

## PACIFIC CURRENT GROUP



### FROM OUR CEO

*Rising inflation and interest rates, slowing economic growth, disrupted supply chains, and the brutal war in Ukraine have taken a large toll on equity markets around the world. There is talk about recessions, a return to 1970's style stagflation, and the potential of a lost decade of equity returns.*

*With all this doom and gloom in the air we are certain of one thing, namely that we don't know what the future holds. Moreover, we are very skeptical of those who believe they do. The world is full of impressive sounding experts with opposing views of what will happen to economies and markets. The challenges of forecasting the future, combined with the difficulty in assessing how any particular view can be exploited in the context of a portfolio of private, illiquid investments, always leads us back to the importance of broad diversification.*

*Some of our peers primarily own interests in public equity managers, while others exclusively focus on private capital managers. We combine these approaches in order to maximize the opportunity set of investments we can consider and to diversify away from any large systematic risk, such as falling equity markets.*

*Currently, 3 of our 16 investment managers are public equity managers. Two of them (EAM and Blackcrane) have historically been more aggressive managers, while GQG has traditionally exhibited a more defensive return pattern. While they are all vulnerable to equity market declines, we expect*

*them to produce their best relative performance during different periods.*

*The fact that the majority of our portfolio companies receive revenues based on the capital committed to their strategies, instead of a daily mark to market of publicly traded securities, provides downside protection and predictability to our revenues in times such as these. This predictability is further enhanced by not being overly reliant on performance fees. To the extent we do receive performance fees we endeavor for them to be as uncorrelated to equity markets as possible, so that a market downturn doesn't necessarily hit both management fee revenues and performance fee revenues.*

*Of course, perfect diversification is impossible and, if markets continue to decline and economies weaken, we cannot escape all the negative impact. For example, some of our portfolio companies hold liquid assets on their balance sheets, where we would be obligated to recognize our pro-rata share of any unrealized losses. Nevertheless, our portfolio has been built with challenging times in mind, and it appears to us that there is a growing recognition of the value of the type of revenue stream we are trying to build. We think this is the primary reason that, by our count, PAC's share price has significantly outperformed all its Australian listed peers in 2022. Such outperformance won't always be the case, but we are gratified that when markets get nervous investors appear comfortable in their ownership of PAC.*

PAUL GREENWOOD, CEO & CIO



## FUNDS UNDER MANAGEMENT

# FUM Report - March 2022

## ASX ANNOUNCEMENT



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