Providence
Independent Investment Advisory

Investment Activity Report

July – December 2021

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About this Report

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. Sage Capital Absolute Return Fund
2. Stile
3. Barwon Property Parkes Finance Trust
4. Fortius Petrie Brisbane - First Mortgage Investment

Sage Capital Absolute Return Fund

Providence recently approved an Australian equity long short manager, Sage Capital. Sage views the market through eight unique groups enabling the team to focus on individual stock drivers and hedge systematic market risks. This style and cycle neutral investment process is designed to deliver consistent returns regardless of the market environment. The Sage Capital investment team owns 100% of the firm and invests alongside its clients. We have known the manager, Sean Fenton, since his employment at AMP and Tribeca, having been impressed with his track record. Channel Capital has backed Sage providing risk management, legal and compliance advice, as well as fund distribution.

Stile

After several months of due diligence, Providence was pleased to provide clients with an opportunity to invest in the Aquasia Growth Equity Stile Fund offering investors an exclusive opportunity to invest in Stile Education (Stile). Stile is a rapidly growing Australian education technology company driven by a purpose to enhance STEM education. Stile is the #1 Australian online science resource for students in years 7 to 10 with high market penetration and retention rate.

Stile will use the funds raised to fund their expansion into the US and continued growth within Australia. The Board & Senior Executive team of Stile have a demonstrated track record of building Global Ed-tech businesses. The target return is in excess of 30% net IRR, the term of the fund is 5 years with two optional one-year extensions. Providence will ensure clients that have invested in this asset are kept up to date with the progression of Stile.

Barwon Property Parkes Finance Trust

Providence recently approved a new debt investment of $24.19m to assist with the settlement of the existing commercial building 'West Block' and subsequent refurbishment works, located in the Parliamentary Triangle in the ACT. The Investment benefits from a first ranking mortgage limited to a 55% Loan-to-Value ratio. The borrower is Oceana Property Partners, a division of Ocean Funds who are an alternative investment fund manager with $600 in FUM. The Property comprises 8,147sqm of net lettable area across three levels and benefits from 32 car bays. The Borrower intends to undertake an internally focused refurbishment program over 9 months, after which they will then commence a leasing campaign focussed on government tenants.

The Investment has an anticipated IRR of 6.5% (net of fees) and an anticipated duration of 24 months. We see the investment as a good opportunity to gain continuing access to Barwon's debt investments, with an emphasis on risk-adjusted returns, as such have allocated to clients where suitable for their risk profile and liquidity constraints.

Fortius Petrie Brisbane - First Mortgage Investment

Providence approved Fortius' first mortgage investment in Brisbane, this is a refinance of a first mortgage loan over the remaining 14 completed but unsold units in Petrie, Brisbane (30km from Brisbane CBD). Petrie Village apartments were completed in 2019 consisting of 5 commercial units (all sold) and 28 residential apartments (14 have been sold and the balance remain unsold but fully leased). Due to the small loan amount, we were restricted in our efforts to allocate this fund to all clients.

Completed Transactions

Barwon Camilla Finance Trust

The Camilla Finance Trust raised $12.9m to facilitate the provision of capital as first ranking mortgage debt to Camilla West Pty Ltd. The Borrower has completed a development of 17 two- and three-bedroom apartments of which, at the time of Investment commencement, 10 remained unsold and formed the Investment security. The apartments are located at 37 Mount Street, West Perth, Western Australia. The investment was completed in September, with an IRR of 8.71% which was greater than expected attributed to the extension fee applied in Q1 2021.

Declines

1. Fortius First Mortgage Acquisition Loan
2. Kingsmede's Industrial Trust
3. Boston Consortium Medi-Hotel Fund
4. Global Alternative Funds VCG 2021 Trust
5. Ingenia Caravan & Lifestyle communities Fund
6. Fortius First Mortgage Loan Opportunity
7. Latitude Group Holdings Limited Capital Notes
8. Suncorp Group Limited Capital Notes 4 (ASX: SUNPI)
9. Westpac Capital Notes 8 Offer (ASX: WBCPK)
10. Macquarie Bank Capital Notes 3 (ASX: MQGPC)
11. Quintessential Equity Master Fund No.3
12. Forza 200 Creek Street Fund
13. TierONE Capital
14. Argus Fund – Wagga Wagga Homemaker Centre
15. Centennial First Mortgage Fund – Wolseley Eight (Lindfield)
16. Greenwich Capital Private Equity Investment
17. Barwon Property Finance – Cirque Duet
18. Fortius First Mortgage Loan Opportunity – Main Beach, Gold Coast
19. GJ Gardner Display Home Fund
20. Barwon Property Finance - Mezzanine Debt

21. Murray Darling Capital Wholesale Income Fund
22. Luxury Escapes
23. Jelix Ventures Innovation Fund I
24. Giant Leap Fund II
25. WayFinder Capital Searcher Growth Fund LP
26. Green Storm Capital

Fortius First Mortgage Acquisition Loan

Providence was invited to on behalf of Fortius to participate in a First Mortgage Acquisition Loan. The investment had forecasted investment returns of 7.75% p.a. with distributions paid monthly. We have a high regard for the manager and are attracted to this space. However, due to the timing of this deal occurring simultaneously to a high number of transactions recently we declined until other investments settle. Additionally, Providence wants to ensure that we have diversity across managers and liquidity profiles.

