QUARTERLY REPORT

DECEMBER 2016

PM CAPITAL Global Companies Fund
ARSN 092 434 618, APIR Code PMC0100AU

PM CAPITAL Asian Companies Fund
ARSN 130 588 439, APIR Code PMC0002AU

PM CAPITAL Australian Companies Fund
ARSN 092 434 467, APIR Code PMC0101AU

PM CAPITAL Enhanced Yield Fund
ARSN 099 581 558, APIR Code: PMC0103AU

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Fund Overview

Fund	Asset Class	Inception Date	Suggested Time frame	Fund FUM	Total Return Since Inception*	
Global Companies	Global Equities	28 October 1998	7 Years +	$300.2 million	**Fund 336.4%**	MSCI World Net (AUD) 101.6%
Asian Companies	Asian Equities (ex Japan)	1 July 2008	7 Years +	$17.8 million	**Fund 234.4%**	MSCI AC Asia ex Japan Net (AUD) 72.8%
Australian Companies	Australian Equities	20 January 2000	7 Years +	$33.4 million	**Fund 470.0%**	S&P/ASX 200 Accum. 270.9%
Enhanced Yield	Yield Securities	1 March 2002	2 Years +	$348.2 million	**Fund 140.0%**	RBA Cash Rate 88.4%

* Past performance is not a reliable indicator of future performance. See page 12 for Important Information.

Quarterly Video

We are pleased to share with you a quarterly update video from our investment team. Topics include the changing tide in investment markets, how there is now a different sub-set of investment opportunities, and what the team is looking out for in both a global and Australian context.

Click on the photo or visit our website for the relevant update.

Interviewer:

Lachlan Cameron
Head of Distribution

Speakers:

Paul Moore
Global Portfolio Manager
Chief Investment Officer

Uday Cheruvu
Australian Portfolio Manager

*The PM Capital Global Companies Fund and other versions of the strategy available on the Colonial First State Platform were the **top ranked strategies** over 5 years out of 163 Funds in the Morningstar Australian OE Equity World Large Blend universe.*

Global Companies Fund

Investment Performance*	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Global Companies Fund	**10/1998**	**2.3981**	**15.5%**	**22.2%**	**3.1%**	**9.9%**	**23.7%**	**8.4%**	**336.4%**
MSCI World Net Total Return Index (AUD)			7.6%	9.8%	8.0%	11.4%	18.4%	3.9%	101.6%

Key points

- **Secular trends inflecting**
- **'Post-GFC' transitions to 'Post-Trump'**
- **End of the bull market in long term interest rates**
- **Return expectations to be lower but equities the best option**
- **Significant implications for client portfolio / manager selection, particularly re index funds**
- **A different and more selective sub-set of opportunities required to generate returns**

In many ways, 2016 was an extra-ordinary year, highlighted by both Brexit and the election of Donald Trump. In reality, every year can lay claim to have produced notable points in history. What is significant from an investment perspective is that 2016 saw the transition from a 'post-GFC' to a 'post-Trump election' era and, in all likelihood, the ultimate low in long term government bond yields. During the year the end of the great bull market in interest rates culminated in negative rates and valuations that rivalled the mania in Technology Media and Telco (TMT) stocks circa 1999-2000.

The Global Financial Crisis (GFC) was obviously a difficult period for investors, but in 2009 at the Morningstar investor conference, we highlighted that the extremes in valuation triggered by the GFC created a once in a life time opportunity for credit investments and a once in a generation opportunity for equities. We suggested that on the back of record monetary and fiscal stimulus that economies would in fact recover (and thus company earnings and stock prices), but it would be a case of two steps forward and one step back - one step back every time there was a 'crisis' as different jurisdictions dealt with issues exposed by the GFC- Greece, Cyprus, Spain, the Euro and various banking crises along the way. This created a permanent paranoia about the sustainability of growth and was probably the major factor behind the greatest accumulation of cash among investors that I have ever witnessed. In hindsight, by reacting to fear rather than fundamentals those investors who did accumulate cash incurred a significant opportunity cost, as highlighted in Figure A.

Figure A:
Source: Internal Data and Morningstar Research.

Post GFC cumulative returns	8 year	5 year
RBA Cash Rate	27.9%	13.4%
MSCI World Net Total Return Index (AUD)	116.8%	132.3%
Global Companies Fund	**205.6%**	**190.2%**
Morningstar Rank^	**1st, 2nd and 4th / 146 Funds**	**1st, 2nd and 3rd / 163 Funds**

^ Cumulative return of the PM Capital Global Companies Fund and two versions of the strategy available on the Colonial First State Platform in the Morningstar Australia OE Equity World Large Blend universe. As at 31st December 2016.

