

Issuer: Global Investments Limited

Security: Global Investments Limited

Meeting details:

Date: 27 April 2017

Time: 10:00H

Venue: Holiday Inn Singapore Orchard City Centre, Crystal Suite, Level 2, 11 Cavanagh Road, Singapore 229616

Company Description

Global Investments Limited is an open ended balanced mutual fund launched and managed by Singapore Consortium Investment Management Limited. The fund invests in the public equity and fixed income markets across the globe. It invests in stocks of companies operating across diversified sectors. The fund invests primarily in operating lease assets, loan portfolio and securitization assets, and alternative assets. It was formerly known as Babcock & Brown Global Investments Ltd. Global Investments Limited was formed on April 24, 2006 and is domiciled in Bermuda.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=B73)

Q1. Since 2013, the group's return on equity (ROE) has been on a downward trend. From a peak of 12.5% in 2013, it decreased to 8.8% in 2014, 5.9% in 2015 and 5.7% in 2016. In the Financial highlights (page 7 of the annual report), the reason given for the decrease in ROE was that average total equity has increased due to the scrip dividend.

- a) **If the total equity has increased, and will continue to increase as long as scrip dividend is offered and the take-up rate is high, should the manager leverage the stronger balance sheet and adjust the scale of the group's investment accordingly?** The increased equity base would support higher levels of investments and should not be a reason for the drag on ROE.

Dividend has increased from \$17.9 million in 2013 to \$22.9 million in 2016, representing yields of 9.4% to 11%. Due to the high take-up rate of the scrip dividend, dividend paid out in cash was only \$8.475 million in 2016 even though the total dividend declared was \$22.9 million.

- b) **Is the current dividend distribution sustainable given (i) the increasing base and (ii) the low returns achieved and (iii) the accumulated losses of \$200.4m as at 31 December 2016?**

Q2. In Note 4(B) (page 73 – Foreign currency risk), the group has explained that “forward foreign exchange contracts are used purely as a hedging tool, where an active market for the relevant currency exists, to minimise the Group's exposure to movements in exchange rates on firm commitments and specific transactions”. The group will also monitor currency exposure and may enter into hedging arrangements where appropriate.

The group's net exposure is shown in the table below.

Group (as at 31 December 2016)	Net Exposure (S\$'000)
United States Dollar	74,647
Euro	55,891
Australian Dollar	23,675
Hong Kong Dollar	8,819
British Pound	8,727
Total	171,759

The group has total assets of \$310.8 million and net profit after tax for FY2016 was S\$17.1 million.

- a) **Can shareholders understand if the manager has made a deliberate move to increase the net exposure (in both absolute and relative terms) to foreign currencies?** Before 2016, the highest total net exposure to currency risks was \$134 million in 2015 and \$116 million in 2014. As at 31 December 2016, the only currency forwards are in USD and HKD.

	Group		Company	
	Other comprehensive income S\$'000	Profit before tax S\$'000	Other comprehensive income S\$'000	Profit before tax S\$'000
31 December 2016				
United States Dollar	(312)	(3,420)	(312)	(3,420)
Euro	(56)	(2,739)	(56)	(2,739)
Australian Dollar	(5)	(1,179)	(5)	(1,179)
Hong Kong Dollar	(791)	350	(791)	350
British Pound	(93)	(343)	(93)	(343)

(Source: Global Investments Limited Annual Report 2016)

The sensitivity analysis above shows the impact on the profit or loss and other comprehensive income from a 5% strengthening of the functional currency (SGD). Essentially, the group gains from a weak SGD currency due to its currency exposure.

- b) Given that the foreign currencies will likely move in a correlated manner with respect to SGD, are the board and the manager comfortable with the potential impact on the group from the overall currency exposure?**

Q3. On 29 September 2016, the company provided an update on the company's proceedings in the Court of Victoria, Australia against Babcock & Brown Global Investments Management Pty Ltd ("BBGIM") and certain of its officers for, inter alia, false and misleading representations made to the Company in respect of its investments in railcar portfolios through Babcock & Brown Rail North America LLC, breaches of fiduciary duties and breaches of duty and contract ("Proceeding").

- a) Can the company help shareholders understand why it has agreed with BBGIM's application to set aside the default judgment against BBGIM?**
- b) Can the company provide shareholders with the timeline of the suit against BBGIM and the timeline of the suit against the remaining individual defendants to the Proceeding?**