HOW ARE THE SHAREHOLDERS' FUNDS BEING ACCOUNTED FOR?

ASI holds a number of concerns over the Treasury Group/Northern Lights Capital Group merger.

The constructivist strategy investment manager Advocate Strategic Investments (ASI) will closely scrutinise Wednesday's release of the 2015-16 financial results of its investee company Pacific Current Limited (PAC), the former Treasury Group Limited (TRG), with a particular emphasis on PAC's remuneration report.

ASI will be engaging with the Pacific Current board, seeking to bring about operational and governance change, which ASI believes could unlock significant value in PAC's market capitalisation, which has fallen by two-thirds since April 2015, in the wake of its November 2014 merger with interests and other assets associated with the privately owned US-based multi-boutique aggregator Northern Lights Capital Group LLC.

ASI believes that:

Pacific Current's post-merger structure is neither transparent nor designed to act in the best interests of shareholders;

Pacific Current's accounts and announcements to the Australian Securities Exchange (ASX) since the merger have become deliberately opaque, leading to an uninformed market; and

Pacific Current's remuneration policy has resulted in its executives earning excessive pay, in a remuneration framework divorced from any realistic alignment with shareholders' interests.

In particular, ASI contends that Pacific Current's remuneration structure, which relates to the issuance of hundreds of thousands of executive performance rights, has not been approved by shareholders, despite the company claiming that it was approved. ASI's clients have no memory of voting on this structure, and more specifically, the issue of performance rights to past and present executives of the company under a purported long-term incentives (LTI) plan. Having researched the matter thoroughly, ASI cannot find any evidence that a documented LTI plan exists, let alone proof that it was put to, voted on and accepted by Pacific Current shareholders. We have asked Pacific Current to provide us with a copy of this plan, which it agreed to do, but it has failed to do so.

Further, ASI holds a number of concerns over the Treasury Group/Northern Lights Capital Group merger.

The merger was sold to Treasury Group shareholders as transforming both businesses into an international multi-boutique asset management group, combining 21 boutique asset management firms managing just under $50 billion, and delivering significant strategic and financial benefits to Treasury Group and its shareholders.

The merger was supposed to expand and diversify Treasury Group's portfolio, improve Treasury Group's access to capital and provide opportunities for increased distribution of Treasury Group's boutiques into the US market.

ASI contends that of these, only the expansion and diversification (arguably) of the portfolio have actually happened.

Treasury Group shareholders also saw within seven months of their company's merger with Northern Lights Group, US$12 billion of funds under management written off from their merger partner's contribution to the merged vehicle, the Aurora Trust.

As stated, the Aurora Trust was established in the merger to hold the business operations and interests in the boutiques of the combined businesses. Pacific Current Limited owns 64 per cent of the Aurora Trust, with Northern Lights Capital Partners LLC owning 27.2% and BNP Paribas Investment Partners LLC owning 8.8%. ASI contends that the Trust is an opaque structure in which Pacific Current shareholders cannot trace how their shareholder funds have been spent, or identify the valuation of the Aurora Trust, its assets, its losses, or its writedowns.

The Aurora Trust's assets are putatively managed by Aurora Investment Management Pty. Ltd. (AIM), a company ostensibly wholly owned by PAC, but as a PAC shareholder ASI cannot discover the basis for the valuations of the assets held by the Aurora Trust, and the history of changes in these valuations.

ASI contends that both Pacific Current Limited and Aurora Trust are, as constituted at present, deliberately opaque with respect to their accounts and the operating performance of their assets, to the extent that shareholders cannot discover the true economic performance of their investment in Pacific Current Limited. Thus shareholders cannot have any confidence in the board and management of Pacific Current Limited with respect to redressing the dismaying loss of shareholder value since the company struck what ASI believes to have been a poorly thought-out merger. ASI has also questioned the scope of the company's audit, and the independence of the auditors, given the advisory fees paid to the firm in 2014-2015.

As a constructivist equity investment manager, ASI will be engaging with the board and executive of Pacific Current Limited more earnestly to suggest strategic, operational and governance changes that it believes could help the broader stock market to understand better the Pacific Current Limited business, and thus begin to redress the steep valuation discount currently being applied.

ASI will engage with Pacific Current Limited in this constructive manner, but it will also seek answers to the specific questions it has posed and others as they arise.

About ASI

ASI is a Melbourne-based independent investment management firm that provides institutional and sophisticated investor clients with customised alternative investment strategies. The firm's senior investment team uses its unique, company-specific, value-oriented investment approach, with a strong focus on equity special events and credit opportunities. ASI's approach is focused on the preservation of capital through extensive and rigorous investment analysis on a position and portfolio basis. ASI is the manager and adviser to the Advocate Partners Constructivist investment strategy. Shareholder constructivism is about advocating an owner's perspective in relation to how a public company is governed and operated, in order to build the conditions necessary for its equity value to appreciate.

Disclaimer

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