The last such example of a growth scare was in early 2016 as the market focused on China and the collapse in oil prices, resulting in a historically high divergence between the valuation of so called defensive and cyclical businesses. What was most interesting about this last growth scare was that it occurred just as there were increasing signs that many of the longer and medium term economic and political trends were inflecting; the tide was about to change. Our thoughts were that 2017 was more likely to be a year where economic growth and inflation surprised on the upside, in contrast to fears of deflation and lower for longer interest rates. Brexit was seen as confirmation of the latter, but was in fact, I suspect, the final nail in the coffin of the bull market in government bonds.

Then came the election of Donald Trump. Even before he had been sworn in, the debate had well and truly switched to the upside risk to economic growth, inflation and interest rates and a significant rotation from the defensive sectors of the market to those companies that benefit most from a stronger domestic US economy.

The 2016 US election is the first time I have ever taken a peripheral interest in the US political process, starting with the Republican nomination debates. It has been fascinating. My historical lack of interest from an investment perspective is driven by the reality that events and long term trends shape political leaders and not the other way around. Political leaders can dampen oramplify the magnitude, but in all honesty I have paid little attention to any previous US election cycle.

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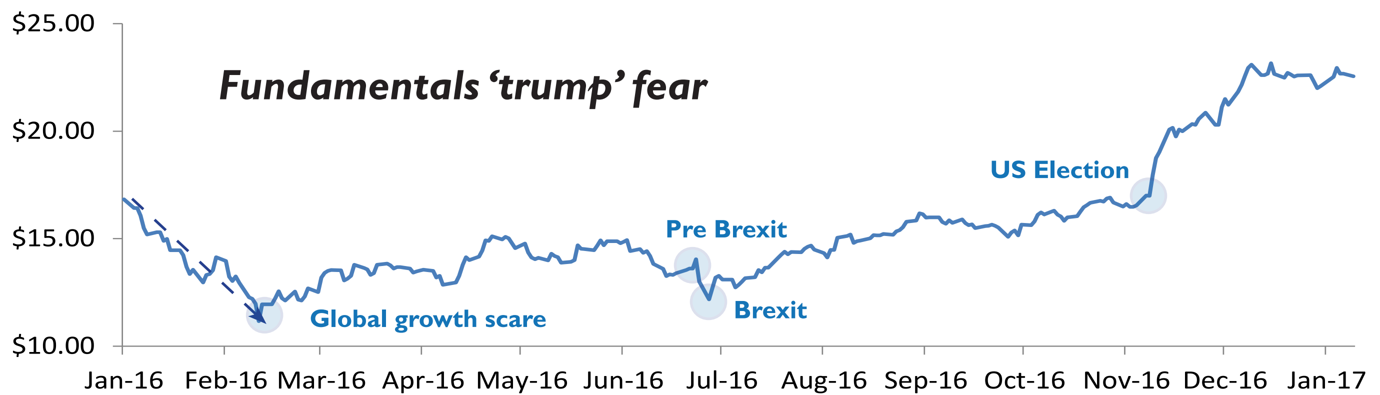
See page 12 for Important Information.

Figure B: Bank of America Share Price (USD)
Source: Factset



With respect to Donald Trump, much has and will be written. My interest is not in the personality of Donald Trump, but rather what his policies (if enacted) mean for businesses in which we have invested our capital.

In summary, the platform of Trump policies is to encourage domestic production facilitated by:

1. Reducing the corporate tax rate to 15% (expected to be 20%) and thus removing the incentive to move offshore to lower tax regimes,
2. Taxing corporates on a cash-flow basis, thus capital expenditure becomes deductible in full,
3. Reducing the suffocating regulatory burden that the business community (globally) has highlighted as a primary impediment to growth; and
4. Focusing fiscal expenditure on long term infrastructure projects.

The key point to remember is that these policies will reinforce trends that were already building and I suspect are still being under-estimated. Pent-up demand at both a consumer and corporate level has been building for some time without being released due to a lack of confidence. The most immediate observation of sentiment post the election of Trump has been the increase in consumer and corporate confidence indicators.

An interesting aside was the reaction of markets on the day of the election results. Once the outcome was known, Asian and European markets placed their bets and markets sold off. By the end of the following day's US trading, they were proved to be 100% incorrect. So even with a known result, the consensus investment conclusion was wrong. It is why we constantly reiterate to our clients that it is wise to avoid paying too much attention to macro and political noise and just focus on the underlying long term fundamentals. It's all about the stocks and where we believe we will get a satisfactory long term return on the capital we invest.

From an overall market perspective, I would highlight that with the underlying yield on cash, government bonds or property generating returns of between 0 and 4%, overall diversified portfolio returns excluding equities are unlikely to meet investor requirements. Stock market returns are also likely to be much reduced from what has been achieved post-GFC and probably mid-single digit at best. I suspect index, benchmark aware and large manager funds will find it tough.

