Pyne Gould Corporation

2015 Annual General Meeting
Managing Director's Address

Thank you Russell.

In 2011, we explained to shareholders that it would take a decade or more for PGC to fully convert its collection of difficult assets into a strong and sustainable business. We explained that the job of converting bad book assets to cash and then into a strong core business was technically demanding, inherently unpopular and results would inevitably be lumpy.

We were correct – the time frame is long, the job requires highly specific skills in arcane areas, we continue to ignore popularity contests and don't win many, and the results are lumpy. However, and despite this, we remain highly confident our strategy of exit of non-core assets and building a long-term business from distressed assets was compelling.

As you know, PGC's principal activity is focused on the Torchlight Fund, which is invested predominantly in residential real estate, operating hotels and until recently media.

Torchlight's largest exposure is residential real estate. The underlying residential portfolio encompasses residential land development projects and is spread across Victoria, New South Wales and New Zealand and have an expected yield, from existing land assets, of over 3,000 medium density residential sites plus retail precincts.

Torchlight's exposure to operating hotels is via a large shareholding of the ASX-listed Lantern Hotel Group. Lantern was restructured by Torchlight from an over-geared REIT in serious financial trouble in the GFC to a focused freehold pub operator with low levels of debt and multiple options for future growth.

TFLP's exposure to media was via an investment in Local World in the UK. This was a very successful investment. Torchlight made over four times its original investment in less than three years from dividends, capital gains and currency movement.

Torchlight purchased its stake in Local World when the UK economy, the UK pound and the newspaper industry were at cyclical lows and out of favour. As expected, all three factors have moved in Torchlight's favour over the period. These factors, combined with an outstanding performance by Local World's management team, have created this outcome.

Some shareholders might be familiar with the 'matching principle' - the idea that financial risk is minimized by matching the time period of an asset to the time period of a liability, such as your funding.

Torchlight was established to invest in long-term assets. Therefore, the correct structure was a vehicle where liquidity was set by the asset strategy, not by investors' needs or demands. The limited partnership vehicle was chosen as this did not allow partners to withdraw capital until the end of the partnership.

Torchlight's assets are perfectly matched to its structure. Torchlight has invested about AUD250 million in long-term assets such as RCL, Lantern and Local World. We believe, for sound reasons, that at the end of the Torchlight's life these assets will be worth substantially more. At that point, the patient PGC shareholder should see excellent returns.

Ends

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