PM Capital

MARCH 2017

Quarterly Report

p.11

Subordinated debt

You can bank on it

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

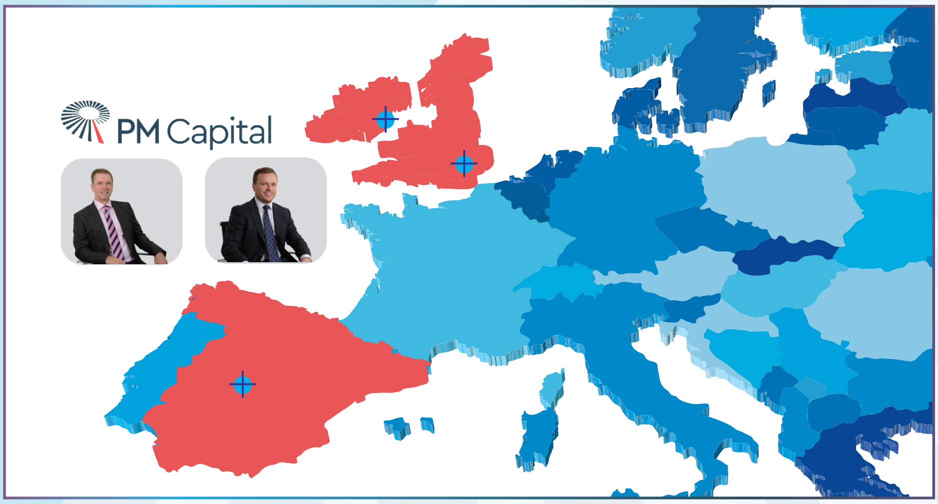
PM Capital Enhanced Yield Fund
ARSN 099 581 558
APIR Code: PMC0103AU

CONTENTS

Quarterly Video

Trip update to follow shortly

Chief Investment Officer Paul Moore and Portfolio Manager John Whelan have been on a research trip to the UK, Ireland and Spain, including meetings with companies currently held in the strategies and prospective holdings. They have also met with analysts and industry participants. Paul and John will report on their findings in a video report later this month.



Research trips are crucial to our research process. They allow us to ask questions on the ground that will assist us to determine if new market anomalies have emerged or ones we have already identified are reaching their conclusion.

> "Just as the general market perception under-estimated the sustainability of the US economic recovery, we suspect it has also under-estimated the sustained improvement in Europe, and in particular Spain. The focus of our trip has been to review the evolution of our property and banking related investments in Spain and Ireland and to continue our background research into a number of new opportunities that we have identified on our valuation radar screens."

Paul Moore
Chief Investment Officer and Global Portfolio Manager

Total Return Since Inception

Fund	
PM Capital Global Companies Fund	356.6%
PM Capital Asian Companies Fund	249.9%
PM Capital Australian Companies Fund	492.5%
PM Capital Enhanced Yield Fund	144.1%

Benchmark	
MSCI World Net Total Return Index (AUD)	103.6%
MSCI AC Asia ex Japan Net (AUD)	86.0%
S&P / ASX 200 Accum. Index	288.7%
RBA Cash Rate	89.1%

Past performance is not a reliable indicator of future performance. See page 13 for Important Information. As at 31 March 2017.

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	$308.1m as at 31 March 2017
Global equities FUM	$892.5m as at 31 March 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	2.5092	4.6%	20.8%	20.7%	12.4%	20.0%	8.6%	356.6%
MSCI World Net Total Return Index (AUD)			1.0%	8.7%	15.7%	12.6%	16.3%	3.9%	103.6%

KEY POINTS

Fortress Investment Management sold at a 40% premium.

Caixabank up 28% on rising European interest rates and a strengthening Spanish economy.

Wynn Macau also up 28% as the recovery in Macau gaming revenues continues.

The Fund had a strong quarter with an increase in value of more than 4% with all of our investment themes contributing to the performance. Given the Fund's exposure to the US dollar (USD), the performance would have been a lot stronger if not for the 6% rise in the Australian dollar (AUD) versus the USD. We believe the AUD is currently range bound and given we think commodity prices have peaked, we believe the AUD is trading close to the higher end of that range.