Kingsmede's Industrial Trust

Providence was invited to participate in Kingsmede's Industrial Trust. The Trust targets 6.50%-7.25% p.a. with first year monthly distributions, a portfolio WALE of greater than 3 years, along with staggered lease expiries out to June 2030 which have fixed or CPI annual rental increases. Although the fund was appealing Providence declined to invest, attributed to finalising some recent investments and not looking to invest in the Industrial space given current valuations.

Boston Consortium Medi-Hotel Fund

Providence was shown this Fund established by Boston Global Investment Management to develop a Medi-Hotel directly opposite the Nepean Hospital in Sydney. The manager was seeking to raise an additional $5 million to supplement the original raise of $7.43 million. The fund term is 5 years, and the development was a Greenfields development still seeking DA approval. The targeted investor return was 15% p.a. net IRR. Although an interesting proposition providing flexible purpose-built hotel accommodation that has the ability to be used as overflow hospital rooms, we declined as we prefer not to invest in greenfield assets currently and are preferring shorter dated commitments.

Global Alternative Funds VCG 2021 Trust

Global Alternative Funds invited Providence to participate in an allocation they secured into New Enterprise Associates 18, LP (early-stage focused VC fund) and NEA 18 Venture Growth Equity LP (venture growth equity-focused VC fund). New Enterprise Associates are recognised as a global leader in VC and Growth Equity Investment, investing 17 funds and more than $24bn in committed capital over 43 years, delivering a 42% gross IRR and 3.9x gross MOIC to investors. The manager is focused on investing in the technology and healthcare sectors across multiple stages and geographies. We are in the early stages of undertaking due diligence on Global Alternative Funds and will continue to look at funds that they bring to market. We declined to participate in this opportunity as we were reluctant to add illiquid assets coming into the end of 2021 and timing did not allow for sufficient due diligence.

Ingenia Caravan & Lifestyle communities Fund

Providence was invited to participate in Ingenia's IDCF, a combination of quality caravan parks and attached lifestyle communities. The average tenure in the communities is 16 years and have currently seeded with 3 quality assets and are co-investing. The fund will target a 6% yield with capital growth. We declined to participate in this fund, a decision attributed to managing the liquidity of portfolios and having an existing reasonable weighting towards direct property.

Fortius First Mortgage Loan Opportunity

Providence was invited on behalf of Fortius to participate in another First Mortgage Loan Opportunity. The purpose of the loan is to assist with the settlement of one property and refinance the current lender at the other. The fund will have a LVR of 65%, with a 12-month indicative term, targeting a return of 6.25% p.a. paid monthly. Although Providence deems Fortius a quality fund manager, at the time this did not suit our current requirements given our recent investments in the property loan space.

Latitude Group Holdings Limited Capital Notes

National Australia Bank Limited has been mandated as a joint lead manager by the Company and offered Providence the opportunity to apply for Latitude Group Holdings Limited Capital Notes. The Capital Notes are being issued as part of the Company's ongoing optimisation of funding and capital, to improve financial flexibility and provide additional growth capital through diversified sources of funding. The Offer is for the issue of Capital Notes to raise approximately $125 million with the ability to raise more or less. The Distribution Rate is the sum of the prevailing 3-month Bank Bill Rate and a Margin, adjusted for franking. The Margin was set to 4.75% per annum. Providence decided to decline this over given the small amount being raised that would result in low trading volume and an illiquid position.

At the time of the offer, the issue margin was not as attractive as secondary market capital notes with a 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.

Suncorp Group Limited Capital Notes 4 (ASX: SUNPI)

National Australia Bank Limited has been mandated as a joint lead manager by Suncorp and offered Providence the opportunity to apply for Suncorp Group Limited Capital Notes 4. Capital Notes 4 are being issued as part of Suncorp's ongoing funding and capital management strategy. Suncorp Group Limited intends to raise approximately $350 million with the ability to raise more or less. Capital Notes 4 are scheduled to pay quarterly floating rate cash Distribution payments in arrears, as long as Capital Notes 4 remain on issue (subject to no Payment Condition existing).

The Margin is 2.90% per annum. Providence declined attributed to the issue margin not being as attractive as secondary market capital notes with a 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.

Westpac Capital Notes 8 Offer (ASX: WBCPK)

Westpac Capital Notes 8 ("Notes") at an Issue Price of $100 each to raise approximately $1.45 billion with the ability to raise more or less. The Notes offer Holders quarterly, floating rate Distributions until the Notes are Converted at their full Face Value (or terminated following a failure to Convert) or redeemed. The Margin was set at 2.90% per annum. Providence declined to participate given the trading margin compared to existing notes was not attractive.

