

# Monthly Update

## Fund commentary

- Portfolio sees broad appreciation
- Siemens up 13% on strong results

In September we highlighted the disconnect between our on-the-ground observations of Europe and the prevailing market sentiment. Despite the doom and gloom, we found in our research trips that the European business environment was relatively healthy. The market sentiment has since improved and in November many of our European holdings appreciated by mid-single digit percentages.

Among the best performers was German-based industrial conglomerate Siemens. With over 350,000 employees globally and a diverse range of business,

Siemens had a reputation (like other European conglomerates) for being too complex and slow to adapt, and consequently has traded on a multiple equal to that of a low-quality industrial.

Despite its low multiple, Siemens houses world-leading businesses in factory automation, advanced healthcare equipment and mobility - all of which have strong structural tailwinds. A clear catalyst for Siemens to realise its full value is management's commitment to spin off the energy-related businesses in 2020 and create a more focused industrial business.

Fund performance <sup>1</sup> (net of fees)	Inception Date	Exit Price (\$, cum)	1 Month	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
<b>Global Companies Fund</b>	<b>10-1998</b>	<b>3.4060</b>	<b>5.5%</b>	<b>13.6%</b>	<b>17.9%</b>	<b>22.0%</b>	<b>14.1%</b>	<b>10.9%</b>	<b>17.5%</b>	<b>13.4%</b>	<b>9.0%</b>	<b>519.8%</b>
MSCI World Net Total Return Index (AUD)			4.7%	7.2%	15.7%	23.6%	15.7%	12.9%	17.5%	12.7%	5.3%	199.0%
Outperformance by the Fund			0.8%	6.4%	2.2%	-1.6%	-1.6%	-2.0%	0.0%	0.7%	3.7%	320.8%

Portfolio investments	Weighting	Current stock example
Post GFC Housing Recovery - US	4.7%	Howard Hughes Corporation
Post GFC Property Recovery - Europe	7.9%	Cairn Homes
Global Domestic Banking	31.9%	Bank of America
Service Monopolies	10.4%	Visa
Gaming - Macau	7.6%	MGM China
Alternative Investment Managers	15.5%	KKR & Co.
Materials	5.3%	Freeport-McMoRan Copper
Other	10.5%	
<b>Long Equity Position</b>	<b>93.8%</b>	
Short Equity Position	-15.9%	
Net invested equities	77.9%	
Total holdings	47	

  

Currency exposure*	
USD	58.1%
AUD	18.4%
EUR	15.9%
GBP	5.5%
HKD	2.1%
<b>Total exposure</b>	<b>100.0%</b>

  

Domicile of listing <sup>^</sup>	
North America	53.8%
Europe	31.7%
Asia (Ex-Japan)	7.8%
United Kingdom	6.4%
Australia	0.3%

  

Domicile of business <sup>^</sup>	
North America	29.5%
Europe	27.5%
International	23.9%
Asia (ex-Japan)	13.6%
United Kingdom	5.5%

<sup>^</sup> 'Domicile of Listing' represents the location of stock exchange listing of each entities' head office, whereas 'Domicile of Business' represents the location of the predominant business of those entities.

\*Stated at effective value.

PM Capital Limited, founded in 1998, is a globally-focussed fund manager that invests money on behalf of private clients, the clients of financial advisers and institutions. PM Capital's goal is to build long term wealth by investing in global markets with patience and conviction.

### Investment philosophy

We aim to build long term wealth together with our co-investors by finding and exploiting investment anomalies. Using a focused, patient and considered approach to finding simple investment ideas produces the best environment for creating that long term wealth.

Our experience has shown us that while the market is largely efficient, it can, and regularly does, misprice a small proportion of companies. This mispricing can arise as a result of any number of reasons, but is most often associated with disruptive or cyclical change, new information which is misunderstood by the market as having a permanent impact when it is in fact transitory, or just because they are operating in a sector out of favour with investors.

Our unique process is based on scanning the world for those companies (hence the radar in our logo), discovering the associated valuation anomalies and extracting value from them. We buy good businesses at a good price; businesses that we believe are being valued differently to their long term intrinsic value, but will return to their correct value over time.

### Who manages the investment?

The Portfolio Manager for the Fund and CIO is Paul Moore. Paul is supported by a team of experienced investment analysts.

We believe in being a patient investor, one that has conviction, one that finds opportunities where others can only see

risk. We only invest in what we know, deeply, via our fundamental research.

## Why the Global Companies Fund?

**Established:** The Fund's process has been shown to be effective, based on a philosophy developed by Paul Moore, over 32 years. This has produced attractive long term capital growth.

**Unrestricted:** We have an authentic investment process where our exposure to industry sectors, geographic regions or market capitalisation is determined solely by our conviction in the risk/reward opportunities that we identify within portfolio guidelines. No conviction = no investment.

**Opportunistic and focused:** The Fund is not built around a general market benchmark or index - it is highly focused based on our fundamental, bottom-up investment process. As a guide, the Fund holds around 25 - 45 deeply researched stocks that we believe give the best opportunity to produce strong long term returns.