With regards to portfolio activity, we sold our position in Anheuser Busch Inbev (ABI) as it reached a fair valuation. With industry consolidation - of which ABI has been a driving force- now in its final stage, growth dynamics for the global brewers is evolving to one much more reliant on organic growth. We believe ABI has less scope to grow earnings organically versus some of its peers, particularly in light of its industry leading margins. We also sold our holdings in Oracle as it also reached our valuation target.

On the other hand, we increased our exposure to US homebuilding companies over the quarter as they are likely to be the prime beneficiaries of continued strong employment growth and consumer confidence in the US. As part of our alternative investment management theme, we also initiated a position in Fortress Investment Management. We subsequently sold it one month after our original purchase as its share price rose 40% on the back of a takeover offer by Softbank.

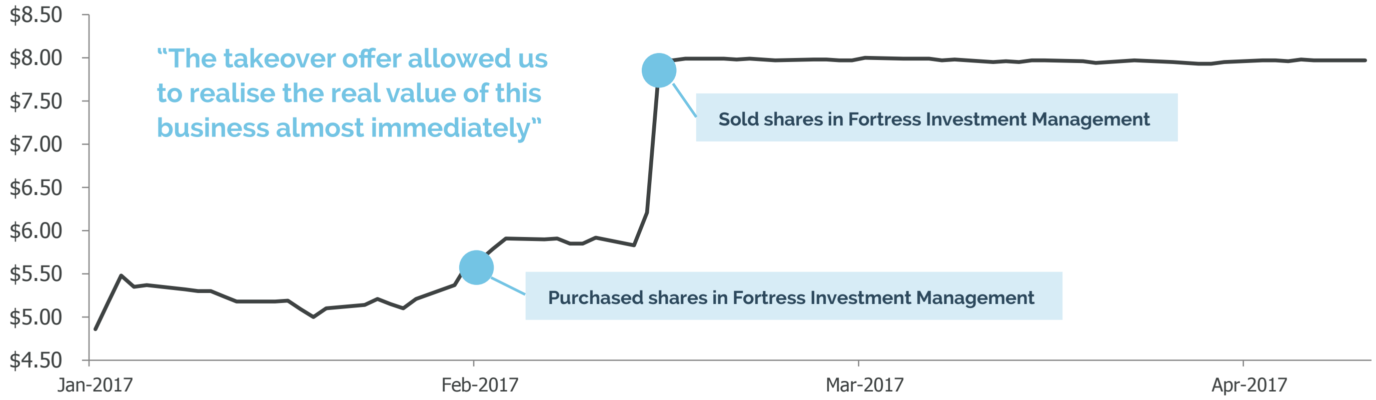
Overall our net investment position remained relatively stable.

Within our global domestic banking theme, Caixabank, the number one domestic Spanish bank, rose strongly following the significant rise of European interest rates. Spanish banks are the most exposed European banks to rising rates due to the vast majority of their assets being floating rate loans. In a low growth environment, we look for companies with either an above normal yield or earnings growth – in Caixabank we see both. It is paying a 5% dividend yield on a conservative payout ratio compared to European bonds yielding sub 1%. In addition, a normalisation of European interest rates could see a 30%+ increase in earnings.

As touched on above, Fortress Investment Management, one of our alternative asset manager investments, turned into a quick buy-and-sell over the quarter due to the takeover offer by Softbank. We had been monitoring Fortress for a number of years as part of our thesis around the undervaluation of alternative asset managers. We decided to invest early in the quarter as the market became so bearish that it was valuing Fortress shares close to their liquidation value. The reality was that while Fortress made mistakes in its legacy private equity and hedge fund businesses, its credit business was top tier and it was making substantial progress raising funds for its next generation of listed private equity vehicles. On top of this it recently made commitments to sell down its large balance sheet investments and return a substantial amount of capital back to shareholders. The takeover offer allowed us to realise the real value of this business almost immediately. It also illustrates the valuation misalignment in alternative asset managers which performed strongly over the quarter.