Macquarie Bank Capital Notes 3 (ASX: MQGPC)

Invitation to Bid for an Allocation of Macquarie Bank Capital Notes 3. The Offer is for the issue of BCN3 to raise approximately $400 million, with the ability to raise more or less. The margin will be determined under a Bookbuild and is 2.90%. Providence declined to participate given the trading margin compared to existing notes was not attractive.

Quintessential Equity Master Fund No.3

Providence was invited to invest in Quintessential Equity's Master Fund No.3, which follows on from the first two master funds, which deployed investor capital of close to $250m within their respective acquisition periods into six different quality properties. Master Fund No.3 will continue to implement Quintessential's investment strategy of repositioning and regenerating existing commercial office and industrial properties, located in key strategic locations across Australia, to derive long-term stable income while preserving investor capital.

Master Fund No.3 will seek to provide investors with a Net IRR of not less than 8% for each property. Providence decided to decline this specific investment given our current pipeline and recent investments.

Forza 200 Creek Street Fund

Providence was invited to participate in Forza Capital's Creek Street Fund invested in a prominent commercial property located in the Brisbane CBD comprising 10 levels of office accommodation and 88 car parks. The fund involves a major repositioning opportunity to drive rental income and materially improve environmentally sustainable design outcomes. The investment terms include stabilised distribution yield of 7.48% p.a. over the Projected Period, with a modelled IRR over the projected period of 10.5% and an equity multiple of 1.51x. Although Forza Capital is a trusted manager with a proven track record in adding value to stressed assets, given the current uncertainty regarding commercial office space and enormous deal flow, we felt best to review allocations to this sector in 2022.

TierONE Capital

Providence was invited to participate in a construction loan in the Sydney suburb of Ryde on behalf of TierONE Capital. This registered first Mortgage is expected to deliver an investor interest of 7.5% p.a. with distributions paid at maturity. The anticipated maximum term is 13 months (minimum nine months interest). This construction loan is purposed to assist with the purchase of an existing residential site and construction of two townhomes located at 15 Providence Road Ryde, NSW. We have declined to participate due to our preference not to take construction risk in loans.

Argus Fund – Wagga Wagga Homemaker Centre

Providence was invited on behalf of Argus Property Partners to participate in a new 5-year closed-end Fund that has acquired a large-format homemaker centre in Wagga Wagga at a purchase price of $22.94m. The Weighted Average Lease Expiry for the leased areas of the Property is 7.2 years (by gross income excluding vacancy). The forecast total return to investors, including a return of capital on sale of the asset and wind-up of the Fund, is an internal rate of return of 11.5% p.a. (net of all Fund costs and fees).

The cash distributions to Investors are forecast to ramp up over the first 2 years of the Fund term as the Centre is leased-up, with an average distribution rate forecast of 7.8%p.a. (paid quarterly) over the 5-year term of the Fund. Providence declined due to our current portfolio position being at capacity for both retail and regional property exposure.

Centennial First Mortgage Fund – Wolseley Eight (Lindfield)

Providence was invited on behalf of Centennial Property Group to participate in their latest real estate debt opportunity. The construction loan targets an investor IRR of 8.4 % p.a. over 22 months for the development of 8 luxury terraces by an existing Centennial borrower and builder. The loan term is 22 months (4 months land settlement + 15 months construction + 3 months contingency). The borrower is a locally based, experienced developer, filling a gap in the market for non-apartment, high end living for locals looking to downsize but remain in the area and retain outdoor living space. We have decided to decline the offer given our belief the return is not adequate for the construction risk present.

Greenwich Capital Private Equity Investment

Providence was invited on behalf of Greenwich Capital to participate in a capital raise for an established high growth fintech leader with a proven track record. The company have achieved over 60% YOY growth since its inception. Greenwich was seeking to raise $5m at a valuation of $25m with $1.5m (30%) of the total target amount already committed to this opportunity by cornerstone investors. We have declined this offer due to our preference to utilise a manager across multiple investments, and not invest in single asset Venture Capital or Private Equity investments.

Barwon Property Finance – Cirque Duet

Providence reviewed a new investment Barwon recently secured, this was a mezzanine debt property finance investment into a development located in Mount Pleasant, Western Australia. The development would include 98 residential apartments and 4 commercial units, marketed as Cirque Duet. The Development is the second stage of a two-stage residential development, following the successful completion of Cirque Stage One in April 2019, which received numerous awards, both at a state and national level. The Barwon Investment has an anticipated net of all fees return of a 15% p.a. IRR and duration of 30 months, equating to a return on investment (ROI) of 37%. Although we have high respect for the manager, we have decided not to participate because we prefer not to take development risk in our loan portfolio.

