We prefer to spread investments in direct property over sectors, managers, and time frames to manage liquidity risk/cycle risk.

Macquarie Capital Notes V Offer

Macquarie Capital Notes V upscaled their capital notes offer to $725m at 2.9% offer margin over swap, with first call duration of 6.5 years. At the time of the offer, the issue margin was not as attractive as secondary market capital notes with shorter duration. Our investment committee had the view that credit spreads were expensive (not being compensated for the risk) and potential for increased defaults/impairments as Covid provisions are relaxed.

Antler Global Fund

We were offered to participate in the new Antler Global Fund which is looking to raise $600m. The venture capital fund would selectively invest from their existing large proprietary pipeline opportunities consisting of their original pre-seed investment. The advantages of this fund include the ability to take up pro-rata investments rights to follow-on opportunities and competitive advantage via access to data through early-stage founder relations. The fund investment process involves deploying capital from the Seed to Series C stage, with a fund lifetime of 10 years. Given our clients already have an exposure to the first raise for Antler and their current exposure to other illiquid private equity, we have declined participating in the fund this time around.

Barwon First Mortgage Fund (BFMF)

We were offered to participate in the BFMF which targets comparatively low-risk first-ranking mortgage investments. This product's investment term is open-ended with a maximum lifetime of 80 years, and geographically invests exclusively within Australia. The strategy involves investing in a range of close-ended sub funds managed by Barwon with BFSF owning up to 100%. Providence currently invests directly in the sub fund structure, however, BFMF will now assume priority access to all sub fund deals. We note the BFMF will invest in up to 5 stages of the property lifecycle, from pre-construction site acquisition to post-construction repositioning of properties and looks to benefit from no limits in sector exposure. The product mitigates risk by ensuring the total value of new investments cannot exceed 33% of the total value of the fund. The fund is predominately illiquid however liquidity can be provided through the realisation of investments or new applications. The fund has a target yield of 7 - 9%, with distributions determined monthly and paid within 5 days of each month. We have declined participation as our preference is to be more selective in underlying investments, for example we do not want exposure to construction risk.

One Ventures Growth Fund V

We met with Dr Michelle Deaker, Grant Champerlain and Nigel Dews to discuss the upcoming Growth Fund V. The fund aims to target the gap in the market where established high quality technology companies are outside the laneway of traditional venture capital and not yet on the radar of private equity funds. The product aims to target businesses in technology and tech-enabled services that have a tested business model and track record. The strategy involves investing due to attractive business strategies or strong potential growth and institutional support, rather than the common valuation method. The investment team take on a meaningful ownership stake which entails greater than 20% stake or partners in the business. The product targets a gross IRR of 20 - 25% and attracts a management fee of 2% and a 20% performance fee. The fund has a 10-year lifetime, with a 5-year investment phase and a subsequent 5-year harvest. The exit strategy involves either exiting after the return of capital or when full potential is realised, and we noted there is no recycling of capital. We have not participated in this fund given our exposure to existing private equity and other illiquid exposures.

Presentations

1. Equities and Growth Assets Symposium
2. New Custodian Platform Review
3. River Capital Multi Strategy Credit Fund
4. Sage Absolute Return Fund
5. Quest Long Short Equities Fund
6. Bentham Asset Backed Fund
7. Pacific Equity Partners (PEP)
8. Pimco Short Term Bond Fund
9. Pimco Trends Fund (Managed Futures)
10. Franklin Templeton Absolute Return Fund
11. Melior Australian Impact Fund
12. Ausbil Active Equity Fund update
13. Wilson Asset Management – WAM Leaders
14. Ophir Global Opportunities Fund
15. Fidelity Global Leaders Fund
16. MLC Private Equity Fund
17. Schroders Investment Outlook

Equities and Growth Assets Symposium

The Inside Network conference had a variety of talks from industry specialists, Professors, and research providers. The most interesting discussion lay around the theme of rising rates (whether government bond yields will be forced much higher to fend off inflation, to the detriment of duration assets and equities). Professor William Mitchell (University of Newcastle), an economist and one of the founding developers of Modern Monetary Theory had a strong argument on why inflation will remain manageable, giving the example of the Japanese collapse and more recently the US after the Global Financial Crisis. The conference was held in conjunction with a number of fund managers.