Global Companies Fund

Figure A: Fortress Investment Management (US: FIG) Share Price



Source: Factset

To conclude we believe that over the next 10 years, interest rates are probably going to be quite different to what we have become used to over the last 5 years and so our investment focus will remain finding good businesses who can grow their earnings and are not reliant on ultra-low interest rates to do so.

Portfolio Investments	Weighting
Global Brewing	5.4%
Post GFC Housing Recovery - US	15.4%
Post GFC Housing Recovery - Europe	8.7%
Global Domestic Banking	36.8%
Service Monopolies	21.3%
Pharmaceuticals	6.4%
Gaming - Macau	6.2%
Alternative Investment Managers	11.2%
Other	2.8%
Long Position	**114.2%**
Short Position	-15.4%
Net Invested Equities	**98.8%**
Credit Securities	10.5%
Net invested position	109.3%

Total Holdings	42

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

Currency Exposure*	
USD	75.6%
EUR	16.5%
GBP	7.4%
HKD	2.2%
AUD & NZD**	-1.7%
Total Exposure	100.0%

* Stated at market value before the impact of currency options.

** Represents net exposure to AUD and NZD. Actual NZD exposure is -16.9%.

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	$18.1m as at 31 March 2017
Asian equities FUM	$77.9m as at 31 March 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	1.7377	4.6%	8.4%	10.2%	6.4%	12.7%	15.4%	249.9%
MSCI AC Asia ex Japan Net Total Return Index			7.6%	6.6%	18.5%	11.7%	11.4%	7.4%	86.0%

KEY POINTS

Merger and acquisition activity drove the robust performances of several portfolio holdings.

Underlying operating trends from the Fund's China holdings suggest the macro environment is improving.

Continue to maintain a fully invested position with further rotation of capital into Financials.

The underlying equity portfolio advanced almost 10% for the period, while currency attribution offset some of this performance. Autohome, the Fund's largest position, again contributed positively to performance. We have seen renewed investor interest in the company after management's decision to refocus the business towards its core lead generation, advertising and third party marketplace businesses. Several sell side analysts have reinitiated coverage with generally positive outlooks, reflecting our own investment thesis and helping drive the recent share price re-rating. While the company's operating performance may be impacted by the closure of the direct sales business in the short term, our recent conversations with management have led us to become more optimistic about the longer term outlook for earnings growth.

Our Macau holdings also continued on from their robust performances in 2016. In particular, Wynn Macau was a standout after a better than expected fourth quarter result showed their recently opened Wynn Cotai property continued to gain traction with patrons while not cannibalising the existing Peninsula business. Macau's gross gaming revenues advanced 13% year-over-year in the first quarter, above the market's original expectations. We expect the Macau gaming sector to experience another round of consensus earnings upgrades following what is expected to be a strong Q1/17 results season in April. Despite the solid performance from our Macau holdings over the past year, the industry's recovery from the severe cyclical correction experienced in 2014 and 2015 is still in its infancy and will take two to three years to fully play out.

Merger and acquisition activity also led to solid performances from several portfolio holdings. ASX-listed company Seek Limited announced it was in advanced discussions regarding a potential privatisation proposal for the minority interests in Zhaopin at US$18 per ADS. Subsequent to quarter end Seek and Zhaopin reached a definitive agreement and the offer was increased marginally to US$18.20. While it is always pleasing to receive a takeover offer for one of our holdings, we believe Seek's offer undervalues Zhaopin. However, due to Seek's majority shareholding, and the takeover laws in the Cayman Islands, the deal will go through. For more on the Zhaopin privatisation please refer to the recently published piece on our website.

During the period there was also growing speculation that Tsingtao's minority shareholder Asahi was considering the sale of their 20% interest in the company. Consequently investors became more optimistic that a new strategic partner at Tsingtao could help improve the company's premium product positioning, or that Tsingtao itself might repurchase the Asahi stake resulting in meaningful earnings per share accretion. We took advantage of Tsingtao's recent share price appreciation to exit our position, primarily on a valuation basis. We do not believe a change in minority ownership at Tsingtao alters the outlook for industry consolidation that is dearly needed in China.