Fortius First Mortgage Loan Opportunity – Main Beach, Gold Coast

Providence was invited to participate in a First Mortgage Loan Opportunity on behalf of Fortius. This is a development site loan with security over a DA approved site in Main Beach, Gold Coast. Fortius believe the Gold Coast market, in general, has evolved over recent times due to net migration from Sydney and Melbourne. The loan would have a 55% LVR, deemed very conservative with a $13.75m Facility Limit. The estimated net investor return is 8.00% pa, paid monthly with a 12-month term / 6-month minimum term. We have a high regard for the manager; however, our preference is to not have exposure to development risk at this stage.

GJ Gardner Display Home Fund

Providence was invited by NS Capital Partners to be a seed investor in the Fund. The Fund offers investors the opportunity to generate yield and capital growth through funding display homes for franchisees within the GJ Gardner network. With rent 100% guaranteed for the life of the display home, a diversified group of tenants within the GJ Gardner franchisee network and geographical diversification of display home location (predominantly East Coast), the fund provides an interesting opportunity to generate yield. The Investment Manager is targeting an IRR of 13.7% net, however, when we reviewed the income flows, we felt that the real yield was not sufficient to compensate for the risk in an inflated property market at this part of the cycle and for the illiquidity of the fund. As such we have decided not to participate.

Barwon Property Finance - Mezzanine Debt

Providence was invited to participate in a mezzanine debt property finance investment into a largely pre-sold, infill residential townhouse development centrally located in Port Melbourne, Victoria. The investment includes the delivery of 122 residential three-bedroom townhouses marketed as Port Lane; Port Lane is located 400m from Port Melbourne Beach and 4.7km from the Melbourne CBD. The developer is ID Land who is an experienced and reputable Melbourne based group and well known to Barwon, and the Development has been significantly pre-sold. The Barwon Investment has an anticipated duration of 37 months and anticipated net of all fees return of a 12% IRR equating to a 31% ROI with progressive stage end repayments. Providence is not investing in development loans in the current economic environment, as such have declined to participate in this investment.

Murray Darling Capital Wholesale Income Fund

Providence was invited to invest in the Murray Darling Capital Wholesale Yield Fund, which aims to provide exposure to the growth of the Australian Residential Property Market via ownership and management of property management assets (rent rolls). The Fund is targeting strategic investments throughout NSW, QLD, and Victoria, emphasising mispriced assets located in areas with favourable demographics, a resilience to lockdown related disruptions, strong rental appreciation potential and high demand from both renters and investors. Providence decided to decline this specific investment given our portfolio pipeline and recent investments.

Luxury Escapes

As a well-positioned business in the Australian online travel industry, poised for global expansion into the US and Europe, Luxury Escapes offers an interesting opportunity to invest in the Covid recovery thematic.

The founders of the business have a strong track record of successfully growing and exiting similar businesses and coming into Covid, the business was on strong financial footing, growing strongly and profitable. Unlike many other travel businesses, they successfully pivoted to focus on domestic travel whilst using the opportunity to broaden their product offering and geographical footprint. The firm is seeking to raise either $60 million or $90 million to provide capital to assist in business growth. Investment is via an MIT fund, sourced and managed by the Auctus group, with the fund owning a combination of equity and convertible notes yielding 5% p.a. for the first 2 years. The minimum investment is $250,000, the expected term is 4 years with an exit envisioned as an IPO or trade sale. Fees are 2% management fee and 20% performance fee with a 10% hurdle, with a return target of >30% net IRR.

Although we can see that the business is well-positioned to take advantage of the recovery in the sector post-Covid as well as having significant organic growth opportunities, the amount of goodwill built into the offering is of some concern as is the use of a proportion of the funds raised to reduce the shareholding of existing investors when strong growth is anticipated. In addition, our preference is to seek venture capital investment exposure via a diversified fund to spread risk. We have elected to pass on this opportunity at this time.

Jelix Ventures Innovation Fund I

Providence was invited to allocate to this $25m ESVCLP Fund looking to invest in Seed and Series A investment opportunities. The Fund is a 10-year fund (with up to 3 years extension), targeting a net IRR of 25% (3-5x cash on cash). Fees were 2% management fee p.a. and 20% performance fee over a hurdle of 6% IRR. The fund is seeking to invest in 25 companies diversified across time, stage, size, concentration, markets and technology.

Although we are impressed by the Jelix team, the deal flow they see and their track record, we elected to pass at this time as we continue to manage liquidity in portfolios and have some concerns regarding valuations at which funding rounds are being undertaken in private markets.

Giant Leap Fund II

We reviewed the Giant Leap Fund II, targeting 20% IRR over the life of the fund net of fees and expenses. We believe there is merit to look at this space as there are significant investment opportunities in impact investments, aligning investor goals of positive impact with outsized return opportunities benefiting from significant momentum and a supportive regulatory environment promoting investments and advancements in fields related to achieving the UN sustainable goals.