New Custodian Platform Review

We are completing an extensive investment platform review given the advances in technology within the administration platform area and competitive fees. The largest and most comprehensive platform providers are Praemium, Hub24, Netwealth, Panorama, iRess and Macquarie. Custodial platforms have the benefits of; holding assets in safe custody for clients (added layer of security), transaction execution scalability, and enhanced reporting features. This platform review is an extensive process, and we will be in touch with clients regarding our views moving forward.

River Capital Multi Strategy Credit Fund

Portfolio manager, Danial Saldanha, met with us to discuss their new multi-strategy credit fund. The fund invests in leveraged loans, high yield bonds, bank capital and asset backed securities. Given the liquidity of underlying investments, it is a relatively liquid fund compared to other enhanced yield strategies that have long lockup terms. The target of 6 - 8% after fees is reasonable given the breadth of the credit spectrum and them being able to invest up and down the credit structure, where they are being adequately compensated for the risk. The fund will be well diversified across 30 - 50 names and is in the process of being deployed. We are pleased to see strong returns from previous separate credit funds from River Capital (now closed SPV's), which have some similarities to this current open fund.

Sage Absolute Return Fund

Sean Fenton, portfolio manager, met with us to discuss Sage's market neutral Absolute Return Fund. Given the level where markets are trading, we wanted to discuss how their market neutral fund operates in any market condition. During 2020, a tough year for some market neutral strategies, the Sage Absolute Return Fund showed its ability to provide strong absolute returns in both falling markets and rising markets (fund drawdown of -3% versus ASX 200 Accum -36%). The role of absolute return funds (e.g. market neutral, global macro, CTA, managed futures etc.) can be attractive for clients seeking to reduce downside volatility and correlation to equity beta and duration.

Quest Long Short Equities Fund

Quest's new fund, the Long Short Australian Equities Fund was discussed in a meeting with Richard Dixon, portfolio manager. It is a variable beta (130% long / 30% short) Australian equities fund that leverages the existing research at Quest but adding the shorting component which Richard ran successfully at Antares. The fund has had a strong year since inception in April 2020, with smaller FUM and growing. It has been gaining traction with the research houses given the previous track record and similar strategy being employed. We have continued to watch this fund given the recent launch and having previously seen Richard's fund at Antares.

Bentham Asset Backed Fund

We met with Richard Quin to discuss the Asset Backed Fund and their view on credit. As credit spreads have compressed significantly since switching into the Bentham Asset Backed Fund (from the Global Income Fund), we queried if investors were being compensated sufficiently for investing in high grade (AA+) credit. Richard went over the return profile and recovery since the March 2020 lows and subsequent credit recovery. He also discussed the potential of duration to be impacted if inflation came through (their fund is mainly floating rate which improves with rising rates). The Asset Backed Fund is mainly invested in collateralised loans, syndicated loans and RMBS.

Pacific Equity Partners (PEP)

The recent PEP Fund updates provided us with an understanding on their fund's performance. Given their investments in private equity, this is an area which is commercial and held in confidence. We are aware they are commencing a new credit vehicle which we will be reviewing in due course.

Pimco Short Term Bond Fund

We met with portfolio manager, Aaditya Thakur, to discuss the Short-Term Bond Fund and their views on credit. The fund is invested in high grade credit: Australian government, semi-government, and highly rated corporate bonds. Since the adoption of quant easing and compression of credit spreads, the yield offered in high grade bonds had fallen significantly. Aaditya commented that the relative value process of their fund being able to invest in credit and taking advantage of the relative steepness of the Aussie fixed income curve above the 3 years point, benefits from "rolldown" as maturities come closer.

Pimco Trends Fund (Managed Futures)

Chris Santore met with us to discuss the Pimco Trends Fund, which is a managed futures strategy targeting positive returns with lower volatility than equity markets. Managed futures strategies typically have no correlation long term to equity markets, but strong positive returns during bear markets (crisis alpha). We discussed the positive returns over the 2020 calendar year, diversification of the underlying investments and potential for crisis alpha (outsized returns in bear markets). The strategy invests across equities, rates, commodities and currencies. Pimco has an advantage in trading rates given their large, fixed income book making trades are cheaper to execute; but also, their smaller size in managed futures makes them more nimble. We believe there is a place for absolute return style strategies that are able to provide downside protection and lower correlation to equity/interest rate beta. We are continuing to look at the alternatives space, given their diversification and return characteristics.

