JUNE 2017

PM Capital

Quarterly Report

Industry leading performance

Funds using the PM Capital global equities strategy achieve #1 performance ranking in peer group over 1, 3, 5, 7, and 8 years to 30 June 2017

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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Financial year in review
A note from the CIO

The 2017 financial year was another extraordinary period for investment markets. Starting with Brexit, fears of economic fragility and scepticism that the US Federal Reserve would in fact increase interest rates, to the Trump phenomena, to ending with strong equity returns, increased global economic momentum and higher short and long term rates. It is testimony to our well-worn mantra that one should always focus on the fundamentals, have patience and conviction, and above all else, ignore the transient macro and political headlines that may create much heat, but not a lot of light.

Pleasingly, I can report that funds using our Global Equities investment strategy were not only ranked first out of 207 peer group funds for the 1 year to June 2017, but also ranked number one over 3, 5, 7 and 8 years. Our Australian Companies Fund was likewise ranked number one for the financial year, ditto for the Asian Companies Fund since inception. Our yield strategy was ranked number 2 for the year.

I hope these kinds of results are seen as testament to our investment philosophy and process that we have and always will employ, irrespective of market circumstances.

Our focus on discovering genuine long term anomalies was the central theme of our recent investor forum, where we used the movie and book *Moneyball* as a light-hearted vehicle to give a deeper insight into why we do what we do. I would encourage you to watch the video of the presentation on our web site, as I do believe it gives a useful insight into the fundamentals that form the framework of our investment approach.

The summary of our presentation was that to be a successful investor one needs to employ both patience and conviction, as many great investments can be questioned (and sometimes ridiculed) at the time of purchase. That has certainly been the case for each of the core investment themes in our portfolio and in particular our domestic banking franchises, the biggest contributor to returns over the past year.

What commonly creates these anomalies and the associated opportunities?

1. Fear and the avoidance of pain – investors look backwards not forward when constructing their portfolios
2. Acting on perception and not fact
3. A short term focus, making it difficult to assess true risk/reward when faced with severe cyclical downturns or structural change
4. Distraction - the most common being macro-economic
5. Conflict and misunderstanding

As one of the characters notes in *Moneyball*:

> *"There is an epidemic failure within [baseball] to understand what is really happening… this leads people who run Major League Baseball teams to misjudge their players and mismanage their teams. People who run ball clubs think in terms of buying players. Your goal shouldn't be to buy players, your goal should be to buy wins… Baseball thinking is medieval. They are asking all the wrong questions."*

In a nutshell, our primary responsibility is to ask all the right questions. At a recent Melbourne presentation, I was asked what I believe to be the most important question any adviser should ask of their fund manager:

> *"Excluding your home, what % of your net worth is invested in the funds that you manage?"*

It was the first time this seemingly sensible question had been asked of me in 30 years of funds management. It is akin to asking a Mercedes salesperson what car they drive.

My answer was that it would be close to 100%. Co-investment with your clients is not a guarantee, but it should be mandatory.

MARKETS

We have transitioned from the post-GFC era to what I now describe as the post-Trump era. The absolute level of risk has clearly changed. Post-GFC, one wanted to be at the maximum invested limit levels. Post-Trump, it is more appropriate to be below those levels, and my expectation is that our net invested equity exposures in our equity funds will on average be around 85-90% for the foreseeable future.

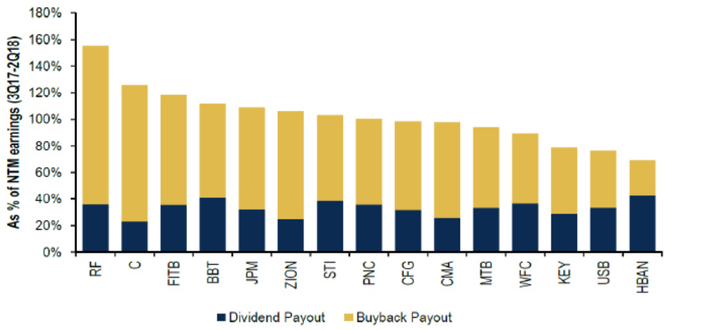
The investment themes that dominate our global portfolio are no longer undiscovered and have been rewarded by the market. However, we still believe that they are yet to fully recognise their underlying fundamentals. Until they do we will continue to hold these investments.