The Partners and their Advisors involved in Giant Leap, led by Will Richardson, are highly regarded in the Impact Investment space, with significant experience in identifying, investing in and exiting investments. They should be well placed to benefit from good deal flow and desirability for founders to work with them. Due to the smaller size of the fund ($35 – 50m, which is not unusual for this space) fees are a little higher than other early-stage investment funds (2.25% management fee vs a norm of 2%, standard 20% performance fee net of fees and expenses over an 8% hurdle). The fund will be focused on investing in businesses that either empower people, promote health & well-being and sustainable living. The minimum investment is $250,000.

Although we can see that this is an interesting vehicle for those seeking access to impact investments, our main concern is the liquidity of the fund and where we sit in the cycle currently. Under the terms of the fund, investors could be in the fund for 14 years (capital can be recycled) and we are reluctant to commit capital for this length of time.

WayFinder Capital Searcher Growth Fund LP

Search funds have seen exponential growth in assets in the USA in recent years and are starting to see growing interest in Australia. WayFinder is a fund manager that is seeking to be the first institutional fund taking significant but non-controlling equity stakes in buyouts of approximately 20 mid-market Australian enterprises (MMEs) predominantly through the Search fund model. The Fund will seek to invest in Search funds both in the search phase, the follow-on acquisition and other searcher led transactions. The Fund is seeking to raise $25m with a minimum investment of $500,000 per investor. The objective of the Fund is to deliver returns equivalent to a net IRR of approx 20% p.a. over an 11-year period. We have some concerns regarding the leverage managers are looking to employ in some of the buy outs of MMEs at this stage of the interest rate cycle, and see challenges in accessing appropriately experienced talent to manage the businesses invested in. Whilst we can see some potentially interesting opportunities to generate uncorrelated returns for clients and a large pool of investment opportunities in this space, we will continue to undertake due diligence.

Green Storm Capital

Greenstorm Capital is a search fund that WayFinder Capital Searcher Growth Fund is investing in and that is also open to external investors. We declined this opportunity for the reasons noted above.

Presentations

1. Epsilon Direct Lending Fund
2. Strategies Conference 2021
3. Platinum Asset Management Investor Update Webinar
4. PIMCO Trends Managed Futures Strategy Fund
5. Invest Unlisted - Core Infrastructure Fund
6. Longreach Maris Sustainable Seafood Fund
7. Greenwich Capital
8. Grey Innovation Ventures I, LP
9. One Ventures IV Credit Fund Resolution
10. One Ventures III Healthcare Fund
11. The "Invincible" US Equity Market: The Longer-Term Outlook for US Stocks in Relative and Absolute Terms by Jonathan LaBerge, Vice President, The Bank Credit Analyst (BCA Research)
12. BCA Long Term Outlook Summary Report on US Stocks in October
13. BCA Quarterly Portfolio Outlook – October 2021
14. BCA 4th Summary Quarter Outlook
15. International Monetary Fund Article on Crypto
16. Synergis Resolution
17. Jamieson Coote Bonds Webinar

Epsilon Direct Lending Fund

We met with Joe Millward and Mick Wright-Smith from the Epsilon Direct Lending Fund for an investor update. The fund has made their first two investments and is continuing to see more new loan opportunities, currently 8 have made it to the Investment Committee level, of which they funded 2. They noted that the BB Credit fund rating average returning 6%-7% within midmarket is attractive relative to listed investment grade. Considering you have the LTV protection and protection of covenants; the downside is illiquidity with the compulsory 3-year lockup. Epsilon will not have property credit, which is cyclical and a big segment of the Australian private debt space. After seeing 74 loan opportunities, the fund has still only participated in 2 deals – stating many of these were outright rejections with only 15 going through to a more detailed review. We will continue to stay up to date on the progression of this fund.

Strategies Conference 2021

Several members of the investment team were invited to attend the Strategies Conference 2021 via live stream. We were one of 1,400+ delegates tuning in across Australia and New Zealand. The forum included specials on Critical Issues along with a Special Interests Forum. The conference spanned two days, noteworthy forums included, 'The 60/40 portfolio concept is obsolete', 'Challenging investment strategies is the means to the end', and 'The answer for retirees is not the risk-return ratio'. The Forum hosted by Graham Rich was a great insight into the different thought frameworks regarding topical matters at the time.

Platinum Asset Management Investor Update Webinar

Members of the investment team attended the Platinum Asset Management Investor Update Webinar presented by Clay Smolinksi, Chief Investment Officer and Cameron Robertson, co-portfolio manager of the Platinum Asia Fund. The presentation noted areas of growth and change, including technological advances in Artificial Intelligence, the presence of an ESG overlay in all companies, the global push to decarbonise and the large desire to automate.

PIMCO Trends Managed Futures Strategy Fund

We continue to undertake due diligence on the PIMCO Trends Managed Futures Strategy Fund. The fund sits within PIMCOs quantitative investment platform and provides investors with a liquid (daily liquidity) systematic trend following exposure across asset classes and global markets. Targeting equity like returns but with lower average volatility than equity markets, the strategy also has no long term correlation to equity markets – making it an interesting diversifier in portfolios. Typically, managed futures strategies generate outsized returns in periods of equity market break downs, so we continue to review the strategy as a defensive alternative inclusion in portfolios.

