

# Provident Capital Monthly Income Fund

**A top rated fund delivering the unbeatable combination of a reliable asset class, regular income and capital stability. Provident Capital's Monthly Income Fund is one of a kind, writes Rachel Davis.**

Diversified funds management group, Provident Capital is not the new kid on the block and its Monthly Income Fund (fund) has garnered the enviable reputation of a fund that can deliver on its promises. Reliability on returns is the cornerstone of its financial philosophy.

The fund promises investors a regular, reliable income. But then, so do other funds. The difference with Provident Capital's mortgage based fund is that it has been quietly delivering market-beating returns for its investors month after month, over a range of investment cycles.

Solid returns over its two year history has attracted retirees, super investors and the self managed super fund market. Financial advisers have been utilising it to generate superior income streams for their clients, which offers an accessible minimum investment of \$1,000.

The fund has proven to be a safe harbour during recent stormy financial times, drawing on Provident Capital's 13 year track record of investment management.

## Watch this space

Financial planners can access the Monthly Income Fund directly and it will also soon be available through platforms. Provident Capital is in advanced discussions with a number of platform providers and has already received a favourable rating from PIR and Advisers Edge.

The fund is managed by a team of four, headed up by Michael O'Sullivan but also has the wider talent and experience of Provident Capital to draw on. It is both wholesale and retail and currently has \$5.3 million funds under management (FUM). The fund's architecture is there to support maximum stability.

"We did look at the mistakes that had been made by some of our competitors and learned from them right from the start," said Alex François, head of distribution – investments at Provident Capital. "We structured the fund to reduce some of the liquidity issues, we put limits on asset allocation and also factored in the right redemption guidelines."

Provident Capital has been offering its debenture program since 1998 and has raised and lent over \$1 billion. Its corporate philosophy is a simple one – prudence, promise and prosperity – a message that has really resonated with investors who have relied on its Monthly Income Fund for the returns it not only promises, but also consistently delivers.

"We enjoy a strong position in the market and this fund really reflects why. As a group we have maintained a consistency of income returns difficult to find anywhere else. We rely on really well defined investment strategies that are robust enough to deliver returns across any investment cycle."

## Point of difference

Provident Capital's Monthly Income Fund sits on the top of a hard tree to climb – since the fund's inception in 2009, it has consistently produced returns in the top 25 per cent of all Australian retail mortgage trusts for one year. According to researcher Morningstar's website, the Monthly Income Fund is the top performing retail mortgage fund on a one year basis, having provided distributions of 9.42 per cent p.a. since its inception in August 09 and 10.32 per cent p.a in the last 12 months with distributions re-invested.

The fund has been designed by Provident Capital to withstand the knocks of investment cycles and its assets are registered first mortgage loans over residential (both metropolitan and non-metropolitan), commercial, industrial and rural Australian property, across all states.

The fund includes no party lending, no construction or development lending and sets maximum loan limits to decrease exposure to large, potentially unstable loans.

"The fund has proven itself to be a robust one. Our aim is straightforward – to provide investors with a superior rate of return and regular income by investing through registered first mortgages. We source these mortgage investments across Australia, but put asset allocation limits on the percentages in all states except for NSW, Vic and Qld.

"The mortgage portfolio is also diversified by sector – with exposure limited there as well. We allow for up to 100 per cent investment in resi-



**01:**  
**Alex François**  
Provident Capital  
head of distribution  
– investments



## The quote

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dential, up to 50 per cent in commercial, 40 per cent in industrial and 20 per cent in rural. We also have a maximum of \$1.5 million per loan until the fund reaches over \$150 million, then there is a maximum of 1 per cent of the funds under management (FUM). We also have a maximum of \$3 million per borrower and once the fund goes over the \$150 million this is limited to 2 per cent of FUM."

Provident Capital has designed the fund to maximise its diversification across geographical areas, sector and loan sizes which shelters investors from potential volatility and limits risk, ensuring investors receive the highest monthly income possible.

## Screening the deals

Provident Capital's business development team is in regular contact with over 9,000 brokers and their core capabilities of lending and credit assessment are run in-house to ensure deals are monitored to the highest degree.

"We aren't a bank but we do compete with them and that really plays to our advantages, by being able to generate greater spreads from our loans.

"Every deal we make for the fund goes through a rigorous internal process," said François. "The credit team internally approves each loan and once approved, each one is then managed internally. The assessment includes borrower serviceability, value of security, acceptable loan to value ratio. The treasury team then allocates the loans taking into account macro factors, geographic and sector spread and loan sizes. It's a really disciplined process that looks to maximise returns and minimise the funds volatility of returns that investors can rely on. These processes are consistent across all the loan portfolios Provident manages.

"Keeping our processes in-house ensures that good, quality assets go into the fund which, in turn, produces the consistently high returns which we deliver. Our investors can rely on it." **FS**

Figure 1. Monthly returns since Sep-09 (annualised)

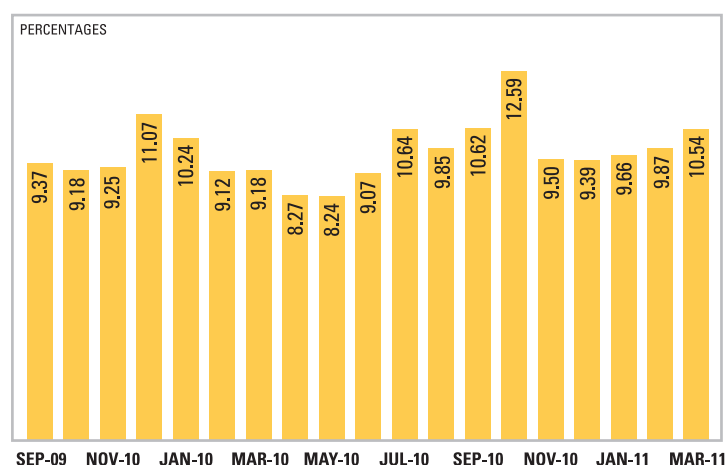
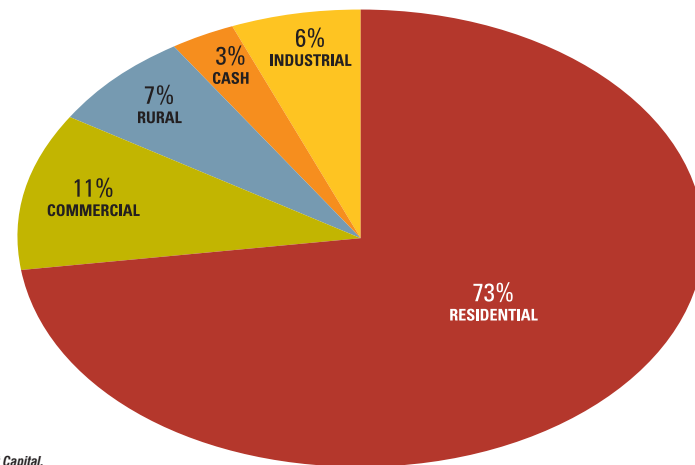


Figure 2. Value of loans by sector as at 31-Mar-11



Figures prepared by: Provident Capital.