

PACIFIC CURRENT GROUP LIMITED (ASX:PAC) - SHAREHOLDERS UNITE AGAINST POOR GOVERNANCE

A GROUP OF SHAREHOLDERS INTEND TO SHINE THE LIGHT MORE STRONGLY ON THE POOR CORPORATE GOVERNANCE, AUDIT AND RISK MANAGEMENT CONTROLS WHICH PERVADES THEIR COMPANY.

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MEDIA

For Immediate Release

Pacific Current Group Limited

Initial Substantial-Shareholding by Associated Shareholders

Pacific Current Group Limited shareholder group to focus on company's Corporate Governance, Audit and Risk Management controls, ahead of EGM and restructuring proposals.

A new alliance of shareholders in Pacific Current Group Limited (PAC), which has achieved 'substantial shareholder' status, intends to shine the light more strongly on what it describes as the "poor corporate governance, audit and risk management controls" of PAC.

The new group, which represents the holders of an aggregate stake of 5.78% in PAC, will bring particular focus to bear on the November 2014 merger of PAC (then known as Treasury Group Limited, ASX code: TRG) with Northern Lights Capital Partners LLC (NLCP) and its investment partner BNP Paribas Capital Partners LLC.

The 5.78% shareholders are particularly concerned with the oversight of enterprise and strategic risk at TRG/PAC, which it believes has been sub-standard, both before and since the November 2014 merger.

Since the highly questionable merger, some \$200 million has been wiped off Pacific Current Group's market value, in just over two years.

TRG/PAC shareholders have also seen ensue from the merger at least \$100 million in write-downs in less than two years, with more still to come; and some \$70 million of debt foisted onto their once debt-free company.

All this has arisen from a merger with interests associated with the company's (now disclosed) related parties, namely Laird Norton Wealth LLC, Northern Lights Capital Partners LLC, their investment partner BNP Paribas Capital Partners LLC, and certain Pacific Current Group Ltd. executives, past and present.

Now the shareholders of PAC have been asked to consider a proposed restructuring and simplification of PAC, as announced to the Australian Securities Exchange (ASX) on 13 February 2017.

A new shareholder group has been formed to contest these proposals. Acting in concert with other concerned PAC shareholders, Michael de Tocqueville, the chief investment officer of Advocate Strategic Investments (ASI), is now the designated principal person to speak on behalf of the substantial-shareholding group, which currently holds an aggregate stake of 5.78% in PAC.

ASI and the other various shareholders have declared they are acting in concert Section 12(2)(c) of the Corporations Act 2001, concerning the affairs of the company in which they have a shared interest.

"The shareholders have decided to come together because of their concerns relating to the poor corporate governance and risk-management practices of their company, and also with the restructuring and simplification proposals," says de Tocqueville.

The shareholder group believes the proposals put forward for the meeting are neither fair nor reasonable to PAC's shareholders, who have seen the value of their company destroyed, said de Tocqueville.

"All intend to vote or have voted against the proposals, but stand ready to engage with PAC to present an alternative plan that would simplify the company even further – well beyond what the company is proposing – while delivering a manifestly better outcome to shareholders than that envisaged by the proposals," he says.

"This alternative plan would also redress some of the destruction of shareholder value that has characterised the company since the November 2014 merger.

"It would also deliver greatly improved transparency, better shareholder alignment and a clear path to redressing the way in which the debt has flowed one-way since the merger," adds de Tocqueville.

The November 2014 merger transaction was effected through the creation of a fixed trust called Aurora Trust (AT), to hold the merged assets contributed by Treasury Group and Northern Lights Capital Partners. Aurora Trust is owned by Northern Lights Capital Partners, LLC (NLCP) and BNP Paribas Capital Partners LLC: Trust units were issued to the beneficiaries namely, TRG/PAC, NLCP and BNP Paribas, reflecting the equitable interest

held by each.

From the start Treasury Group putatively owned the majority of the units in Aurora Trust, commencing at approximately 61%, and rising to the current 65%.

While supposedly holding that majority interest in Aurora Trust, TRG/PAC shareholders have watched helplessly as the Trust's structure and operations have caused the write-downs, the diminution of their company's market value, and the blow-out in its debt – from nil upon entering the merger.

“Given that the whole sorry saga of the merger with Northern Lights has already saddled TRG/PAC shareholders with about \$70 million in debt, the 5.78% shareholders have no wish to send good money after bad,” says de Tocqueville.

In particular, the 5.78% shareholders are concerned about the due diligence process that the board and executive of TRG undertook prior to the November 2014 merger – given that failures of this process at the time are being compounded, in the shareholders' view, by the restructuring/simplification proposals being put to the PAC EGM.