Our domestic banking stocks have caught the attention of investors, but the dominant focus still appears to be the macro – "it's all about the yield curve". The crux of our thesis is that higher capital levels and a majority of earnings being returned to shareholders as dividends will see bank stocks afforded higher valuations. During the quarter, regulators confirmed our long-held belief that our US bank

Financial year in review A note from the CIO

Figure A: Total payout (dividend + buyback) as % of NTM earnings

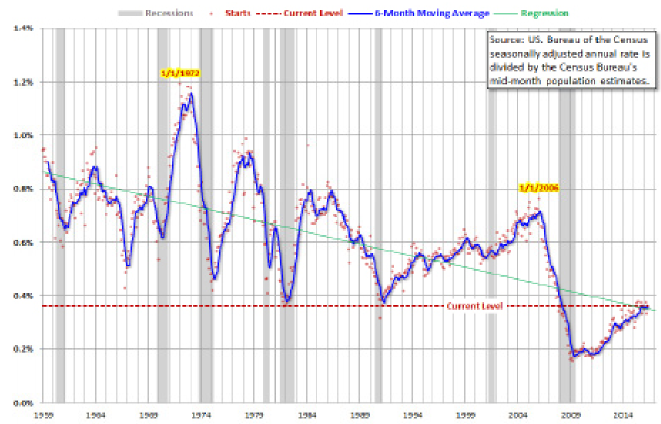
Source: Bank of America Merrill Lynch - Industry Overview, 'No stress: Banks to pay out 100% of earnings'. As at 28 June 2017.



Source: BofA Merrill Lynch Global Research, company data, SNL Financial
Note: C: planned capital actions total $18.9bn; CFG: potential to raise div to $0.22 beginning 1Q18; FITB: potential to increase div to $0.18 beginning 2Q18; KEY: potential to increase div to $0.12 in 2Q18; ZION: div schedule indicative of ~$140mn in total; HBAN: increase div in 4Q17

Figure B: U.S. Housing starts as a percent of the population

Source: 'Inland Empire Housing Market Overview and Forecast', p. 13, Real Estate Economics. As at June 2016.



holdings were significantly over-capitalised. In fact, the latest regulatory review, in many cases, approved payout ratios (return of capital via dividends and buybacks) in excess of 100% of 2017 profits.

Our dividend story has come true, but the market is still slowly recognising it. Price to earnings ratios on 2018 earnings are approximately 12.5x, which is at the lower end of the 12.5x - 15x PE range that we suggested in our original investment summary. Implied dividend yields (dividends + buybacks) are now 6-7% and we should see earnings growth from underlying economic momentum and thus loan growth, higher interest rates on their loans and potentially tax cuts. If we do in fact re-rate to a 14-15x forward price earnings ratio, then potential returns are still very attractive. We always thought that 2018/ 2019 would be the time that this would all come to a fruition, coinciding with your typical ten-year investment cycle from a discounted to a premium business valuation.

The ultimate upside potential will also be influenced by the macro-economic trajectory of the banking jurisdiction. In that regard, I still suspect that investors are underestimating the sustainability of the global economy. Having completed research trips in both Europe and the United States during the quarter, we can confirm that activity levels are solid. In fact, regions in Ireland and Spain were bustling, in stark contrast to the ghost towns that we encountered 2-3 years ago. The impact of low rates is clearly being seen in their property markets, something that is not likely to go away soon. In Spain, for example, one can lock in a thirty year fixed rate mortgage for 1.8%. Even more astoundingly, a client told me recently they had a variable rate home loan in France with HSBC and the current rate was -0.3%! Rates are too low and they need to go up.

During our trips, the most interesting comment came from the management team of a US home builder in which we are invested. Visiting their operation in California, they noted that at a time when per capita housing starts are still below all previous troughs, it is very difficult to find the labour to meet the demand from the upswing that they are currently seeing. What would happen if starts returned to a more normalised level? I suspect underlying tension in wages is a bit higher than what may be appreciated.

Another point of interest over the quarter was the market finally waking up to the fact (as we noted in our ***Moneyball*** presentation) that many of the so called high quality branded consumer food businesses do not actually grow. General Mills, Kellogg and Campbell Soup have all fallen 25% from their most recent highs.

As our investment themes evolve, we are focusing increasingly on where to deploy future capital and we will keep you informed once we have reached definitive conclusions. We have been thinking a lot about what may be swept up by "Bondnado" and our belief that an investment in long term government bonds may not be a good experience from this point on, much like the experience from viewing the infamous film ***Sharknado***. We are looking for ways to exploit what we see as a glaring anomaly and would suggest that businesses that have been beneficiaries of the property and infrastructure cycles could be obvious candidates to avoid. One anecdote that caught my eye was a recent report that households in Sydney are now spending 50% of their household income on mortgage repayments. I have not verified the source of the data, but it is consistent with what I suspected. If home loan rates doubled, which would still be about half the 17% high in standard variable rates back in 1989, close to 100% of household income would be eaten up by mortgage payments. Puts the risk in property into perspective (and the economy).

Financial year in review A note from the CIO

Finally, a quick note on passive investing. I doubt equity market indices will generate a return in excess of 4-6% going forward. Throw in long term government bonds and property that will unlikely do better than their underlying yields of approximately 1% to 4% and the typical blended portfolio is unlikely to meet the investment objectives of most investors. Combine that with the recent research findings of the Bank of America Merrill Lynch's Equity and Quantitative Strategy group:

> *Valuations explain almost 90% of the S&P 500's returns variability over a 10-year time horizon — we have yet to find any signal with even close to that level of predictive power over the short-term. And ironically, what should be an increasingly efficient market has shown signs of becoming less efficient over the long term — alpha opportunities, measured by the range of market prices, have shrunk on a short term basis, but have demonstrably risen on a long-term basis.**

And that is the reason that we believe, more than ever, investors need the benefits that can be provided by genuine high conviction managers.