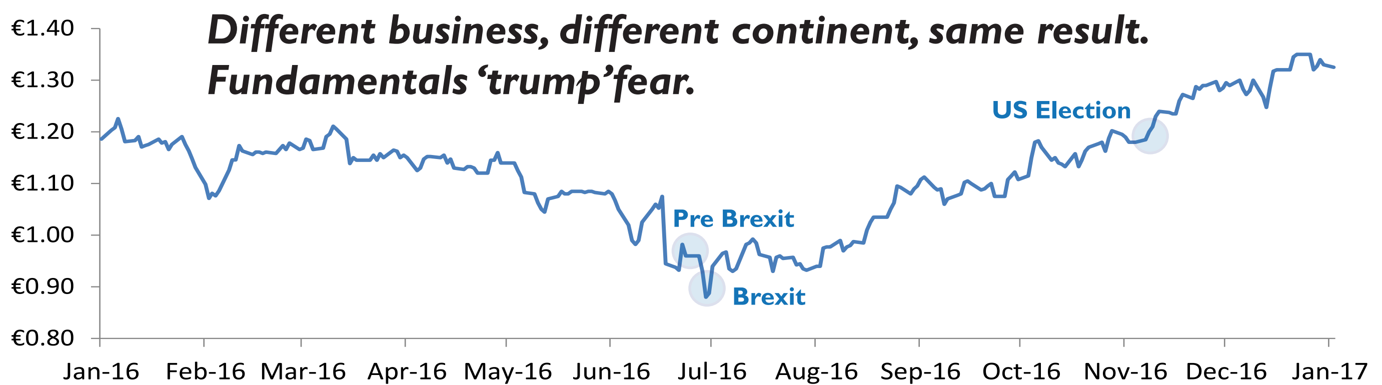
However, on a selective basis satisfactory returns can still be made. Owning a business, I still believe, is the best risk adjusted investment available. In fact it is required for most investors to meet their long term return objectives. One should also be reminded that equity returns never come in a straight line. Markets have reacted to the positive implications of Trump's policies but there is also uncertainty over how and if he will implement his trade policies. So just like the post-GFC era, the post-Trump election era may be a case of two steps forward and one step back. So patience and conviction, as always, is the most critical part of the investment equation.

From a portfolio perspective, we have been a big beneficiary of the immediate reaction to the election of the Trump regime and is reflected in the 15.5% net return over the quarter. Looking forward, our US domestic banking investments may see increased earnings from higher interest rates, lower regulatory imposts and a lower tax rate. Bank of America is probably the prime beneficiary, with 2018 expected earnings increasing approximately 50% if the expected effects of Trump's policies do transpire. Lowering the corporate tax rate from 35% to 20% alone will see a 23% increase to its after tax earnings, as it will also do for our US housing recovery plays.

Our exchange investments, the Chicago Mercantile Exchange and the Intercontinental Exchange (owner of the New York Stock Exchange) will also benefit from the lower corporate tax rate in addition to the increased activity and volumes in futures markets as a result of the turn in long term interest rates.

Irrespective of the recent positive short term moves, most of our investment theses are in the early to middle stages of their development and thus we see no reason to make any substantial changes. Our investment focus is on what may be the next opportunity to arise.

Figure C: Cairn Homes Share Price (EURO)
Source: Factset



Portfolio Investment

Cairn Homes

Our position in Cairn Homes (an Irish home builder) also had a very strong quarter, up 25%. Our investment in Cairn Homes is part of our thesis on the recovery of home prices and building activity levels from a severely depressed state. Cairn Homes went through an IPO process in June 2015, providing us the opportunity to buy a quality home builder at book value with no legacy issues and ready to buy land at the bottom of the housing cycle. We believed that all the elements were in place for the stock to perform over the medium term.

Over the last 18 months, Cairn Homes has completed the purchase of a ten year land bank with over eleven thousand building plots. It has now commenced construction in a market where the demand for housing is high, mortgages are affordable and credit availability is improving. The recent regulatory changes to the macro prudential rules revising the minimum deposit from 20% to 10%, coupled with the government 'help to buy' scheme where the government will rebate 5% of the cost of a new home, has greatly increased the ability of potential home owners to purchase homes. This is also being reinforced by rents continuing to grow at double digit rates, making buying a home more affordable than renting.

Cairn also faces little competition in the new build market as many Irish builders of any scale went into bankruptcy during the downturn. Housing completions continue to be over 80% down on peak levels and secondary stock on the market has been steadily falling from a peak in 2009. The economy continues to grow strongly which was initially driven by investments and exports but now reverting to a domestic recovery. So despite perceived negative macro/political events such as Brexit, the underlying positive fundamentals continue to evolve and this is now being reflected in the Share Price (see Figure C).

