

PACIFIC CURRENT GROUP LIMITED (ASX:PAC) AND TAMRO CAPITAL PARTNERS

TAMRO IS DEAD HOWEVER ITS COFFIN SEEMS TO HAVE \$\$\$\$ RESIDUAL VALUE \$\$\$\$ ACCORDING TO THE TRUSTEE OF THE AURORA TRUST

If an Asset Management Firm Dies, Do Its Owners Have to Know on the Day it Died? And What are the Trustee' Fiduciary Obligations in that Regard?

For the shareholders of Pacific Current Group Limited (PAC) – formerly known as Treasury Group Limited (TRG) – the sorry saga of TAMRO Capital Partners stands as a sad testament to the disastrous merger their company consummated with US-based Northern Lights Capital Group in November 2014.

At the time of the merger, Northern Lights vended TAMRO into the newly created Aurora Trust, which was formed to hold the 21 boutique asset management firms that the combined group would own, managing just under \$50 billion.

Treasury Group shareholders were told at the time that they would own 24 per cent of TAMRO, a US small-cap equities specialist manager based in Alexandria, Virginia.

They were told that TAMRO had \$2.2 billion in funds under management (FUM), representing just over 9% of the \$24.2 billion managed by the Northern Lights boutiques, and that it contributed about 10% of Northern Lights' FY14 pro forma net profit, or about \$1.57 million – which was presumably now going to flow to Aurora Trust.

Treasury Group shareholders were told that TAMRO had reported a growth rate of 25 per cent–30 per cent a year over the past five years.

The transaction was going to diversify Treasury Group's activities into high-growth boutiques, give Treasury Group's existing boutique managers opportunities for increased distribution in the US market, and provide access to the Australian market for Northern Lights' boutiques.

So far, so attractive.

But as long-suffering Treasury Group shareholders – who are now Pacific Current Group Limited shareholders – are well aware by now, none of that happened.

And somewhere along the way, they lost TAMRO Capital Partners – although, of course, they were not told about it.

Pacific Current Group shareholders (the name was changed in October 2015) did not receive accounts for Aurora Trust in FY15. They did receive Aurora Trust's accounts for FY16, dated 3 October 2016, in which they discovered that TAMRO had been written-down in value by just over \$1.7 million.

A few weeks later, on 27 October, Pacific Current Group company showed a slide at its annual general meeting (AGM) indicating that stated that TAMRO had closed or been sold – it was not specified which, just that FUM lost through the "closure or sale" of TAMRO, Origin/Trilogy and WHV had been replaced by FUM gained in Aperio.

Had they been sharp-eyed enough, however, or diligent Googlers looking for details of their company's "assets," Pacific Current Group shareholders would have seen an article on the website of Pensions & Investments magazine (pionline.com), dated May 2, 2016, stating the Florida State Board of Administration (FSBA) had "terminated" in December 2015 a mandate with TAMRO Capital Partners, under which it was managing US\$128 million in a small-cap core portfolio for FSBA.

FSBA terminated TAMRO Capital Partners after the firm was "placed on watch in 2014 for performance and organizational issues," the pionline.com article quoted FSBA communications manager John Kuczanski as saying in an e-mail.

"TAMRO closed the firm," the article quoted Kuczanski as saying. "In a call to the firm, a message states Tamro is closed," pionline.com continued. "The Securities and Exchange Commission shows the firm's investment adviser registration is inactive."

See: <http://www.pionline.com/article/20160502/ONLINE/160509980/florida-state-board-slates-17-billion-in-commitments-investments>

And the shareholder's friend, Google, does reveal – if asked – that FSBA did indeed place TAMRO Capital Partners on watch, for "performance and organizational issues," in September 2014 – this was reported by pionline.com on September 10, 2014:

<http://www.pionline.com/article/20140910/ONLINE/140919982/florida-sba-makes-changes-to-its-watchlist>

That might have sent a curious Pacific Current Group shareholder to the SEC website at SEC.gov, and to the Investment Adviser Public Disclosure (IAPD) section, where they could have plugged in TAMRO Capital Partners' Central Registration Depository (CRD) number – CRD# 144764 – and discovered that the SEC terminated TAMRO Capital Partners LLC's registration on 21 March 2016.

https://www.adviserinfo.sec.gov/IAPD/IAPDFirmSummary.aspx?ORG_PK=144764

Further investigation might have found that on 22 April 2016, the US-based online auction house RASMUS auctioned off the office goods and chattels belonging to TAMRO:

<http://www.rasmuscatalog.com/cgi-bin/mnlist.cgi?rasmus1078/category/ALL>

In summary, this asset TAMRO was placed on watch by one of its clients for performance and organisational issues, BEFORE the merger in 2014 through which it was foisted on Treasury Group shareholders – in fact, this occurred during Treasury Group's so-called “due diligence” period.

How could Treasury Group not pick this up in its due diligence in the period between the merger announcement and its execution?

Then, this asset TAMRO went out of business – and Pacific Current Group did not see fit to tell its shareholders this for seven months, and only then in an unclear reference in a slide at the AGM.

Welcome to continuous disclosure and shareholder communication, as Pacific Current Group practises them!

The poor disclosure regarding the fate of TAMRO Capital Partners is just another sorry example of the incompetence and secretiveness that have beset Pacific Current. But it pales into insignificance when set against the greater failing, the handing over of \$288 million dollars of unencumbered, Treasury Group Limited shareholders' funds for units in a questionable and opaque Trust.

And then, for the shareholders to see those same unitised shareholder funds squandered, in exchange for what are now known be, tainted and impaired assets - with their attached debt and liabilities amounting to some \$136 million dollars, courtesy of Laird Norton Company, BNP Paribas Investment Partners, the Northern Lights entities and their cohorts.

ASI has asked Pacific Current repeatedly to reveal what it has done with the shareholders' money, but it has ignored us.

At the very least, we have requested that Pacific Current provide its shareholder owners with the 2014-15 accounts of Aurora Trust, to give them some hope of making sense of the Byzantine arrangements that have so denuded their shareholders' funds – but Pacific Current refuses to do this.

That is perhaps the crowning disgrace in what is already a low point in Australian corporate governance.

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 better understand the Pacific Current Limited business, and thus begin to redress the steep valuation discount currently being applied.

ASI maintains 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 related advisory fees paid to the firm in 2014-2015.

ASI will engage, where possible, with Pacific Current Limited in a constructive manner. It will continue to seek answers to specific questions that have been put to the Company which to date, which has been mostly ignored, as well as others continuing to 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. Advocate Partners is the holder of Pacific Current Group Limited shares.

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