Paul Moore - Chief Investment Officer

Quarterly video update

Chief Investment Officer Paul Moore gives his views on:

- Financial year 2017 - an extraordinary year for investment markets
- Transitioning to 'post-Trump' and banking strength
- Why active management is required in an increasingly less efficient market

"Pleasingly, I can report that managed funds using our Global Equities investment strategy were not only ranked first out of 207 peer group funds for the 1 year to June 2017 but that the strategy also ranked number 1 over 3,5,7 and 8 years... I would hope that this is testimony to the adherence to our philosophy and process."

Access the video here.

Total Return Since Inception[1]

Fund		Benchmark	
PM Capital Global Companies Fund	380.8%	MSCI World Net Total Return Index (AUD)	110.6%
PM Capital Asian Companies Fund	283.5%	MSCI AC Asia ex Japan Net (AUD)	100.3%
PM Capital Australian Companies Fund	513.6%	S&P / ASX 200 Accum. Index	282.6%
PM Capital Enhanced Yield Fund	147.8%	RBA Cash Rate	89.8%

[1]Past performance is not a reliable indicator of future performance. See page 13 for Important Information. As at 30 June 2017.
*Source: Bank of America Merrill Lynch Equity and Quantitative Strategy group.

Global Companies Fund

- **The Global Companies Fund** aims to create long term wealth through a hand-picked, concentrated portfolio of 25-45 global companies trading at prices that we consider, after extensive research, to be trading at prices different to their intrinsic values and will provide attractive future returns.
- **The Fund's investment objective** is to provide long term capital growth and outperform the greater of the MSCI World Net Total Return Index (AUD) or RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Global equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 25-45 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	28 October 1998
Unit trust FUM	$327.7m as at 30 June 2017
Global equities FUM	$938.6m as at 30 June 2017

Global Companies Fund

Paul Moore
Global Portfolio Manager

Investment Performance[1]	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	2.6418	5.3%	10.2%	34.7%	15.4%	23.0%	8.8%	380.8%
MSCI World Net Total Return Index (AUD)			3.5%	4.5%	14.7%	12.8%	18.0%	4.1%	110.6%

KEY POINTS

Funds using the PM Capital global equities strategy achieve #1 performance ranking in peer group over 1, 3, 5, 7, and 8 years to 30 June 2017.

Pernod Ricard divested as it reached our valuation target.

While our US stocks have performed well, we believe upside remains.

PERFORMANCE

All of our investment themes positively contributed to the Fund's quarterly investment performance.

PORTFOLIO ACTIVITY

We reduced our exposure to beverage companies over the quarter as we sold our position in spirits company Pernod Ricard as it reached our valuation target.

Our exposure to the Spanish property sector performed well, with growth in Spain exceeding expectations due to an improving job market, higher external trade and credit growth turning positive for the first time in eight years. Hispania, one of our Spanish holdings focused on the hotel sector, confirmed that it will follow through with its original plan to liquidate the company and return all cash to shareholders by 2020. We believe this plan will maximise shareholders' return.

Our holdings in the exchanges also had a good quarter as volume activity in the US continues to inch up. Both Intercontinental Exchange and CME Group commented on improving margins as revenue growth increases. In Europe, the merger between Deutsche Boerse and the London Stock Exchange was officially called off due to regulatory barriers. In June, Deutsche Boerse's management team conducted an investor day, putting forward a plan to grow revenues at a 5% compounded annual growth rate for the next three years, thus achieving high single digit earnings per share growth. The market reacted favourably to the plan; the stock finished the quarter 6% off its all-time high.