Invest Unlisted - Core Infrastructure Fund

We have had a number of meetings with Invest Unlisted regarding their Core Infrastructure Fund. The fund provides retail investors with access to 4 institutional unlisted infrastructure funds: UTA, AMP Capital Diversified Infrastructure Trust, First Sentier Investor's Global Diversified Infrastructure Fund and Macquarie's The Infrastructure Fund. The combined portfolio contains 35 underlying assets - airports, energy distribution & transmission, water utilities, rail/transportation, registries, and seaports. As we continue to seek out interesting portfolio diversifiers to listed equities, the fund is interesting in that even with 40% of the fund invested in Australian airports, it generated a cash yield of 2.6%p.a. for FY 2021 and capital growth of c. 5.5%p.a. The fund could provide an interesting exposure to a Covid recovery, and a defensive investment should inflation concerns continue to grow as most assets have pricing models that adjust for inflation. We will continue to review whilst noting that our historical preference has been to seek liquid exposure to infrastructure.

Longreach Maris Sustainable Seafood Fund

Providence has been reviewing the Longreach Maris Sustainable Seafood Fund, a growth diversifier alternative investment fund investing in Australian wild-caught fishery Individual Transfer Quotas (ITQs). ITQs give the holder the right to fish from the ocean, like water allocations and entitlements. Both income and capital appreciation are targeted with the fund having a performance target of 10%+ p.a. This is an interesting way to get exposure to agriculture but without operating risk, with low holding costs and much lower variability in wholesale prices. This could also be classed as an Impact Investment in that ITQs underpin UNSDG 14 and the fund also aims to have a positive impact on local communities. We continue to do due diligence on this investment as an interesting income generating, uncorrelated diversifier for portfolios.

Greenwich Capital

We met with Greenwich Capital founder, Jonathan Warrand and COO, Alan Lee, for an update on their unlisted private market investment vehicle. It is an absolute return strategy, focussed on event-driven or special situations in unlisted private companies. They have a long-term investment horizon, seeking to compound growth companies and add value through consultancy/advisory, management turnaround, growth equity partnership and business succession planning. We discussed several of their underlying investments, what investments they are currently seeking and how they sourced investments. Fintech, Aged Care, Education, and Infrastructure were current investment themes that have long term investment tailwinds and benefit from increased government spending. With listed equity markets looking expensive relative to historical averages, Greenwich investing in unlisted private markets does have lower volatility (not daily priced) and is targeted towards preferred niches where they specialise. We will keep in touch with the manager regarding further updates and additional capital raisings.

Grey Innovation Ventures I, LP

Providence has had numerous meetings with the Grey team regarding their first Cleantech and Medtech VC fund. The ESVCLP is to have a maximum size of $100m and will look to draw on the impressive track record of the Grey team in the development and commercialisation of early stage cleantech and medtech companies. Targetting a net IRR of 20%+, the fund will have a 10-year term with the possibility of extension by up to 3 years. Fees are in line with other VC funds - 1.5% management fee plus a 20% performance fee over an 8% hurdle. The Management team at Grey Innovation Investment Partners will leverage off of the infrastructure and resourcing of Grey Innovation Group as well as providing growth capital to a range of businesses that the Group has already achieved commercial success with. We believe the fund provides an interesting opportunity for clients wanting to invest with impact in the cleantech and medtech space with a team that has a strong track record of successful commercialisation. Areas of focus will include commercial scale seaweed production, commercial scale hydrogen production, real time water quality monitoring and inorganic trace detection systems. We continue to undertake due diligence with a goal of determining in Q1 2022 if the fund should be considered by clients wanting to invest in this space.

One Ventures IV Credit Fund Resolution

There was a resolution that involved the approval of adding $15m to the 1V Fund IV trust at a capped return of 6% (the remainder goes to the investors). The drawbacks included the extension of the investment term for an additional 2 years, to match the additional investor's sleeve. However, the manager has indicated it still will be looking to invest within the original investment term. Existing investors get a free additional pickup in performance as the additional investor amount is capped at 6%. It also becomes a larger portfolio size benefitting scale when bidding for new loans. As such, Providence believed it was in the best interest of investors to approve the resolution and voted accordingly.

One Ventures III Healthcare Fund

We recently attended the One Ventures III Healthcare Fund resolution meeting, which was to allow the manager to invest $7.5m in a Biotherapeutics company in the form of convertible promissory notes. The company undertakes research and development activities commercialising gut-restricted, therapeutics for central nervous system disorders and cancers. The investment in the Australian subsidiary will provide significant Australian biomedical research, employment benefits and medical research. The One Ventures III Healthcare Fund will also be issued warrants for a number of shares of Series C preferred stock. The resolution was required as the company does not meet the governments Biomedical Technology Fund program requirement (due to US parent), but the Australian subsidiary investment would be eligible subject to ensuring the capital is used fully in Australia. The Partnership deed required the amendment to pass through with 75% approval required by investors. Providence attended the Resolution meeting and voted in favour, with the Resolution being passed unopposed. The One Ventures Fund III had 6 investments (now +1 including this new company) with exposure to medical devices, diagnostics, and therapeutics. In June 2021, the fund was 70% committed with $22m left to deploy (the new company now taking $7.5m). Providence continues to follow the progress of all private equity and venture capital funds.