Weakness in the US Dollar and pegged HK Dollar offset some of the positive performance achieved by the underlying equity portfolio. The US Dollar gave back some of the gains realised post President Trump's election victory as the market digested an abundance of new information and put a realistic timeframe on key reforms. Conversely, renewed optimism for Chinese growth in recent months has had a positive impact on currencies in the region, including the Australian Dollar.

Asian Companies Fund

A weak US Dollar impacts the Fund's relative performance versus the broader market given the Fund is close to 100% exposed to the US Dollar and pegged HK Dollar, whereas the wider market benefits when local Asian currencies rise (performance typically correlated to Australian Dollar). We believe the Australian Dollar is at the higher end of its range and likely to come under pressure over the next 12 months as commodity prices peak near term and interest rate differentials, particularly with the US, continue to contract.

The Fund remains near fully invested. In addition to the sale of Tsingtao highlighted above, we also exited our position in Genting Malaysia after a period of strong share price performance spurred by growing optimism surrounding the company's expanded Malaysian operations. While earnings growth is accelerating, we believe the share price appreciation – 27% in the past year including dividends – adequately reflects the company's value and feel that the capital could now be better allocated elsewhere.

The proceeds from the above sales were reinvested into existing portfolio positions and investment themes. Notably we added to the Fund's Financials exposure while also increasing Chinese food and beverage company Dali Foods to a core 5% weighting. We expect Dali's earnings growth to accelerate this year thanks to its strong pipeline of new product launches, all with substantially higher margins, and a greater contribution from the modern retail channel after increased investment into sales and distribution. Despite the positive outlook Dali trades at a discount to the Chinese food and beverage sector, we think primarily because of a lack of market familiarity (relatively short trading history) and limited liquidity. We view Dali as an innovation leader within the Chinese food and beverage sector, underlined by a very strong track record of new product launches. We see limited downside at current valuations, particularly considering the cash accumulating on the balance sheet and the strong dividend yield and therefore expect the share price to re-rate on improved earnings momentum this year.

Our outlook remains consistent with the views expressed in our previous commentary. We have become increasingly positive on the general macro environment in Asia as we get confirmation from the companies we own that the on the ground operating conditions are improving. The core portfolio themes remain largely unchanged and we continue to have strong conviction in these holdings which we believe warrants maintaining a fully invested position.

Portfolio Investments	Weighting
Consumer - Breweries	8.1%
Consumer - Other	9.0%
Online Classifieds & Ecommerce	29.3%
Gaming - Macau	13.1%
Gaming - Other	6.6%
Financials	17.2%
Capital Goods & Commoities	4.7%
Other	9.6%
Long Position	97.5%
Credit Securities	0.4%
Cash	2.1%
Net invested position	100.0%

Total Holdings	27

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

Currency Exposure*	
USD	53.1%
HKD	41.8%
AUD	2.5%
Other	2.6%
Total Exposure	100.0%

* Stated at market value.

" Increasingly over the last 6 months we have seen the positive side effects of the Chinese Government's efforts to reinflate the domestic economy back in the first half of 2016. This has led to a strong performance of regional markets particularly over the last quarter. While it is always hard to predict the short term direction of markets we are optimistic given what we are hearing in discussions with the companies we own. More importantly if you're investing for the next 5-10-15 years then Asia may represent an attractive investment opportunity. Despite slowing rates of growth in recent years from the major economies in the region, Asia remains the world's primary growth driver and continues to become a bigger and bigger part of the global GDP pie."

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	$33.8m as at 31 March 2017
Australian equities FUM	$33.8m as at 31 March 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	1.9873	3.9%	11.7%	23.2%	10.5%	13.9%	10.9%	492.5%
S&P / ASX 200 Accumulation Index			4.8%	10.2%	20.5%	7.5%	11.1%	8.2%	288.7%

KEY POINTS

Earnings announcements in line with expectations and our investment theses.