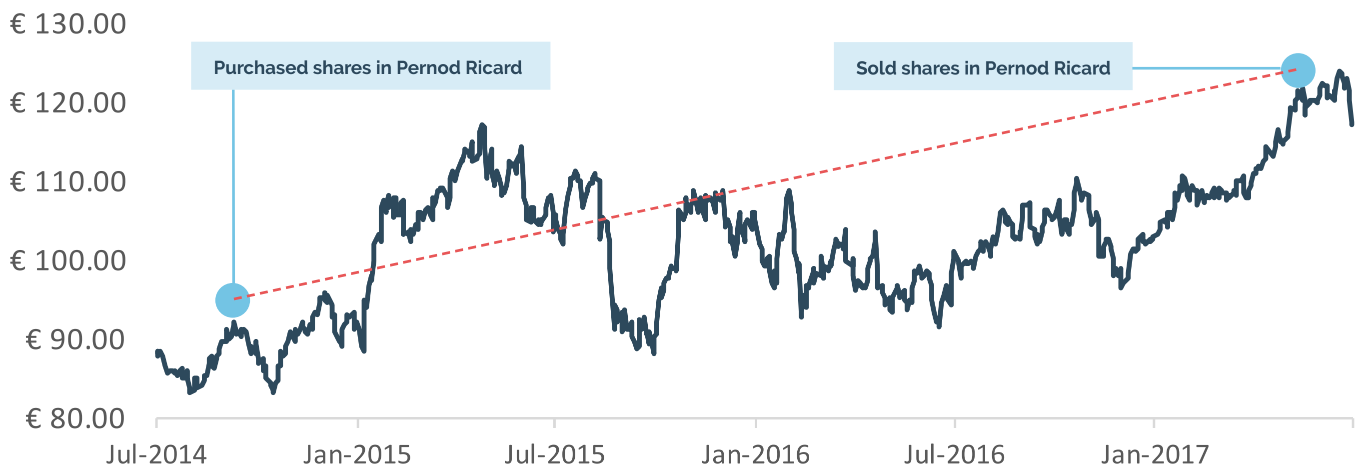
The alternative asset managers also performed well as the migration away from traditional equity and fixed income managers continued. This theme is compounded by the search for yield and the realisation that historical allocation formulas may no longer be adequate to achieve an investor's required return. The market is continuing to recognise this theme, with a takeover for Fortress Investment Group in February, and in late April an activist value investor, ValueAct, taking a 5% position in KKR & Co.

Our US banking positions performed strongly late in the quarter. The strong 2017 Comprehensive Capital Analysis and Review (CCAR) results for the large US banks were better than expected. Dividends rose by an average of 26% and Bank of America saw one of the highest increases in total capital return increases, up 75% year on year. Several banks are now returning 100% or more of their annual earnings which points to a more favourable regulatory environment. We believe our long term thesis on the capital return/dividend story will be increasingly reflected in stock prices over time.

The Australian Dollar finished the quarter close to the top of its two year trading range. We believe the currency is lagging the movement in its two main drivers, being the price of iron ore and the interest rate differential between Australian and US government bonds. Iron ore remains 30% off its March 2017 highs and the 10 year bond differential was 25 basis points at quarter end, versus 60 basis points in late 2016.

Global Companies Fund

Figure C: Pernod Ricard Share Price (FR:RI) Share Price (EUR)
Source: PM Capital, Bloomberg



OUTLOOK

During the quarter, PM Capital's John Whelan and I completed a research trip to the US where we met with company management, analysts and industry participants of companies the portfolio owns as well as prospective investments. While our US stocks have performed well, we believe there is more to come. The environment for our holdings continues to improve, with the tide of increasing regulatory burdens on all US companies, in particular financials, seemingly turning. Our thesis began to play out after this trip as the CCAR results were released. The results illustrate the changing regulatory environment with the Fed now acknowledging many US banks are over-capitalised, allowing them to make capital returns greater than 100% of earnings.

Portfolio Investments	Weighting
Global Brewing	2.6%
Post GFC Housing Recovery - US	14.6%
Post GFC Housing Recovery - Europe	7.8%
Global Domestic Banking	36.6%
Service Monopolies	19.5%
Pharmaceuticals	5.6%
Gaming - Macau	5.3%
Alternative Investment Managers	11.2%
Other	4.5%
Long Position	**107.7%**
Short Position	-16.7%
Net Invested Equities	**91.0%**
Credit Securities	10.3%
Net invested position	101.3%

Total Holdings	39

Current Stock Example
Heineken
Howard Hughes Corporation
Cairn Homes
Bank of America
Alphabet
Pfizer
Wynn Macau
KKR & Co L.P.

Currency Exposure*	
USD	73.8%
EUR	18.6%
GBP	7.2%
HKD	2.7%
AUD & NZD**	-2.3%
Total Exposure	100.0%

* Stated at effective value.

** Represents net exposure to AUD and NZD. Actual NZD exposure is -16.6%.

Paul Moore - Chief Investment Officer & Global Portfolio Manager

Asian Companies Fund

- **The Asian Companies Fund** aims to create long term wealth through a concentrated portfolio of 15-35 hand-picked companies within Asia ex-Japan that we believe are trading at prices different to their intrinsic values.
- **The objective of the Fund** is to provide long term capital growth and outperform the greater of the MSCI All Country Asia (ex-Japan) Net Index (AUD) or RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Asian (ex-Japan)[2] equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-35 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	1 July 2008
Unit trust FUM	$22.8m as at 30 June 2017
Asian equities FUM	$87.0m as at 30 June 2017

Asian Companies Fund

Kevin Bertoli
Asian Portfolio Manager

Investment Performance[1]	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Asian Companies Fund	7/2008	1.9049	9.6%	14.7%	23.5%	11.7%	16.4%	16.1%	283.5%
MSCI AC Asia ex Japan Net Total Return Index			7.7%	15.9%	23.0%	12.5%	14.4%	8.0%	100.3%

KEY POINTS

The Fund produced attractive returns over the quarter and the financial year.

Opportunity taken to crystallise some gains.