Franklin Templeton Absolute Return Fund

The Franklin Templeton Absolute Return strategy was the subject of a meeting held with portfolio manager, Andrew Canobi. The fund aims to deliver returns in excess of the Ausbond Bank Bill index (2 - 3% over) by investing in high grade credit quality securities, government bonds, corporate and asset backed securities in Australia and overseas. Although mainly in investment grade, the fund may allocate up to 20% in non-investment grade securities with a minimum rating of BB-. The fund is active and generates returns through credit spread, curve positioning, foreign exchange and inflation (majority through the first two). Despite the low returns from credit at this time, it is good to see active fixed income managers delivering reasonable returns above cash with low volatility.

Melior Australian Impact Fund

The newly established Melior Australian Impact fund's portfolio managers, Tim King and William Wu, met with us. The fund invests in Australian and New Zealand equities to deliver positive social and environmental impacts aligned with the United Nations Sustainable Development Goals. The fund was established in July 2019 with growing funds under management. The unique investment process utilises fundamental research to identify companies with core products and services that create net positive impacts; a proprietary financial framework is then applied to these remaining stocks which produce a high conviction portfolio of 20 - 50 stocks. The benefits of this product include sophisticated analysis of ESG risks through environmental, social and governance KPI's leading to increased ESG ambition and advocacy.

Ausbil Active Equity Fund

A review of Ausbil's Australian Active Equity Fund was held with Paul Xiradis (CIO/Head of Equities) and Nicholas Condoleon (Head of Research). The fund has been actively investing during the Covid-19 period, favouring stocks that provide downside support and cyclical stocks dependent on vaccine success. We noted that the fund is overweight in the financial sector with Banks comprising 19% of the portfolio.

Ausbil gave insights into this decision, stating that Banks provisioning is informed and adequate, with the next 2 years of potentially bad news already priced in, therefore Ausbil like Banks on a valuation basis. The fund is also long in certain travel stocks, having an active position in Qantas and Webjet. Nicholas had some insightful views on potential vaccines and the post-vaccine market. In summary, Oxford's AstraZeneca vaccine at this stage is the most appropriate vaccine for Australia with 20,000 patient trials. Globally, R&D projects have been put on hold, with a simultaneous focus on Covid-19 on behalf of Pharmaceutical and Biotech firms. The investment team believe in a U-shaped recovery, with authorities and central banks conducting loose monetary policy and bringing forward spending. They note monetary policy will tolerate recovery in the form of an inflation overshoot, allowing inflation to run up, on setting increased steepness of the yield curve. This reiterates the fund favouring long duration and defensive assets.

Wilson Asset Management – WAM Leaders

Wilson Asset Management discussed their various Listed Invested Companies, specially the WAM Leaders Limited (WLE). WLE is ASX200 focused, on investments constructed from a macro thematic point of view, with investment objectives to deliver a stream of fully franked dividends, provide capital growth over the medium-to-longer term and preserve capital.

The investment team runs a portfolio consisting of 30 - 35 stocks during a normal season, however, the fund currently has a large spread of 55 stocks to mitigate market risks. The product has a benchmark of the ASX200 +3%-5% p.a. over rolling three to five years. This fund does not follow a specific sector weighting guide, however, is very active with a turnover of 4 - 5x to generate income.

Ophir Global Opportunities Fund

Andrew Mitchell from Ophir Asset Management discussed the Ophir Global Opportunities Fund in a meeting with us. This diversified portfolio consisting of 20 - 50 positions focuses on global small and mid-cap growth companies with an internal investment target of 15% p.a. gross of fees over rolling 5-year periods. The investment strategy focuses on smaller, less researched stocks that are experiencing their structural growth phase, cash generative, operate with sound capital structures and possess high-quality leadership teams. With regards to risk management, the fund cannot hold more than 25% of the fund in cash, has a 10% max position size and seeks to minimize geographic under or overweight versus the benchmark.