Reversion to the mean a significant market theme.

Longer term outlook for the broader market remains subdued.

A majority of Australian companies reported their first half earnings during this quarter and these earnings announcements, rather than macro issues, dominated stock price moves over this quarter.

Our key observation from the earnings announcements has been that the share prices of large cap stocks such as Woolworths (+11.4%), Wesfarmers (+9.4%) and CSL (+25.5%) that had underperformed the market in the prior nine months recovered strongly this quarter. This meant that a handful of large cap stocks drove outperformance while the rest of the market was broadly flat for the quarter. Our takeaway from this has been that the strong performance of the market is not a reflection of improving macro conditions nor is it a reflection of increased risk appetite from investors.

Results for the stocks held in the portfolio came very much in line or above our expectations. Japara Healthcare (JHC) (-8.6%) was the exception, which disappointed after management announced lower than expected earnings and reduced their growth outlook for the year from their original target of 7 – 10% earnings growth to around 7% growth. We built a position in JHC as we view it as conservatively run business in an industry with good long term tailwinds. However, we were cognisant that in the near term the industry faces a challenging funding environment with the government looking to announce their funding plan for the industry in the next six months. We maintained our position with the view that the returns for this stock will only emerge after the uncertainty over the funding model abates.

Latam Auto (LAA) is one of the leading online car portals in Latin America, with the number one position in Mexico, Equador and top 3 position in Peru, Argentina and Panama. During the last quarter, the stock went into suspension because of a poorly managed capital raising process. Being an early stage business in developing markets, LAA needs to invest significantly to both develop the markets and retain their market position. As a result, the business is not cash flow breakeven and requires capital on a periodic basis to reach its full potential. We had bought an initial investment in the business six months ago as we saw the tremendous upside in these markets.

On every growth metric, LAA stands out as significantly cheap compared to Carsales.com (CAR), Australia's largest online car portal. When operating a business that is cash flow negative, management teams need to balance raising capital too early and at too much of a discount to intrinsic value, and having enough cash on hand to continue growing the business without being constricted. The biggest risk is that management mistime their capital raisings and thus leave themselves at the mercy of the capital markets. This is what happened in the case of LAA where the management left the capital raising to too late and is now looking for alternative ways to raise capital rather than sell their shares for too low a valuation.

Our analysis of the business suggests that LAA is not facing operational issues and thus the underlying value and outlook of the business remains unchanged. Where LAA had originally wanted do a share placement at a share price of $0.16, they are now raising similar amount of capital via a secured convertible note with an 8% coupon rate and conversion price of $0.16. We consider this secured convertible note to be a good structure that allows us to receive an attractive coupon while at the same time having the option to participate in the upside of the business.

NextDC (NXT) was the biggest contributor to performance in the quarter as the stock rose 12.1% following its earnings announcement. The results continue to be in line with management guidance as per their slow and deliberate leasing strategy. Over the past three years we have seen the stock price trade from a low of $1.50 to a high of $4.22 as the market continues to grapple with the limited short term visibility of the underlying metrics and non-linear progression of the underlying business drivers.

We continue to believe in NXT's business model. As we have seen from overseas comparables such as Equinix, upon maturation NXT will generate significant free cash flows which can be returned to shareholders. In the meantime, we track the growing cloud budgets for large cloud services operators such as Amazon, Alphabet, Microsoft, Oracle etc., all of which have announced at least 30% higher capex spend on building out cloud infrastructure. As a result, we remain convinced about the growth trajectory for the business.

Over the quarter, we reduced the net equity position of the fund from 95.5% to 89.5% as we took advantage of the strong performance over the quarter to reduce our positions in ANZ, NAB, Westpac and NXT. In addition, the AFIC convertible note matured and we reduced our credit securities from 24.3% to 15.4%.