Future earnings growth key to uncovering anomalies.

PERFORMANCE

The Fund achieved pleasing performance over the June quarter as well as for the financial year, advancing 9.6% and 23.5% respectively. We have witnessed a dramatic turnaround in the attitudes and sentiment of market participants since the March 2016 quarter when concern surrounding China's economic growth was at its greatest. At the time, we took the portfolio to fully invested, the first time since inception that we had deployed all our available capacity. Subsequent Fund performance reinforces why it is so important to remove yourself from the day to day hysteria of the market and develop independent views based on the fundamentals rather than blindly following market consensus.

PORTFOLIO ACTIVITY

The Fund's largest contributor to performance over the quarter was Donaco, which advanced 47%. The recent share price recovery follows the robust performance of the underlying operations in Cambodia and Vietnam this year. The stock has also benefited from improved sentiment towards regional gaming equities; a trend that has also contributed to the gains experienced by our Macau holdings (Wynn Macau and MGM China up 73% and 64% respectively for the financial year).

While we are pleased with the recent performance, we are cognisant that Donaco is only at a breakeven point from when we invested in its rights issue at $0.60 in February 2015. The initial investment was based on the thesis that the market was underappreciating the earnings capacity of the underlying casino assets in Cambodia and Vietnam. However, several missteps, primarily in over-promising on potential junket partnerships and a failure to implement a shareholder friendly capital management policy has negatively impacted the company. The latter point we believe has been a significant factor in the poor performance of the stock. We have proactively engaged with the company's board and management to address our concerns and while we have had some success in getting our suggestions implemented we believe further positive steps can be taken.

Online classified and e-commerce holdings also continued to display positive momentum during the period. Autohome and 51Jobs were once again meaningful contributors to performance advancing 43% and 22% respectively for the quarter, taking their gains for the financial year to 126% and 53%. Following the recent share price strength, we took the opportunity to materially reduce these two positions during the quarter. The broader market's expectations for the underlying operations of both businesses are now more reflective of our own assumptions and valuations have also rerated to a level we deem to be fair.

Turquoise Hill Resources was the primary detractor to performance over the period, falling 14%. The company has now given back all the gains achieved immediately after President Trump's victory in November and was down 22% for the financial year. The outlook for the copper market, particularly pertaining to supply disruptions and mine restarts, and the political environment in Mongolia where a new president has just been elected, have been the main drivers of the share price.

As the underground phase of the company's Oyu Tolgoi copper and gold mine gets closer to production and the open pit mine moves to high grade ore deposits, investors should shift their attention to the substantial cashflows generated

Asian Companies Fund

by the asset. Given the historic delays to underground development investors have become overly cautious when factoring in future production growth. As investors start to appreciate the structural growth in production and cash flows that are fast approaching we believe the Turquoise Hill Resources will see a material re-rating.

The Fund's net invested position ended the quarter at 85%, a material decline from 98% as at the end of March. Apart from the divestitures highlighted above we also exited small positions in Hengan International and Hite Jinro during the quarter.

One new position was initiated in Lafarge Malaysia. Lafarge is Malaysia's largest cement producer commanding an approximate 40% share of the installed capacity in the market. The company's share price has come under significant pressure as operations have been impacted by a combination of negative factors. A soft demand environment in the short term, triggered by weakness in the residential and commercial property markets, as well as delays in the approval of major infrastructure projects have resulted in declining volumes. Furthermore, a depreciation in the Malaysian Ringgit and higher coal prices have also driven inflation in the company's cost base. Unlike in previous cycles, the typically rational competitive landscape between the five major cement players has not transpired as Lafarge's peers look to drive consolidation through more aggressive pricing tactics. Lafarge's share price has consequently fallen over 50% from its peak in 2013.

With several successful investments in Malaysia, including gaming, brewers and online classifieds, we have followed the country's progress closely. While we remain conscious of the issues it faces particularly in a lower commodity price environment we can see an improvement on the horizon; most notably due to an increase in infrastructure expenditure relating to China's One Belt, One Road initiative (see the website for more detail) and a plateauing in the residential property market. We expect the outlook for cement demand and the industry's competitive dynamic to normalise over the next year, leading to a gradual margin recovery. We initiated a position at a valuation well below the company's replacement cost and would expect this discount to narrow along with improving industry fundamentals.

OUTLOOK

Valuations have normalised over the past year with the MSCI Asia Ex Japan Index now in line with its long term average price to book ratio, a stark contrast to March 2016. Consequently, valuation will be less of a tailwind for equity markets and earnings growth therefore becomes a much more important factor in our decision making. Having taken the opportunity to crystallise some of our investments in recent months we are investigating a number of possible anomalies to redeploy this capital.