Fidelity Global Leaders Fund

A review of the new Fidelity Global Leaders fund was held with portfolio manager, James Abela. The pilot fund began in December 2019 with the fund becoming public in December 2020. The fund's objective is to achieve returns in excess of the MSCI World Mid Cap Index (AUD) over the suggested minimum investment time period of seven or more years. James will be partnering with Maroun Younes to help assist the process. They are supported by Fidelity's global research team of 180 equity analysts and 400+ investment professionals worldwide which is an attractive feature of the fund. The management fee is 1.10% p.a., whilst the performance fee is 20% of the excess return above the fund's benchmark. This total fee caps out at 2.00% which is a differentiator in terms of fee structure. The fund is tilted towards quality and value and has been recommended by a major independent research house. Post this initial meeting we will continue our due diligence process on the fund.

MLC Private Equity Fund

Ross Kent from MLC met with us to discuss Funds I, II, and III. Fund I is currently in a great position, well on the way to 2x cash on cash return, the fund is exiting Project Hobart with a 2.5 - 2.6x return with cash flow expected throughout Q1 of 2021. This fund is projected to deliver above its targets with an estimated IRR of 20%. Fund II at this time is set with 21 companies, with one of these companies also listed on the 1st of July. The fund's liquidity is close to 3.3x, with an IRR of 14.4% as of December. Ross notes that the foreign exchange has had a negative effect detracting around 7% from the fund. With 30% of invested capital already returned to investors, attributed to good selling market condition, Fund II expects to continue timely exiting their investments. The more recent Fund III has had 10% of investments called, focusing on two companies within the US healthcare space. Ross notes a painful buyers' market, stating that MLC had been overbid in three other attractive deals for Fund III. The first close for Fund III was $143 and expects to close at approximately $160m.

Schroders Investment Outlook

Schroder’s held an investment webinar which covered global equities, fixed income, and domestic equities. Within global equities they see some bubble behaviour starting to emerge and believe 2020 was a great opportunity to diversify portfolios, with emphasis on tilts towards cheaper out of favour stocks. Schroders achieved this by increasing their exposure to both the UK and China with now 22.3% and 10.7% respectively. Schroders made note of the problems of fixed income investors with the vanishing yield, and have focused on areas where they see opportunity. An area includes selected credit assets, with appropriate trimming and rotation from global credit and banks into REITS and transport. The outlook for 2021 is a narrow consensus, with bond yields expected to stay low, but be prepared for alternatives. Furthermore, risky assets are probably supported by recovery and policy, but valuations are getting full. With regards to Australian equities, sentiments and ratings have dominated the past decade. The outlook for this market entails a potential for an inflection point for what is driving the market, additionally, the real economy needs to catch up to the financial economy.

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.

Justine Morton

Justine has 25 years of investment and finance experience both in Australia and internationally. Prior to joining Providence she was a Relationship Manager at Credit Suisse Private Banking. She has held positions at First State Fund Managers (Colonial), Hartley Poynton in Australia, then Lehman Brothers and Cargill Investor Services in London. Justine founded Finsbury Capital Advisors in Australia. Justine has a Bachelor of Commerce

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

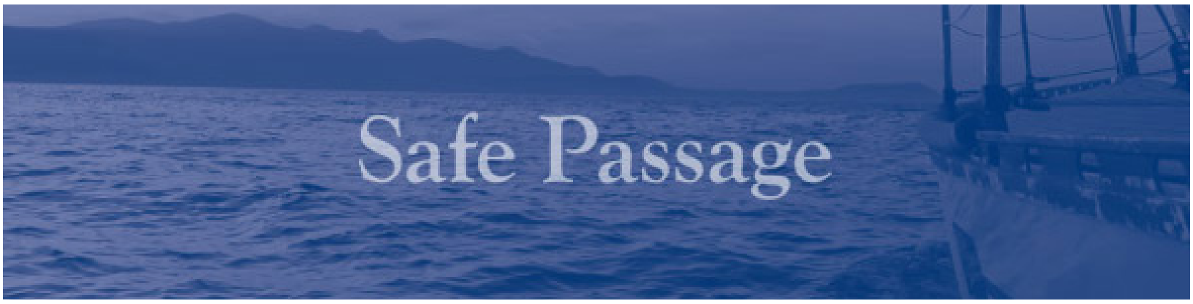
James has over 20 years of investment market experience (cash equities). Prior to joining Providence, he held the position of Deputy Head of Domestic Sales at CIMB Securities (Australia) and was a member of the CIMB Equities (Australia) Management Committee. He has also held positions as Director - Sales 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.



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Providence is an independently owned and operated investment advisory group.

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