The stock is currently trading at 1.3x book value and we believe it will continue to perform and trade at around 2x book value given medium term dynamics. All in all, we believe Cairn Homes is very well positioned to take advantage of the recovery in the Irish housing market.

Portfolio's Invested Position	
Long Exposure	114.9%
Short Exposure	-15.7%
Net Equity Exposure	**99.2%**
Debt Securities	10.9%
Cash	-10.1%
Total Exposure	**100.00%**

Long Equity Composition (GICS sector and stock examples)	
Diversified Financials - Bank of America	38.0%
Banks - Lloyds Banking Group PLC	22.9%
Real Estate - Howard Hughes	15.2%
Software & Services - Visa Inc	12.0%
Food, Beverage & Tobacco - Anhesuer-Busch Inbev	6.6%
Pharmaceuticals, Biotech & Life Sciences - Pfizer Inc	6.5%
Consumer Services - MGM China Holdings	6.1%
Consumer Durables & Apparel - Tri Point Homes Inc	4.9%
Other	2.7%
Total Long Equity Exposure	**114.9%**

Paul Moore,
Global Portfolio Manager

Asian Companies Fund

Investment Performance*	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Asian Companies Fund	**07/2008**	**1.6608**	**3.6%**	**7.7%**	**0.5%**	**3.9%**	**13.5%**	**15.3%**	**234.4%**
MSCI AC Asia ex Japan Net Total Return Index (AUD)			-1.0%	6.1%	5.9%	7.4%	12.4%	6.6%	72.8%

Performance

Undoubtedly the focal point for investors during the quarter was the presidential elections in the United States and the implications of a surprise victory by Donald Trump. While US equity markets have reacted positively on renewed optimism for domestic growth, the impact of a Trump victory for Asia remains uncertain and regional equity markets were flat to down over the period. Asian currencies have also come under pressure with the US Dollar appreciating on the renewed growth optimism and the likelihood of higher interest rates under a Trump administration. In contrast to the wider Asian markets, the Fund benefited from its currency positioning which is predominately US Dollar and the pegged Hong Kong Dollar holdings.

The anticipation of rising interest rates in the United States was a positive catalyst for the Fund's financial holdings, particularly HSBC Holdings (+9%) and DBS Group (+16%), where the majority of loan books are directly or indirectly leveraged to US rates. Robust third quarter results from our Korean bank holdings KBFG (+13%) and Shinhan FG (+13%) also led to strong performances over the period. The Korean banking sector, in which KBFG and Shinhan FG are the premier banking franchises, continues to trade well below tangible book. The return on equity for both banks is highly leveraged to Net Interest Margins (NIMs) so any loosening of monetary policy in Korea will be a positive catalyst. We believe there is also upside to payout ratios longer term.

MGM China (+19%) contributed positively to performance during the period. During December the Fund's Macau gaming holdings gave back some of the gains achieved in the first two months of the quarter on reports China UnionPay would reduce the daily ATM withdrawal limit in Macau from 10,000 Macau Pataca (US$1250) to 5,000 Macau Pataca (US$625). The Macau government later clarified that it had only asked banks to limit each individual cash withdrawal to 5,000 Macau Pataca and that the maximum daily withdrawal limit remained unchanged. This measure should have almost no impact on industry gaming revenues but it has resulted in the market becoming more cautious on the regulatory environment, particularly concerning capital flight from China. If the daily withdrawal limit was reduced it would certainly have an impact on gaming revenues but we do not think it would be material. These changes would principally impact the mass market segment given the VIP business is entirely based on credit.

iCar Asia (-12%) negatively impacted performance after shareholder Carsales.com Ltd. failed to take up its anti-dilutive rights during the last capital raising in September, effectively reducing its stake, and subsequently announced that its two directors were resigning from the board. This has led to speculation that Carsales.com may be looking to divest its shareholding. We believe iCar Asia is well positioned regardless of Carsales.com's intentions as any exit is unlikely to change the competitive landscape in Malaysia, Thailand and Indonesia where iCar Asia holds a commanding position. We also believe it is highly likely another strategic investor would be interested in acquiring the stake.

Portfolio Activity

Long Equity Composition (GICS sector and stock examples)	
Consumer Services - MGM China Holdings Ltd	22.7%
Food, Beverage & Tobacco - Carlsberg Brewery Malaysia	14.2%
Banks - HSBC Holdings	13.8%
Commercial & Professional Services - 51 Job Inc	13.2%
Software & Services - Baidu.com, Autohome Inc	10.9%
Energy - Sinopec Kantons Holdings	6.2%
Media - Astro Malaysia Holdings	5.2%
Materials - Turquoise Hill Resources Ltd	3.7%
Technology Hardware & Equipment - PAX Global	2.9%
Household & Personal - Hengan Intl Group	2.5%
Other	3.1%
Cash	1.6%
Total Exposure	**100.0%**

During the period we exited our positions in YUM! Brands and YUM China. YUM! Brands successfully completed its corporate restructuring which led to the spin out of YUM China in late October. The restructuring process drove a 26% return over our 13 months holding period.