Portfolio Investments	Weighting
Consumer - Breweries	6.3%
Consumer - Other	6.1%
Online Classifieds & Ecommerce	21.9%
Gaming - Macau	8.8%
Gaming - Other	7.3%
Financials	15.3%
Capital Goods & Commoities	9.0%
Other	10.0%
Long Position	84.7%
Credit Securities	0.4%
Cash	14.9%
Net invested position	100.0%

Total Holdings	26

Current Stock Example
Heinekin Malaysia
Dali Foods
Autohome
Wynn Macau
Nagacorp Limited
HSBC Holdings
Turquoise Hill Resources
Sinopec Kantons

Currency Exposure*	
USD	43.5%
HKD	44.1%
AUD	10.4%
Other	2.0%
Total Exposure	100.0%

* Stated at effective value.

Portfolio Manager Kevin Bertoli believes an understanding of the Chinese-funded infrastructure program, 'One Belt, One Road', is and will continue to be crucial when investing in Asian markets.

Access Kevin's White Paper, *Demystifying China's One Belt, One Road*, here.

Kevin Bertoli - Asian Portfolio Manager

Australian Companies Fund

- **The Australian Companies Fund** aims to create long term wealth through a hand-picked portfolio of 15-25 predominantly Australian companies that we believe are trading at prices different to their intrinsic values.

- **The Fund's objective** is to provide long term capital growth and outperform the greater of the S&P/ASX 200 Accumulation Index or the RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Australian equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-25 stocks
Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	20 January 2000
Unit trust FUM	$34.1m as at 30 June 2017
Australian equities FUM	$34.1m as at 30 June 2017

Australian Companies Fund

Uday Cheruvu
Australian Portfolio Manager

Investment Performance[1]	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	2.0580	3.6%	7.7%	27.4%	11.2%	15.3%	11.0%	513.6%
S&P / ASX 200 Accumulation Index			-1.6%	3.2%	14.1%	6.6%	11.8%	8.0%	282.6%

KEY POINTS

The Australian Companies Fund's performance ranked first over the financial year.

Fund avoids market downturn over the quarter.

Active management of bank positions adds to quarterly performance.

PERFORMANCE

The S&P/ASX200 Accumulation Index fell 1.6% in the June quarter, dragging down its performance for the financial year. The Fund avoided this fall and provided a positive return to investors as we were prudent with our net invested position and reduced the Fund's exposure to Financials, which were the biggest drag on the Index, and avoided any exposure to the Resources and Consumer Discretionary sectors that also performed negatively.

PORTFOLIO ACTIVITY

This time last year we stated that we expected the broader market to perform weakly and expected a high single digit return at best. We had positioned the Fund to be overweight in banks as we believed that the valuations for domestic bank stocks were cheap on both a historic and relative basis and we expected them to outperform the broader market. This was a key driver of the Fund's outperformance for the year as our largest positions ANZ (+25.5%) and NAB (+24.1%) added significantly to performance.

The banks' contribution to the Fund was higher than their headline 12-month performance as we reduced our position when they were trading near their yearly highs in May. We took the view that while the banks looked cheap at 10 – 11x forward PE at the start of this financial year, they looked fair value in May when they were trading between 13 – 14x. Reducing our position in the banks proved to be fortuitous as APRA introduced limits on interest only loan growth and warned the banks about the growing risk in their mortgage loan books. We think the regulatory guidelines set by APRA are prudent for the domestic financial system as a whole and the domestic banks can use this opportunity to re-price their loan books. However, we think the worst for the domestic banks is not yet over as the newly introduced bank levy and potential state levies will cause further drag on bank earnings. As a result, we do not think the domestic banks represent as an attractive investment proposition as they did 12 months ago and accordingly remain underweight.

Donaco (+42%) was a big contributor to performance over the quarter and the year. We are happy to see the stock perform well but are cognisant that the stock performance is only breakeven from when we invested in its rights issue at $0.60 in February 2015. We invested in Donaco based on the thesis that the market was underappreciating the earnings capacity of underlying casino assets in Cambodia and Vietnam.

Two factors played a big role in disrupting the timeline over which we expected our thesis to play out:

- External events such as the death of King of Thailand caused a reduction in visitors to the Thai-gambler focused Star Vegas casino.
- More importantly, the management team of Donaco made some mis-steps in over-promising on potential junket deals and failing to implement a shareholder friendly capital management policy. We proactively advocated the company start paying a dividend and undertake a buy-back, believing this action would provide a better outcome for the Fund's unitholders than if we sold the Fund's position. We have had some success in getting our suggestions implemented and will continue to advocate on behalf of our unitholders.

Latam Auto is the leading online car sales portal in Ecuador, Mexico, Peru, and Argentina. We built an initial position in September 2016 based on the thesis that this business is a market leader in each of the countries they operate in and have the biggest traffic share of individuals looking to buy cars. However, due to the low penetration of internet in these countries, the current revenue opportunity for LAA is significantly lower than for its Australian equivalent Carsales.com. Over the long run we expect LAA's revenue opportunity to grow significantly as the market matures if it can maintain its market position. We have gained comfort that LAA's management team has a track record of achieving this given the CEO of LAA has previously built and sold an online jobs portal business (like Seek.com.au) to Monster.com.