**Co-investment:** Our co-investors receive access to a unique subset of opportunities to which they would otherwise find difficult to access. The management team have significant investments in the Fund - they invest for and with you.

**Outperformance:** The Fund *has outperformed the relevant market index by 321% since inception.*<sup>1</sup> The Fund is managed from an Australian investor's perspective with consideration for tax and currency outcomes.

## Key Fund Details

### Fund category

Global equities

### Investment style

Fundamental, bottom-up research intensive approach

### Inception date

28 October 1998

### Fund size

\$475.6 Million

### Strategy size

\$1,188.5 Million

### Number of stocks

As a guide, 25-45 stocks

### Minimum direct investment

\$20,000

### Recommended investment time

Seven years plus

### Fees (pa)\*

Mgmt fee: 1.09% Perf. fee: 20% (subject to a high water mark) of the excess above the greater of the RBA cash rate and MSCI World Net Return Index (AUD).

### Buy / sell spread

0.5% (Round trip)

### Investor profile

The Fund may be appropriate for investors seeking capital appreciation over a seven plus year investment horizon

## Important Notice

This Report is issued by PM Capital Limited ABN 69 083 644 731 AFSL 230222 as responsible entity for the PM Capital Global Companies Fund (ARSN 092 434 618, the 'Fund'). It contains summary information only to provide an insight into how we make our investment decisions. This information does not constitute advice or recommendations, and is subject to change without notice. It 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 which is available from us, and seek their own financial advice prior to investing. The PDS explains how the Fund's Net Asset Value is calculated. 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 market forces. The investment objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term. 1. Returns are calculated from exit price to exit price assuming the reinvestment of distributions for the period as stated and represent the combined income and capital return. The Index is the MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. See [www.msci.com](http://www.msci.com) for further information on the Index.

## Further Information

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## A higher standard in performance fee hurdles

From 1 December 2018, PM Capital has implemented an additional performance fee hurdle for the Global Companies Fund<sup>1</sup>.

In doing this, the net effect is that performance fees on the Fund will be reduced, given performance of the Fund must now exceed the greater of the two (dual) benchmark hurdles as opposed to the previous single hurdle.

*While the prior RBA cash rate performance fee benchmark must still be exceeded, a second benchmark, the MSCI World Net Total Return Index (AUD) ("MSCI"), must also be exceeded before a performance fee can be paid.*

Rather than choosing between an "absolute" (ie, the RBA cash rate) and "relative" (ie, the MSCI) hurdles, PM Capital is providing investors the best of both worlds.

More information from our CIO

Pro-forma ICR



### The benefit for our co-investors

We believe the Fund's dual performance fee hurdle will provide a meaningful future net performance benefit for our co-investors, as performance fees on the Fund will be reduced.

Even prior to the fee change, the Fund has registered attractive long term outperformance, having delivered a total return since inception of 520% compared to the MSCI's 199%.

The Fund's actual performance has been:

Global Companies Fund performance (net of fees)	Inception Date	Exit Price (\$)	1 Month	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
<b>Fund performance (actual)</b>	<b>10-1998</b>	<b>3.4060</b>	<b>5.5%</b>	<b>13.6%</b>	<b>17.9%</b>	<b>22.0%</b>	<b>14.1%</b>	<b>10.9%</b>	<b>17.5%</b>	<b>13.4%</b>	<b>9.0%</b>	<b>519.8%</b>
MSCI World Net Total Return Index (AUD)			4.7%	7.2%	15.7%	23.6%	15.7%	12.9%	17.5%	12.7%	5.3%	199.0%
Outperformance (actual)			0.8%	6.4%	2.2%	-1.6%	-1.6%	-2.0%	0.0%	0.7%	3.7%	320.8%

To give a tangible indication of the benefits of the fee structure change, the table below provides the historic adjusted performance of the Fund *assuming the new dual hurdle fee structure had been in place since inception*<sup>2</sup>:

Global Companies Fund pro forma illustrative performance (net of fees)	Inception Date	Exit Price (\$)	1 Month	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
<b>Fund performance (pro forma)<sup>3</sup></b>	<b>10-1998</b>	<b>3.4060</b>	<b>5.5%</b>	<b>13.6%</b>	<b>17.9%</b>	<b>22.0%</b>	<b>15.7%</b>	<b>12.7%</b>	<b>20.6%</b>	<b>15.8%</b>	<b>11.2%</b>	<b>834.7%</b>
MSCI World Net Total Return Index (AUD)			4.7%	7.2%	15.7%	23.6%	15.7%	12.9%	17.5%	12.7%	5.3%	199.0%
Outperformance (pro forma)			0.8%	6.4%	2.2%	-1.6%	0.0%	-0.2%	3.1%	3.1%	5.9%	635.7%

1. Applies to the unlisted unit trust only. 2. These returns do not represent the actual net Fund performance, but, are provided to indicate impact on past investment returns if they were adjusted to take into account the new fee structure. 3. Pro forma Fund performance has been calculated based on the new fee structure (implemented 1 December 2018), assuming it had applied from the Fund's inception. These returns do not represent the actual net Fund performance and are included for illustrative purposes only.

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