Conversely we initiated a new position in DBS Group, Singapore's largest bank, during the period.

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Figure D: Autohome: Quarterly EBIT Margins
Source: Autohome Inc. Corporate Filings

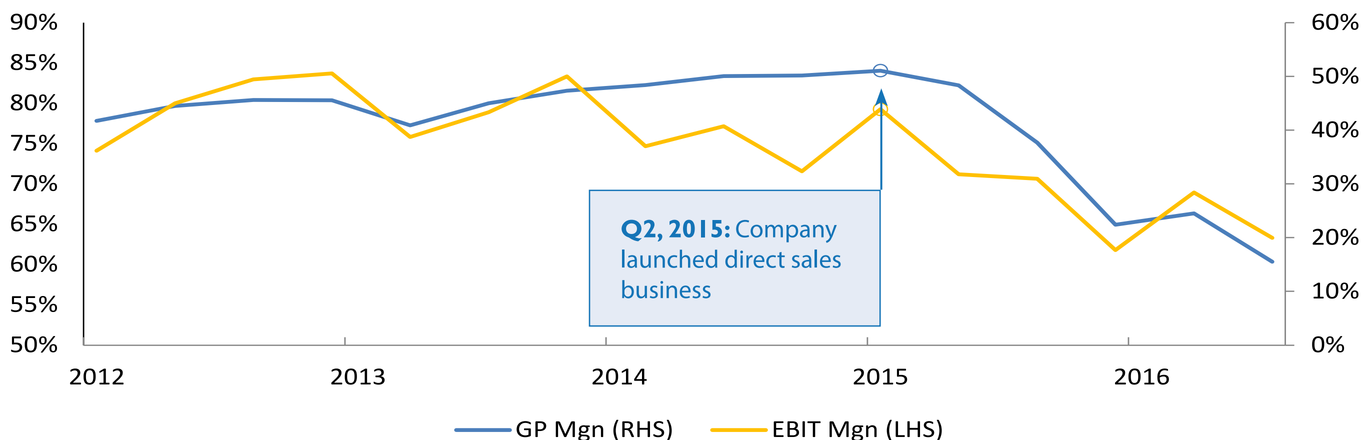
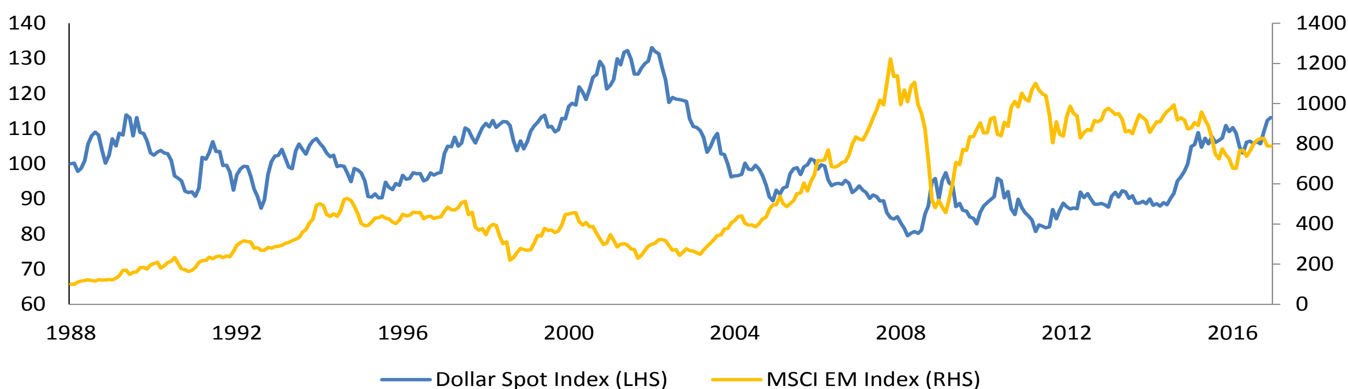


