

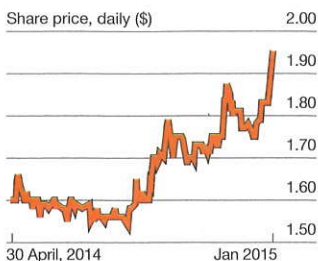


ROMANO SALA TENNA

KATANA ASSET
MANAGEMENT



| QBE INSURANCE | QBE |
|-----------------------|----------|
| Market capitalisation | \$15.3bn |
| Dividend yield | 2.41% |
| Earnings per share | -31.2¢ |
| Price-earnings ratio | N/A |



| PIONEER CREDIT | PNC |
|-----------------------|---------|
| Market capitalisation | \$82.4m |
| Dividend yield | N/A |
| Earnings per share | N/A |
| Price-earnings ratio | N/A |

QBE Insurance

It is either brave or foolish to recommend a stock that has disappointed shareholders so often. But in QBE Insurance Group we now see the confluence of both top-down and bottom-up drivers.

Starting with top down, QBE is one of the world's 20 largest insurers and generates more than 70 per cent of its revenue outside Australia. So it is a big beneficiary of the depreciating \$A. At a macro level, QBE has up to \$22 billion in float reserves earning income at prevailing bond rates. A small interest rate rise has a dramatic impact on the bottom line.

From a bottom-up view, management has worked over the past few years to halt EPS-dilutive acquisitions, close or sell off unprofitable divisions, integrate silos and reapply underwriting discipline. We like QBE for these reasons, but you may want to take out a little insurance just in case.

Pioneer Credit

This rapidly growing financial services company specialises in acquiring and servicing distressed retail debt portfolios. It operates in a similar space to Credit Corp Group and Collection House, both of which have generated strong long-term returns. This confirms our view the sector is structurally sound with a consistently high return on equity at individual and group level. Pioneer has 10 per cent of the market, about 70,000 clients. It recently signed a forward-flow agreement with its third major bank, lifting its profile and reputation.

Pioneer holds the enviable record of being the only significant purchaser of retail debt portfolios in the country that has never had a negative outcome at an ombudsman level. We consider this a reflection of its strong management and emphatic corporate culture.