PACIFIC CURRENT GROUP

FROM OUR CEO

We believe one of the competitive advantages that PAC possesses is the flexibility we bring when we structure our economic relationships with new portfolio companies. Flexible structures allow us to enhance the risk/return profile of our investments while expanding the opportunity set available to us. We see these structures as invaluable assets even if they sometimes present accounting and forecasting challenges.

The best example of this is our 2016 investment in GQG Partners. When we made our initial investment we could only negotiate a 5% equity stake (obviously we would have loved to have more). We were asked by many people why would we commit to investing up to US$4m for such a small equity stake. Doesn't that imply we were valuing a start-up, long-only equity manager with no funds under management at US$80m, which by all accounts would be a very lofty valuation for a new start-up? The answer is, not really.

The amount of PAC's annual entitlement in GQG (pre-IPO) was defined by a preferred security we held and not the 5% common equity. The preferred security provided PAC with annual distributions representing 10% of GQG's revenues above US$5m and below US$50m and 2% of the revenues above US$50m. This structure provided us with far more than 5% of profits, thus the valuation was not nearly as generous *as it looked at first glance. Additionally, while PAC committed up to US$4m, only US$2.7m was ultimately invested.*

With this structure there is a crossover point at which the common equity would pay more than the preferred security. Fortunately for PAC, that crossover point was reached just ahead of the Australian public offering. Converting our preferred equity into the common equity provided both a large realized gain as well as annual distributions greater than what we would have received from the preferred security.

Obviously, the GQG investment resulted in an unusually successful outcome for PAC. Nevertheless, the point of the structure we introduced into this investment was to generate a more attractive risk/return outcome than available by simply receiving our pro-rata share of the net profits. This willingness to be creative allows the possibility to enhance our outcomes and can provide access to intriguing opportunities that would otherwise not be available to us.

PAUL GREENWOOD, CEO & CIO

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NEW PAC HIRES

Pam Comery

BUSINESS DEVELOPMENT MANAGER

Pam joined our team at Pacific Current Group in November of last year. She supports the sales team in building new relationships with our portfolio companies and institutional investors. She also maintains sales reporting and relationship management tools for the team. Click here to read more about her background.

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