Figure E: US Dollar Spot Index (DXY) vs. MSCI EM Index
Source: Bloomberg



We also took the opportunity to increase the Fund's position in Autohome Inc., the operator of China's largest online automotive classifieds portal. Autohome underwent a change of control with Telstra selling a 47.4% stake to Chinese insurance giant Ping An in June. This led to a new management team being installed who undertook a strategic review of the company's operations and growth strategies, the results of which were communicated to investors in November. Management announced it would phase out the inventory taking transaction business in 2017. We believe this is the correct decision. This business is essentially a glorified online car dealership which not only has significantly lower margins and returns than Autohome's established businesses, but also exposes it to inventory risk. Eliminating this business should result in margins recovering from this year and ensure management remains focused on growing the higher margin and return businesses. We met with senior management on a recent trip to Asia in November and came away optimistic with regards to the strategic direction and operating outlook. Management's focus going forward will be the advertising, lead generation and B2C marketplace businesses. These core businesses grew revenues in excess of 25% year-over-year in the third quarter. Assuming EBIT margins recover to levels achieved prior to the launch of the direct inventory taking transaction business and core operations continue to grow 20% year-over-year, Autohome trades at approximately 12x forward earnings with in excess of 35% of its market capitalisation in cash. We view this as highly attractive particularly in comparison to its global peers Carsales.com Ltd. and Auto Trader Group Plc.

Outlook

As we have stated previously we believe the inflection point in global interest rates occurred earlier this year and a Trump victory supports the existing momentum. History shows us (see Figure E above) that higher US rates and a strong US Dollar coincide with weakness in emerging markets, including the Asia region. Consequently quasi index managers and exchange traded funds are likely providing investors with the wrong Asian exposure ('index risk') and investors need to become much more selective in their allocation of capital. It also means investors should be actively managing their currency exposures rather than being passively invested in local currencies. We remain invested in a collection of high conviction themes that we believe for structural reasons will act very differently to the broader market going forward. We have confidence in the underlying earnings power of the businesses we hold and believe an earnings re-rating is what will drive share prices up overtime.

Kevin Bertoli,
Asian Portfolio Manager

Australian Companies Fund

Investment Performance*	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Australian Companies Fund	**01/2000**	**1.9118**	**7.4%**	**18.4%**	**11.2%**	**10.3%**	**15.6%**	**10.8%**	**470.0%**
S&P / ASX 200 Accum. Index			5.2%	10.6%	11.8%	6.6%	11.8%	8.0%	270.9%

The December quarter saw the ASX200 register its best return for 2016, driven by Financials, Resources and utilities. However, the remainder of the broader market actually provided negative returns for the quarter.

The Fund's overweight exposure to domestic and global banks provided the basis for its outperformance in the December quarter.

December Quarter Return - By Internal Sector	
S&P/ASX 200 Acc	5.2%
Consumer Discretionary	-2.0%
Energy	7.5%
Financials	12.7%
Healthcare	-8.8%
Materials	7.9%
Industrials	-0.6%
Property	-0.7%
Consumer Staples	-1.7%
Telecom	-4.3%
Utilities	9.2%

We have been vocal and transparent in our previous reports that the domestic banks represented the best risk-reward investment propositions in the ASX and that we believe industrial businesses in Australia remain expensive with the risk skewed more towards the downside. The returns from these sectors pleasingly evolved in line with our views.

There was not much to separate the domestic bank positions that we held as ANZ, NAB and Westpac all returned approximately 13%. The international bank positions performed measurably better in the midst of Trump's victory. Bank of America (up 40%) and Wells Fargo (up 25%) were among the best performing stocks in the portfolio.

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Among our largest positions, NextDC (NXT) fell 13.7%. Over the previous three quarters NXT was the best performing stock in the fund, rising approximately 70% on the back of continued growth in occupancy of its existing data centres and capital raisings to roll out new data centres. Over the quarter we did not see any indication that the business fundamentals slowed or deteriorated. The market appears to have sold the stock on the back of fears that a rising interest rate environment equates to a lower net present value. We believe that the intrinsic value of the business is far higher than its current share price.

PMP rose 5.5% during the quarter as it entered into an agreement to buy IPMG, a leading competitor. We have been holders of PMP with a view that the market underappreciates the cash flow generation capability of the business and, that given the sector dynamics, consolidation would reinvigorate returns for the business. Printing is a declining industry with structurally declining volumes. The only way such an industry can survive is if there is consolidation producing economies of scale. We believe a merger with IPMG should do that, creating up to 30% earnings accretion for PMP. As a result, the stock reacted very positively, up 30% post the initial announcement. However, in the last week of December, the ACCC announced it needs more time to review the merger and its implications for competition in the printing industry. We strongly believe the ACCC should approve this merger as even if it is approved their retailer customers will retain significant purchasing power, while if it is blocked there could be negative implications for the industry. We do not profess to have insight into how the ACCC will rule but with PMP falling approximately 20% from its peak, the stock remains cheap on a standalone basis.