The market performance this quarter reflects a reversion to the mean for selected healthcare and consumer staples stocks (which are generally seen as defensive investment options) for which expectations had fallen after a period of underperformance. As a result, we continue to hold the view that earnings growth for the market as a whole will remain under pressure and thus we continue to expect a low return market environment.

Portfolio Investments	Weighting
Domestic Banks	15.9%
International Banks	17.9%
Non Bank Financials	12.5%
Property	12.3%
Industrials	7.9%
Internet	15.0%
Other	8.4%
Resources	0.0%
Long position	89.9%
Short position	-1.0%
Net invested equities	88.9%
Credit Securities	15.4%
Net invested position	104.3%

Total holdings	21

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

Currency Exposure*	
AUD & NZD**	88.5%
USD	6.5%
EUR	2.6%
GBP	2.4%
Total Exposure	100.0%

* Stated at market value before the impact of currency options.
** Represents net exposure to AUD and NZD. Actual NZD exposure is -0.1%.

> "Earnings season saw mean reversion by stocks that underperformed in 2016 and institutional investors increasing their overall exposure to consumer discretionary stocks. Domestic macro indicators were mixed while global indicators continued to improve."

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	$405.5m as at 31 March 2017
Fixed Income FUM	$597.7m as at 31 March 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	1.1249	1.8%	3.1%	6.5%	3.5%	4.4%	6.1%	144.1%
RBA cash rate			0.4%	0.8%	1.6%	2.0%	2.4%	4.3%	89.1%

KEY POINTS

Fund performance strong over short and long term.

Subordinated debt you can bank on, plus new investments in Wells Fargo and IAG.

Portfolio holdings well placed for higher global interest rates.

Performance

Performance for the March Quarter was +1.8%, taking the 1 year return to a solid +6.5% after fees which compares well to the RBA cash rate at +1.6% over the same period.

The US Federal Reserve raised its benchmark interest rate to a range of 0.75% to 1.00% in March, acknowledging the improving US economic backdrop, and the very stimulatory stance of current monetary policy. Official US rates are likely to increase further this year.

On the political front, the magnitude of US Government stimulus initiatives such as tax cuts may get dialled back as Republicans failed to gain congressional support for their healthcare package. The package was designed to deliver significant cost savings that would fund part of their tax cuts, which now may have to be watered down and thus potentially provide less of a boost to the economy.

The major contributor to the Fund's performance over the quarter was our holding in USD bank subordinated Floating Rate Notes (FRNs), issued by ANZ and Westpac (+15%). As outlined in previous reports, these securities benefit considerably from higher US interest rates, and also the likelihood that they will lose their efficiency as balance sheet capital over the next few years under the Basel framework.

In addition to the subordinated debt previously mentioned, our position in CBA's EUR subordinated debt also performed well (+5%) as the anomaly that we identified over a year ago – the significant yield premium that the EUR bonds trade at above the equivalent AUD securities – becomes increasingly recognised by the market.

The Fund's holding in the EUR subordinated debt of retail bank Allied Irish was also up (+5%) over the quarter, as the business continues to benefit from a loosening of bank lending restrictions and the continued recovery of the Irish economy.

Our investment in the senior secured debt of UK retailer Tesco performed well (+8%) after it announced a planned merger with wholesale grocery firm Booker in January. The deal should generate material synergies, assist Tesco in streamlining its supply lines, provide access to an industry leading retail platform and be earnings accretive next year. Elements of the deal are still awaiting approval from the UK competition regulator.

Spanish commercial property company Hispania rose solidly over the quarter (+20%). It has benefitted considerably from the strengthening Spanish domestic economy, as well as increasing interest in Spain as a tourist destination. This backdrop is contributing significantly to earnings growth, and in turn a rise in the value of its property assets.

Portfolio Activity

We initiated a new position in Wells Fargo's EUR senior unsecured 5 year bonds in January, at $A Bills + 154bp. Spreads on Wells Fargo debt widened somewhat towards the end of 2016 as the market reacted to what we felt in context was a fairly transitory issue that related to fraudulent activity from some of their sales staff. Pleasingly, this bond has already contributed meaningfully to performance as investors have started to look through the above issue, and focus on the high quality nature of the business.