The “Invincible” US Equity Market: The Longer-Term Outlook for US Stocks in Relative and Absolute Terms by Jonathan LaBerge, Vice President, The Bank Credit Analyst (BCA Research)

In October Providence reviewed this special report. The report noted that growth in the US service activity slowed meaningfully in September, which in their view may likely delay the return to potential output in the US until March of next year. BCA remain of the view that maximum employment remains a very possible outcome by the next Northern Hemisphere summer barring a further extension of the pandemic in advanced economies. BCA noted that they anticipate the US central bank (The FED) is likely to form a decision to taper at the next meeting and this makes the possibility of a first US rate hike in 2H 2022 more likely. The report observed that there has been a mixed shift in consumer spending, away from goods towards services and this should not be seen as a threat to economic activity or S&P 500 (corporate) earnings. BCA continue to recommend an overweight stance towards value stocks vs. growth and also have a preference for global equities ex-US vs. the US. With regards to the more recent focus on the Chinese property markets, BCA’s view is that the Chinese government will likely restructure Evergrande debt to prevent the company’s crisis from evolving into a systemic financial risk.

Longer-term, BCA are of the view that US stocks are likely to earn low annualized total returns over the coming 10yrs (between 1.8 – 4.7%), i.e., lower than what the market has been used to over the last decade.

BCA Long Term Outlook Summary Report on US Stocks in October

We concluded that in absolute terms, BCA forecast that US stocks will earn annualized nominal total returns of between 1.8 – 4.7% over the coming decade (assuming 4-5% annual revenue growth, flat profit margins, a constant dividend yield of 2% and constant ERP). Shorter-term, say in the next 6-12mths BCA expect that US 10-year treasuring yields are likely to rise adding to more recent views for an underweight stance towards growth vs. value in equities positions. BCA noted that US Returns (MSCI US Index since 2008) US stock prices have earned roughly 11% per year in total return over the past 14 years and that a significant contribution has come from revenue growth, multiple expansion, margins and the return from dividends. Conversely, the report noted that developed markets ex-US stocks have experienced very weak revenue growth over the same period, dispelling the notion that US equity outperformance has been due to a strong top-line effect. It was also observed that a beneficial impact from the change in capital structure and index composition for US equities – occurred due to the accretive impact of share buybacks on the eps of US growth stocks. The report concluded that the aggregate multiple expansion in the US has now rendered US stocks to be the most dependent on low long-maturity bond yields than at any point since the GFC.

BCA Quarterly Portfolio Outlook – October 2021

We reviewed the BCA quarterly portfolio outlook report and noted the following observations. BCA expect that the global economy will continue to grow above trend over the next 12mths and that central banks will remove accommodation only slowly. It was noted in the report that the 2nd year of any bull market is often tricky: Growth slows after the initial rebound, the monetary policy starts to be tightened, amid rising inflation. BCA continue to recommend only a cautiously optimistic stance on equities constructed of an overweight stance for US equities and underweight Europe. At a sector level, BCA suggests an overweight stance toward a mix of cyclicals (industrials). They are also attracted to plays on higher rates (financials) and selective defensives (healthcare).

With regards to China, which is receiving a lot of attention at present, the noted that China may announce some stimulus measures to help cushion any Evergrande (property developer in financial duress) impact and suggested closing any underweight exposure to China however only back to a neutral (index) position.

In the USA, the report suggested that the FED is likely to announce tapering this quarter and raise rates in Dec 2022. Such a move is likely to push up 10yr Treasury yields to 2-2.25% by then and thus the recommendation was to remain underweight duration.

With regards to credit, the report noted that investment grade credit is expensive – however B-rated high yield bonds remained somewhat attractive as defaults continue to decline. The report concluded with a reference to Emerging Market corporate debt noting that it is riskier post Evergrande but higher-rated sovereign dollar debt offers some appeal.

BCA 4th Summary Quarter Outlook

Providence reviewed the BCA 4th Quarter Outlook and deemed the key points were to expect volatility (a slight change of narrative) and that a risk is that China overtightens policy and therefore undermines the global recovery. This message was a differing view vs. some of the more recent publications from BCA. The report also notes that US political risks remain elevated and noted the looming debt ceiling however, the view was that a debt default likely to be averted. The report also noted that the US fiscal stimulus being debated at present could be excessive and also noted an increasing chance of new taxes being introduced in the new year in the US.