We initiated a new position in Japara Healthcare (JHC), an aged care sector operator, over the quarter. We think the aged care sector has good structural tailwinds from an ageing population and a slowdown in capital flowing into this space. Historically, government

funding has been the primary source of revenue for the aged care industry. Successive governments have tried to increase funding for the industry in order to incentivise private operators to build new facilities to meet the demands of the growing ageing population in Australia. However, over recent years the desire to control the growing budget deficit and a realisation that government funding alone cannot meet these objectives has meant that the current government is conducting a review of the funding model for the industry. We believe the end outcome that is desired by the government is to shift some of the cost burden from taxpayers onto users. As a first step in this process, the government announced cuts to funding for the industry in 2016. As a result aged care stocks fell 30 to 40%. We believe as the government transitions the funding model for the industry, there will be more volatility as the market factors in the impact of future regulatory changes. However the end outcome of more cost being borne by users rather than taxpayers should result in sustainable returns and growth for the large, listed private operators. As a result, we bought JHC after the stock fell 40% with a view that the market is overly bearish on the earnings growth capacity in this sector. JHC is a very conservatively managed operator that is likely to benefit when government funding models are reset.

Given the strong recent move by the domestic banks we believe the expected attractiveness of the banks compared to the rest of market has declined. However, we continue to see the broader market as being close to fair value. Accordingly, we are evaluating a number of non-bank investments.

Portfolio's Invested Position	
Long Exposure	91.7%
Short Exposure	-2.2%
Net Equity Exposure	**89.5%**
Debt Securities	24.3%
Cash	-13.8%
Total Exposure	**100.00%**

Long Equity Composition (GICS sector and stock	
Banks - ANZ, Westpac Banking Corporation, NAB	27.8%
Diversified Financials - Macquarie Group Limited	17.1%
Real Estate - Asia Pacific Data Centre	12.8%
Software & Services - NextDC Limited	10.6%
Commercial & Professional Services - PMP Limited	7.9%
Consumer Services - Donaco International Limited	4.2%
Insurance - QBE Insurance Group Limited	4.8%
Consumer Durables & Apparel	0.9%
Other	5.6%
Total Long Equity Exposure	**92.2%**

Uday Cheruvu,
Australian Portfolio Manager

Enhanced Yield Fund

Investment Performance*	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Enhanced Yield Fund	**03/2002**	**1.1160**	**1.3%**	**3.6%**	**4.7%**	**3.3%**	**4.4%**	**6.1%**	**140.0%**
RBA Cash Rate			0.4%	0.8%	1.7%	2.1%	2.6%	4.4%	88.4%

Performance

December capped off a solid year for the Enhanced Yield Fund, returning 1.3% for the quarter and a pleasing 4.7% for the year. This compares favourably to the RBA cash rate at 1.7%.

Two of the key drivers of markets over the quarter were the election of Donald Trump as US President (with the market focussed on his plan to increase jobs and lower taxes) and also the European Central Bank's (ECB) announcement extending quantitative easing until the end of 2017. These two events saw risk assets rally strongly, and 10 year government yields rise by 0.50% to 1% across most major bond markets.

One of the key contributors to the Fund's performance was our position in long term, deeply discounted bank subordinated debt, which benefits considerably from the move higher in global interest rates – particularly in the US. There is more detail on this investment in our September quarterly report.

Another key contributor was our holding in Crown Resorts. Late in the quarter, Crown announced its decision not to proceed with a spin-off of its international assets, instead deciding to significantly sell down its Macau interests to pay down debt. Furthermore, it shelved plans to build a highly capex intensive casino in Las Vegas. These decisions collectively take considerable pressure off its balance sheet and markedly improve Crown's credit profile.

The Fund also benefitted from some of our European property investments, including UK pub company Enterprise Inns, Irish residential property company Cairn and Spanish commercial property company Lar Espana. These investments benefitted from both macro- and industry-specific factors during the quarter. Enterprise Inns was supported as a result of Heineken bidding for one of its competitors (Punch Taverns), while Cairn benefitted from a relaxation of credit restrictions on Irish banks, allowing them greater freedom to lend. Lar Espana was boosted by management comments that it will not raise any further capital near term and will only do so in the future if its share price is trading above its Net Tangible Assets. All three of these investments also benefitted from the ECB's announcement regarding additional stimulus.

Portfolio Activity

During the quarter we initiated a new position in the subordinated debt of Irish retail bank Allied Irish, at a yield of $A Bank Bills + 5.50% (initial yield of approximately 7.25%). Allied is the dominant player in Irish mortgage lending, with a 35% share of the market. The Irish banking system continues to be a beneficiary of tailwinds from favourable government legislation as well as a housing market that continues to recover. This investment has already contributed meaningfully to performance.

We also initiated a position in the senior secured debt of Spanish commercial property company NH Hoteles at a yield of ~$A Bills + 4.30% (initial yield of just over 6%). NH is a dominant player in medium to high quality hotels in major European cities, with a focus on serving the business traveller markets in Germany, Spain, Italy and the Benelux countries. This investment has also made a notable contribution to performance.