LAA was initially listed in Australia because its founder and chairman is Australian and the management team felt that investors in Australia would be more receptive to providing capital to a start-up business like LAA. However, its latest capital raising process has not been as smooth as we expected. In February LAA came to market with a follow-on $15 million equity raising but were not able to raise the full amount due to leaving it too late in its corporate development, making them somewhat forced sellers. This, rather than any structural problems with the business, spooked investors. As a result, management reworked its capital plans and raised $10 million via a convertible bond issue in which we participated, thereby increasing our position. We think the bond provides the same upside as equity as its strike price was the same as its proposed equity price.

Although shareholders have been diluted more than we had hoped, LAA is well positioned to execute on its strategy of growing the markets that they operate in and achieving cashflow break-even in the next 12 months.

OUTLOOK

Macro indicators paint a muddy picture for the domestic economy. On the one hand, business confidence indicators are at multi-year highs, indicating positive momentum for the business cycle. However, consumer indicators such as consumer spending and retail spending remain tepid and this, coupled with rising mortgage rates and the declining household savings rate, may mean that the Australian economy is likely to remain under near-term pressure. In such an environment, we think it is going to be increasingly important to buy and hold businesses that have a lower correlation to the macro environment. We do not expect to quickly increase our net invested equities position from its current level of 84.0% but remain on the lookout for opportunities that may arise amid any broader market sell-offs.

Portfolio Investments	Weighting
Domestic Banks	13.1%
International Banks	18.3%
Non Bank Financials	12.3%
Property	9.1%
Industrials	8.6%
Internet	14.1%
Other	9.5%
Resources	0.0%
Long position	85.0%
Short position	-1.0%
Net invested equities	84.0%
Credit Securities	11.7%
Net invested position	95.7%

Total holdings	20

Current Stock Example
ANZ
Bank of America
QBE Insurance
Asia Pacific Data Centre
PMP Limited
iCar Asia
Donaco International Limited

Currency Exposure*	
AUD	78.3%
EUR	10.0%
USD	6.6%
GBP	5.1%
Total Exposure	100.0%

* Stated at effective value.

Uday Cheruvu - Australian Equities Portfolio Manager

Enhanced Yield Fund

- **The Enhanced Yield Fund** aims to create long term wealth through identifying and profiting from market anomalies predominately in debt, corporate bond and hybrid security markets around the world. Originally developed to invest the portion of PM Capital's own money which would otherwise sit in cash, the Fund was opened to co-investors as we realised our problem – how to produce regular income and attractive returns with low volatility – was shared by many other investors.

- **The objective of the Fund** is to provide investors a return in excess of the Reserve Bank of Australia's (RBA) cash rate. The Fund aims to outperform the RBA cash rate with a low degree of volatility and minimal risk of capital loss.

Fund category	Fixed Income
Investment style	Fundamental, bottom-up research intensive approach
Investor profile	The Fund may be suitable for investors who seek a steady source of income, with a low degree of volatility, and an emphasis on capital preservation

Minimum investment	$20,000
Suggested investment time	2 years +
Inception date	1 March 2002
Unit trust FUM	$423.8m as at 30 June 2017
Fixed Income FUM	$619.5m as at 30 June 2017

Enhanced Yield Fund

Jarod Dawson
Portfolio Manager (Income Securities)

Investment Performance[1]	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Enhanced Yield Fund	02/2002	1.1342	1.5%	3.3%	7.0%	3.6%	4.5%	6.1%	147.8%
RBA cash rate			0.4%	0.7%	1.5%	2.0%	2.3%	4.3%	89.8%

KEY POINTS

European property holdings gain amid further signs of life.

Seeking anomalies in the online job advertisement and data infrastructure sectors.

Global interest rates - long term risk is to the upside.

PERFORMANCE

Performance for the June quarter was 1.5%, taking the performance of the Fund to 7.0% after fees for the financial year. This compares very well to the RBA cash rate over the same period and to some extent has exceeded our expectations for the year.

In terms of market activity, there is not a lot of news to report. Corporate bonds broadly rallied, driven in part by the continuing US recovery. Additionally, we saw some sensibility return to European politics as France elected a fairly moderate President in Emmanuel Macron, removing any talk of France exiting the European Union.

The stabilisation of French politics early in the quarter saw tensions within the EU ease somewhat, and along with encouraging signs of growth in countries like Ireland and Spain, helped promote investment in European markets. In light of this, our investments in European property companies including Tesco, Hibernia, Lar Espana, NH Hoteles and Hispania all made material contributions to performance. The latter three also benefited from an improvement in Spanish tourism activity.

The Fund's holdings in USD floating rate bank subordinated debt issued by Westpac and ANZ again performed well, as markets recognise both their positive correlation to higher global interest rates, and the potential for them to be bought back on market at some stage

PORTFOLIO ACTIVITY

We identified numerous opportunities to invest capital over the quarter, most of which were within the Asia Pacific region.