The 5.78% shareholders want to know exactly what examinations and deliberations were undertaken at the time by the TRG Audit & Risk Committee, with respect to the assessment and management of the strategic risk to TRG attendant on the merger; and the presentation of that risk to the shareholders of TRG in a manner that would allow the shareholders properly to assess that risk prior to voting on the merger proposal.

The 5.78% shareholders contend that neither of these processes, which were the responsibility of the TRG Audit & Risk Committee, were done to a professional standard – and the direct outcome of this failure of the oversight committee has been the destruction of shareholder value that all TRG/PAC shareholders have experienced.

“Our group also wants to know why the TRG board did not see the 'red flags' we believe they should have seen; and if these red flags were seen, why the TRG board went through with the merger,” says de Tocqueville.

The 5.78% shareholders believe the November 2014 merger represented a failure in TRG/PAC's strategic risk management function, by which the Audit & Risk Committee is charged with understanding and managing the company's risk and risk management processes, in a transparent manner.

The 5.78% shareholders also take issue with the restructuring/simplification proposals, which they believe are designed to facilitate the acquisition by PAC of interests over worthless assets brought to the merger by Northern Lights, BNP Paribas and Laird Norton, in exchange for PAC shares, at a price and multiple that cannot be verified by PAC shareholders as being fair and reasonable – and that PAC is attempting to mollify and influence shareholders through the presence of an independent expert's report that falls short of being authoritative.

“As is sadly typical of financial and corporate information that PAC provides, it is completely opaque what the contractual arrangements are that caused the independent expert to settle on US\$21 million as a fixed redemption price. From the information that the expert has furnished, no PAC shareholder can work that price out, or be confident that the US\$21 million is real,” says de Tocqueville.

The 5.78% shareholders believe that the Trust units known as X redeemable preference units (XRPUs), which are owned by NLCP, BNP Paribas and their cohorts, should not – as the proposals released to the market on 13 February 2017 suggest – have that contingency converted, without proper investigation or scrutiny, to an actual liability (redemption price) fixed at US\$21 million (\$27.3 million).

“We believe that the actuality of the XRPUs liability should be reversed to a contingent liability based on the performance of the various assets to which it applies, that is, the respective performance of the alternative- assets funds management boutiques vended into Aurora Trust by NLCP their partner BNP Paribas and TRG/PAC,” says de Tocqueville.

“In any event, the alternative-assets boutiques in question, which were brought to the merger by NLCP and BNP Paribas, have mostly been written off or sold. These are mostly worthless by our account – therefore, we believe the XRPUs should be expunged,” he adds.

In light of this, the 5.78% shareholder group strongly believes that the XRPUs liability should not be guaranteed.

“We contend that the original terms of the November 2014 merger were that all such amounts had to be attached to an earn-out, not simply handed over,” says de Tocqueville.

“In our opinion, there has been too much money flow from the Trust to NLCP, its related parties and BNP Paribas: part of our simplification plan is that the US arm of the company becomes a separately managed and accountable unit of the Trust, and that also PAC introduces transparent divisional accounting as a priority, for example, implementing disclosed operational objectives and performance metrics, with independent transparent accounting, for the US arm.”

He says this would cover the entities Northern Lights Capital Group LLC and NLCP Distributors LLC, which trade under the business name 'Pacific Current Group' in the USA.

“Our shareholder group would be pleased to share with other interested shareholders additional value-enhancing ideas that are riskless, having regard to the performance of Pacific Current Group,” says de Tocqueville.

He says the 5.78% shareholder group's simplification plan would also be designed to redress the trust deficit that now attaches to the company's investor information and ASX reporting.

“Well-governed companies (with proper strategic and risk management controls in place) bend over backwards to ensure that shareholders are fully informed at all times. This company is the opposite – its intention seems always to be to fog the windows. PAC's approach to reporting and disclosure appears to be designed to achieve the legal minimum required, and no more,” says de Tocqueville.

The 5.78% PAC shareholders request that their compatriots not be seduced by the assuring tones of its self-interested board in acquiring the units

of Northern Lights and BNP Paribas and their cohorts as proposed at the forthcoming EGM in Sydney on March 15, until such time as the worth of the financially destructive investments that these entities brought to the 2014 merger with Treasury Group have been forensically examined by a real independent expert.

“Our group contends that this must occur before all PAC shareholders are even remotely supplied with the complete information they need to assess the intrinsic value of their investment,” says de Tocqueville.

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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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