International Monetary Fund Article on Crypto

We reviewed the article that noted the total market value of all crypto assets surpassed $2tn as of Sept '21 and that more than 16k tokens have been listed in various exchanges. The article also observed that of those 16k tokens, roughly 9k exist today – the rest have disappeared as some have no volume or the developer has walked away. With regards to Stablecoins, the article noted that these particular coins aim to peg their value usually against the USD – and noted that supply grew 4-fold through 2021 to reach $120bn. The valid question was raised in the report citing the questionable level of quality of "reserves" against such coins or the speed at which reserves can be liquidated to meet potential redemptions. Thus, the scope for "runs" or an impact on stability. Longer-term it was suggested that Cryptoization could ultimately reduce the ability of Central Banks to effectively implement monetary policy (i.e., where residents start using crypto assets instead of local currency). The article concluded by suggesting that globally, policymakers should prioritise making cross-border payments faster, cheaper, more transparent and inclusive through the G20 Cross Border Payment Roadmap.

Synergis Resolution

Synergis had a resolution that entailed voting on Goldman Sachs' proposition to acquire 75% of the Synergis Asset Trust and seeking to further grow the fund by an additional $300m over time. We believe this institutionalises the fund with a larger portfolio, adds to diversification and brings forward the potential exit timeframe enhancing the return profile. A larger Synergis fund would also make this asset more suitable for domestic institutional investors once assets are developed and fully operating. We considered the introduction of Goldman Sachs ownership as a foreign entity having the drawback of higher tax costs. However, this is more than offset by the shorter investment timeframe (5–7-year investment), greater expected investment return (mid-teens IRR net of fees), improved asset diversification and greater scale for Synergis in its operations. As such, Providence voted in favour of the proposed resolution.

Jamieson Coote Bonds Webinar

In November we attended a webinar hosted by Jamieson Coote Bonds. Presenting during the webinar was Saul Eslake, Mark Burgess, Charlie Jamieson (Co-Founder and CIO of JCB)

Observations on the call included the surge in upstream prices – feeding into core CPI in USA and UK however, it was observed that there was very little pass-through into core CPI in Asia. More broadly, despite the global implications to economies from Covid-19, some 30 Central Banks in EM raise rates at least once this year. In the US – the July and August CPI (inflation) prints saw some short-term CPI pressures abate somewhat. It was noted that if the sudden increase in prices that have been seen through the year have moderated somewhat, this increases the likely confidence seen by Central Bankers that inflation may well be transitory. As such, they appear happy with transitory messaging from Central Banks

With regards to a broader set of observations from the webinar, the hosts noted mixtures in portfolios, that being correlations (meaning all rising), thus creating reinvestment problems. From a policy perspective, it was felt that perhaps Central Banks don't really have a plan. The speakers were also mindful of longer-term secular factors, Demographics, technology etc. It was also suggested that rates will no longer be the supportive mechanism driving the value of assets.

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. Justine started her career in Perth at First State Fund Managers (Colonial) then Hartley Poynton before moving to London. At Lehman Brothers and then Cargill Investor Services she focused on event arbitrage and special situations before returning to Australia, to start and run Finsbury Capital Advisors. She has a Bachelor of Commerce from UWA.

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.

Providence Investment Committee

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.

Will Porter

After joining Providence in 2012, Will spent two years in London to gain insight into global developments in Asset Allocation and to review alternative investment opportunities, primarily hedge funds and structured products. During this time he met with 600 different investments managers and reviewed approximately 1500 strategies. As Head of Investment Strategy, he is responsible for asset allocation, portfolio construction research and development and investment performance monitoring. Will completed a Bachelor of Commerce in 2007 and a Master's degree in Applied Finance in 2019.

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

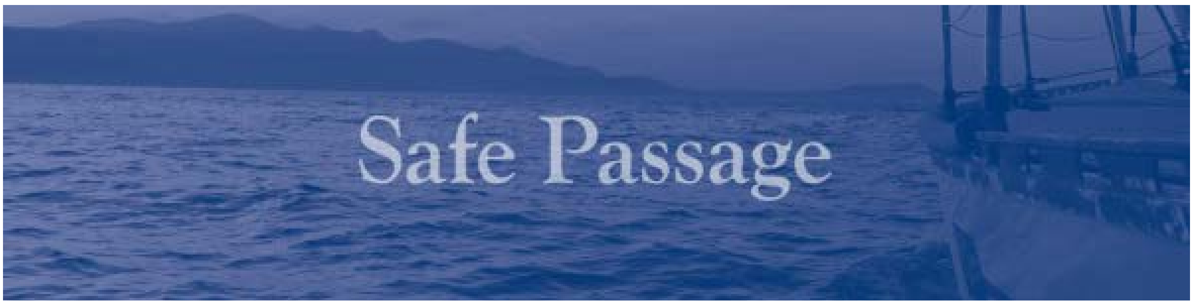
James has over 20 years of investment market experience (cash equities). Prior to joining Providence, he held the position of Deputy Head of Domestic Sales at CIMB Securities (Australia) and was a member of the CIMB Equities (Australia) Management Committee.
He has also held positions as Director - Sales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