Early in the quarter we increased our position in Crown Resorts at $A Bills + 7.50% (initial yield of 9.25%) as noise surrounding its operations in China and the arrest of members of Crown's staff saw the price of its debt fall briefly.

Lastly, we sold out of our position in Cairn during the quarter. Whilst Cairn's long term valuation is still attractive (even post its recent strong

* Past performance is not a reliable indicator of future performance.
See page 12 for Important Information.

performance) we made the decision to rotate this capital back into Irish commercial property company Hibernia, as it is a more traditional yield play. Hibernia's yield has increased notably over the past few months and thus was a compelling investment for the Fund.

Outlook

While risk assets have had a good move over the past couple of quarters, we still think credit markets represent good value, particularly in light of our positive view on the US economy and our longer term positive view on parts of the European region and even Australia.

As evidenced earlier, we continue to identify compelling opportunities to invest capital and with the gross running yield on the fund at approximately 2.25% over the RBA cash rate, we believe the fund is well positioned to deliver on its long term objectives. Additionally, we have material cash available to take advantage of further investment opportunities as they arise.

As we have noted in previous reports, we believe that current markets are far more suited to a strategy of specific stock picking, rather than taking a broader exposure to credit, as there is quite a bit of variance between valuations across sectors at the moment.

Additionally, we think the positive environment for credit, fuelled by the positive economic backdrop provided by the US and parts of Europe, is likely to see global interest rates move higher again over the medium to longer term. Thus we would encourage investors to look carefully at interest rate exposures in their portfolios, and to seek out investments that benefit from higher rates.

		Av Yield	Av Spread to RBA
Cash	40.8%	2.03%^	0.53%^
Corporate Bonds	40.6%	5.08%^	3.58%^
Fixed	0.0%		
Floating			
Hybrids	15.5%	4.31%^	2.81%^
Fixed	0.0%		
Floating			
Equity Income Strategies	3.1%		

Regional Allocation	
Australia	75.1%
UK*	11.7%
Europe*	9.3%
US*	3.9%

* Please note currency exposure is hedged back to Australian Dollars.

Duration	
Interest Rate	0.15 Years^
Average Term to Maturity	2.70 Years^

Yield Security Maturity profile	
0-1 year	57.3%
1-2 years	6.4%
2-3 years	9.0%
3-4 years	5.0%
4 years +	22.3%

^ These numbers are estimated and provided as a guide only.

Jarod Dawson,
Yield Portfolio Manager

IMPORTANT INFORMATION

This Quarterly Report is issued by PM CAPITAL Limited (ABN 69 083 644 731, AFSL No. 230222) as responsible entity for the:
PM CAPITAL Global Companies Fund (ARSN 092 434 618),
PM CAPITAL Asian Companies Fund (ARSN 130 588 439),
PM CAPITAL Australian Companies Fund (ARSN 092 434 467), and
PM CAPITAL Enhanced Yield Fund (ARSN 099 581 558)
the 'Fund', or collectively the 'Funds' as the context requires.

The Quarterly Report contains summary information only to provide an insight into how and why we make our investment decisions. This information is subject to change without notice, and does not constitute advice or a recommendation (including on any specific security or other investment position mentioned herein).

The Quarterly Report does not take into account the objectives, financial situation or needs of any investor which should be considered before investing. Investors should consider a copy of the current Product Disclosure Statement ('PDS') which is available from us, and seek their own financial advice prior to making a decision to invest. The PDS explains how the Funds' Net Asset Value is calculated. Returns are calculated from exit price to exit price (inclusive of the reinvestment of distributions) for the period from inception to 30 June 2016 and represent the combined income and capital return. The investment objective is expressed after the deduction of fees and before taxation. The objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term. While we aim to achieve the objective, the objective and returns may not be achieved and are not guaranteed. Past performance is not a reliable guide to future performance and the capital and income of any investment may go down as well as up due to various factors, including market forces.

The Index for the Global Companies Fund is the MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. The Index for the Asian Companies Fund is the MSCI AC Asia ex Japan Net Total Return Index in Australian dollars, net dividends reinvested. See www.msci.com for further information on the MSCI indices. The Index for the Australian Companies Fund is the S&P/ASX 200 Accumulation Index. See www.asx.com.au for further information. The Index for the Enhanced Yield Fund is RBA Cash Rate. See www.rba.gov.au for further information.

The two strategies included on the Colonial First State Platform in addition to the PM Capital Global Companies Fund include; 'CFS FirstChoice Investments - PM Capital Global Companies Mandate' and 'CFS FirstChoice Wholesale Investments - PM Capital Wholesale Global Companies Mandate'. For universe parameters on the Morningstar Australie OE Equity World Large Blend universe see www.morningstar.com for further information.

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