In April we invested in online job advertisement company Seek's new senior debt issue at $A Bills +~230bp (initial yield ~4.10%). Seek is a highly cashflow generative business with a fairly conservative balance sheet that has successfully expanded into offshore job ad markets.

We view Seek as being a comfortably investment grade company; however they don't currently have an official credit rating. Additionally, this deal was Seek's first foray into Australian debt capital markets. These two factors, while largely unrelated to the earnings of Seek's business, forced them to issue at a higher yield in order to appeal to a more limited investor base. To us, this was a clear anomaly.

In May we invested in the senior debt of data infrastructure company NEXTDC, at $A Bills + ~440bp (initial yield ~6.20%). NEXTDC provides highly secure industrial warehousing to companies, enabling them to safely store and operate their computer servers, creating a portal for them to connect to their customers. It generates attractive returns on its properties in Sydney, Melbourne and Brisbane (which are close to capacity) and are one of few scale participants in the sector. It is currently building additional sites in each of these locations, which we believe will also generate attractive returns.

PM Capital has a long history with NEXTDC. Our equities business participated in its IPO many years ago which put us in a strong position to participate in this deal, and highlights that as a business we consider all levels of the capital structure when evaluating a company.

Also in May, as part of our investment theme targeting the recovery in the Irish property market, we invested in the subordinated debt securities of the Irish National Asset Management Agency at ~$A Bills + 600bp (initial yield ~7.80%). This investment is effectively backed by a pool of mortgages

Enhanced Yield Fund

against property, at what we believe is an attractive point in the Irish property cycle.

We also added to our position in Tesco senior secured debt during the quarter, at ~$A Bills + 560bp (yield of ~7.40%). Since then, this investment has rallied by around +6.5%.

Lastly, we invested in the debt securities of two high quality companies that we effectively view as cash proxies. We bought a new position in the three year senior debt of Auckland International Airport at ~$A Bills + 75bp. This is an infrastructure asset that we believe to be one of the best in the world, given its ownership of the land that the airport sits on, its monopolistic domination of international travel in New Zealand, and an enviable property portfolio.

We also bought into Wells Fargo's two year senior debt at ~$A Bills + 80bp. As we have previously outlined, we regard Wells Fargo as one of the strongest banks globally.

OUTLOOK

There is no doubt in our minds that global interest rates need to go through a period of considerable normalisation longer term, particularly given the current backdrop of sound economic activity in the US and encouraging signs of recovery in numerous European economies such as Ireland and Spain.

We genuinely believe that the market is significantly underestimating how far global interest rates can rise over the longer term, and the destructive nature that this can have on a portfolio with meaningful interest rate exposure. To highlight just how low rates are currently, the average official cash rate in the US for the twenty years prior to the GFC was ~5%. This is a long way from where they sit today, and in part why we have no interest rate exposure in the Fund.

In terms of credit markets, as evidenced in recent quarterly reports including this one, there has been no shortage of attractive opportunities in which to invest our capital. With the big engines of the US and Europe likely to drive global growth over the next five to ten years, we think owning debt in a discerning selection of businesses with quality assets, solid earnings and key competitive advantages will prove to be a sound strategy.

Portfolio Investments	Weighting	Average yield	Average spread to RBA
Cash	**42.8%**	**2.04%***	**0.54%***
Corporate bonds	**47.0%**	**4.41%***	**2.91%***
Fixed	0.3%		
Floating	99.7%		
Hybrids	**7.7%**	**4.72%***	**3.22%***
Fixed	0.0%		
Floating	100.0%		
Equity income strategies	**3.1%**		
Total exposure	100.0%		

Regional allocation	
Australia	68.9%
Europe	11.3%
UK	9.4%
US	8.2%
Other	2.2%

Duration	
Interest rate	0.15 years*
Average term to maturity	2.88 years*

Yield security maturity profile	
0-1 year	45.9%
1-2 years	7.6%
2-3 years	13.6%
3-4 years	7.1%
4 Years +	25.8%

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

> "Investors need to deliberately manage interest rate risk independently of credit risk. Failure to do so could see returns from credit markets completely wiped out with equity-like volatility in interest rate markets, and then some."

Jarod Dawson
From PM Capital's May 2017 Moneyball presentation

Jarod Dawson - Portfolio Manager (Income Securities)

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PM Capital

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

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.

Effective 31 May 2017 FundBPO Pty Ltd commenced as custodian for the Fund (replacing UBS Nominees Pty Limited). FundBPO has itself has appointed JP Morgan to provide sub-custody services. Further information about FundBPO is available at www.mainstreambpo.com.

1. Past performance is not a reliable indicator of future performance.

2. The Asian region (ex-Japan) includes Hong Kong, China, Taiwan, Korea, Indonesia, India, Sri Lanka, Malaysia, Philippines, Thailand, Vietnam, Pakistan and Singapore, but excludes Japan. The Company may also obtain exposure to companies listed on other global exchanges where the predominant business of those companies is conducted in the Asian region (ex-Japan).

PM Capital