

## Monthly activity report.

### February 2014

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**1 acceptance.**

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**4 presentations.**

An important part of our wealth creation and preservation is to review the many opportunities that arise each month on behalf of our clients. These are discovered from a vast and differing array of sources. For our team this creates an opportunity rich environment, but also important to our success in wealth preservation is what our team deliberates on and chooses not to invest in. This month's report is a commentary on our activity.

## Providence™

Strategy. Portfolio. Structuring. Investment. Compliance.

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## Section 1: Acceptances.

### **ANZ Capital Notes II – Accepted.**

ANZ launched a new \$1.3b capital note offer (ANZPE) to replace the existing \$1.1b ANZPB capital notes maturing in June 2014. We believe the hybrid is fairly priced paying 3.25% above the above the 180 day bank bill swap rate which at the time of writing is 2.67%. The initial floating rate will be 5.92% with an additional 1% rebate Providence has negotiated on behalf of our clients. We believe this is an attractive yield from a major bank; provides some yield pickup over cash/term deposit rates; and will likely be well supported from the ANZPB reinvestment offer.

## Section 2: Declines to offers.

### **Western Areas placement – Declined.**

Western Areas Ltd (ASX code WSA) is a nickel producer with nickel production interests in Australia and base metals development projects in Australia, Canada and Finland. The company announced a \$104m capital raising through an institutional placement, intending to use the proceeds for the \$110m convertible bond maturing in July 2014. We have declined the placement as we prefer low cost diversified resource producers such as BHP Billiton.

### **Australian Industrial REIT entitlement – Declined.**

Australian Industrial REIT (ASX code ANI) announced a 1 for 2.4 entitlement offer to raise \$56m which would be used to acquire a portfolio of 6 industrial properties located in established industrial precincts of Melbourne and Perth. The offer price of \$2.00 is currently on par with the market price at the time of writing. We have declined the entitlement as the offer price bears no discount to the market price and we are happy with the current exposure in client portfolios.

**Perseus Mining placement – Declined.**

Perseus Mining (ASX code PRU) is gold exploration company focusing in West Africa. The company announced a \$30m institutional placement, intending to use the funds as working capital and improvements in the Edikan gold mine. The stock performance has been flat and remains trading at the offer price of \$0.45 as at the time of writing. We have declined the issue as we prefer large cap producers over exploratory companies.

**Section 3: Presentations.****Perpetual - Direct Equity Alpha.**

We were invited to meet Perpetuals' head of investment research Matt Sherwood and portfolio manager Vince Pezzullo, regarding their economic outlook and direct equity SMA portfolio. The global economy is showing cyclical improvements but still has unresolved structural issues. Markets are behaving like it's a first year recovery with global share prices up well above earnings growth. Markets are fully priced so investors have to determine where there is potential for upward surprise. Perpetual Direct Equity Alpha fund is a concentrated high conviction portfolio of Australian shares and currently likes Boral for their exposure to the US housing recovery; Harvey Norman for their property holding and domestic consumption recovery; and Aveo retirement villages for their exposure to baby boomers retiring.

**Standard Life – Global Absolute Returns Strategy (GARS).**

We met with investment directors Simone Bouch and Matthew Newham regarding the Global Absolute Returns Strategy (GARS). It is a global macro absolute returns fund with the objective to beat cash + 5% with expected volatility range between 4% - 8%. The fund employs a diverse range of strategies using an unconstrained dynamic approach and has a clear focus on risk allocation. As investment opportunities evolve over time, the fund will switch between market return, directional returns and relative value return opportunities.

We are pleased to see the fund return 11.8% for 1 year, 10.8% for 3 years pa and 11.7% pa for 5 years with a low annualised volatility of 5%.

### **Eight Investment Partners – China Portfolio.**

We held a video conference with portfolio manager Nial Gooding from Hong Kong regarding the China Portfolio fund which aims to deliver a high absolute return over three to five years. The portfolio follows a long only, value based strategy and is concentrated holding no more than 20 stocks from the Hong Kong Exchange. We have seen a large contraction on the Chinese market PE currently trading at 6.8x despite strong earnings. There are a number of risks investing in China: the shadow banking system, the growth slowdown, territorial dispute, high personal savings rate and the rebalancing economy. Nial believes the Chinese market is cheap and needs to re-rate to more normal valuations around 10-12x PE once the market sees the persistence of earnings. For the rolling year to January, the fund has returned 1.6% versus -7.1% for the Hang Seng (HKD), and has returned 10% pa since inception Dec-07.

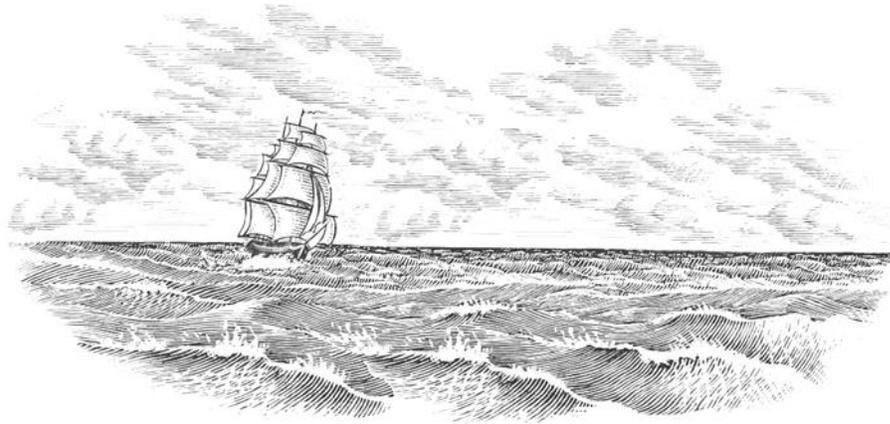
### **James Fielding - Infrastructure Yield Fund.**

We met with portfolio manager Sean Sanson to review the JF Infrastructure Yield Fund. The fund currently has two remaining assets which it has been looking to sell down over the next few years, Etihad Stadium and Bankstown Airports. The fund has been continuing to pay down asset debt, refinance loans on more favourable terms and continue with the sales process. Subject to further due diligence by the funds institutional investors, there may be a change of manager which would seek to raise new capital from institutional investors to acquire additional infrastructure assets. It would provide investors diversification, may trigger a liquidity event and lower management fees. We will continue to watch the fund and provide any updates as it progresses.

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*"I can't change the direction of the wind, but I can adjust my sails  
to always reach my destination." - Jimmy Dean*



**We wish you. Safe passage.**

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