We also increased our IAG hybrid security exposure over the quarter (ASX code: IANG) from 2% to 3.5% at Bills + ~310bp.

Enhanced Yield Fund

This investment has less than 3 years to maturity now, and given its favourable security structure (which pre dates the more recent and less attractive Basel III regime based issues from the financial services sector) we think it is a compelling investment.

In March we reduced our exposure to Crown's subordinated debt (ASX code: CWNHA) from 3% to 2%, by participating in their recently announced buyback. We made this decision in light of James Packers decision to sell all of his holding ($100m) into the buyback also, meaning that his interests are no longer as closely aligned with bondholders as they previously were. Additionally, with only 18 months till the call date of the notes, we find the timing of the buyback a little peculiar, and are not completely convinced that it was not originally designed purely for the purpose of providing Mr Packer with a means to sell his holding. Thus, in conjunction with the fact that the investment has performed very well to date, we felt it was prudent to reduce our exposure.

Outlook

Credit markets have performed well over the past 12 months, and indeed, some of the Fund's holdings have risen substantially in value. Having said this, we think that there is still considerable value to be realised from our existing portfolio – particularly from our USD subordinated debt.

Given the Fund's ability to invest not just in Australia, but in debt markets around the world, there is no shortage of investment opportunities currently catching our eye. That said, performance over the past 12 months has exceeded our expectations, particularly given the nominal level of interest rates in Australia, and we wouldn't be surprised if returns moderated to more normalised levels over the next 12 months. In the event that we get isolated pockets of market volatility, the Fund has ample capital available to take advantage of attractive investment opportunities as they present themselves.

With effectively no interest rate duration, the Fund is well placed for higher global interest rates. The average spread on the Fund's assets currently sits at over 200bp above the RBA cash rate, and we are confident that the Fund is well positioned for the medium to long term.

Portfolio Investments	Weighting	Average yield	Average spread to Rba
Cash	**47.7%**	**2.15%^**	**0.65%^**
Corporate bonds	**39.3%**	**4.22%^**	**2.72%^**
Fixed	0.0%		
Floating	100.0%		
Hybrids	**10.0%**	**5.09%^**	**3.59%^**
Fixed	0.0%		
Floating	100.0%		
Equity income strategies	**3.0%**		
Total exposure	100.0%		

Regional allocation	
Australia	77.0%
UK*	11.4%
Europe*	8.3%
US*	3.3%

Duration	
Interest rate	0.15 years^
Average term to maturity	2.80

Yield security maturity profile	
0-1 year	54.9%
1-2 years	4.6%
2-3 years	11.4%
3-4 years	7.7%
4 Years +	21.4%

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

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

"Credit markets have performed well over the past 12 months, and are starting to more accurately reflect the brighter global economic backdrop that we have been highlighting recently, especially in the US. That being said, we believe there is considerable value still to be realised from the Fund's assets, and in addition to this we are continuing to identify new investment anomalies that we believe are worthy of investment consideration"

Jarod Dawson - Portfolio Manager (Income Securities)

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.

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)

CONTACT

Lachlan Cameron
Head of Distribution

P +61 2 8243 0807
M +61 411 564 191
E lcameron@pmcapital.com.au

Shane O'Connor
Sales Director, NSW & QLD

P +61 2 8243 0815
M 0424 996 795
E soconnor@pmcapital.com.au

Rebecca Morgan
Sales Director, VIC & WA

M 0407 917 661
E rmorgan@pmcapital.com.au

Aaron Gascoigne
Business Development Representative, New Zealand

P 0800 222 143
E nzinvestors@pmcapital.co.nz

RESPONSIBLE ENTITY

PM Capital Limited
ABN 69 083 644 731
AFSL 230222

Level 27, 420 George Street
Sydney NSW 2000

P +61 2 8243 0888
F +61 2 8243 0880
E pmcapital@pmcapital.com.au
www.pmcapital.com.au

PM Capital