

AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

PM Capital GO 2025 Limited Portfolio
Tracking Exchangeable Redeemable
Securities (PTrackERS)

July 2018

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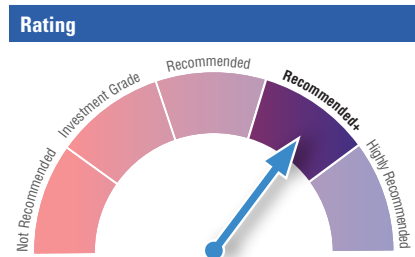
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Note: This report is based on information provided by the company as at July 2018



Key Investment Information

Name of Investment	The Portfolio Tracking Exchangeable Redeemable Securities
Investment Manager	PM Capital Limited
Investment Type	Convertible Securities in GO 2025
ASX Code	P25PA
Offer Price	\$1.40
Min Raise (\$M)	\$105m
Max Raise (\$M)	\$491m
Min Raise # Shrs	75.0m
Max Raise # Shrs	350.9m

Entitlement Offer:

Open Date:	10 July 2018
Close Date:	8 August 2018

General Public Offer:

Open Date:	10 July 2018
Close Date:	10 August 2018

Broker Firm Offer:

Open Date:	10 July 2018
Close Date:	10 August 2018
Issue of PTrackERS	17 August 2018
Expected despatch of Holding Statements	17 August 2018

Commencement of trading on the ASX	22 August 2018
Maturity Date	30 June 2025
MER	1.5% p.a.
Performance Fee	Nil

Note: This report is based on information provided by the Issuer as at July 2018

OFFER OVERVIEW

The Portfolio Tracking Exchangeable Redeemable Securities (Converting Security) ('PTrackERS'; ASX: P25PA) is an innovative capital raising initiative being undertaken by PM Capital Global Companies Fund Limited (ASX: PGF) and its wholly owned subsidiary, PM Capital GO 2025 Limited ("GO 2025"), for which the investment manager is PM Capital Limited (the "Manager"). PGF and GO 2025 are seeking to raise a minimum of \$105 million and a maximum of \$491 million (75.0 million and 350.9 million securities issued respectively) in the Offer which will comprise an Entitlement Offer to shareholders in the PM Capital Global Opportunities Fund (PGF), a General Offer and a Broker Firm Offer. The Issue Price is set at \$1.40 per PTrackERS. On a look-through basis, PTrackERS provide an investment exposure to an underlying and segregated portfolio held by GO 2025 for the sole benefit of PTrackERS holders. The investment term is seven years, consistent with the Manager's suggested minimum investment time frame in PGF. At the maturity date, investors have the choice to either exit the investment in PTrackERS based on NTA or convert into ordinary shares in PGF (without triggering a CGT event). P25PA will trade separately on the ASX. While the discount / premium to NTA of P25PA and PGF may deviate, should this be materially the case then an arbitrage opportunity shall exist. In theory then the two investment vehicles should trade relatively close to each other in this regard. The underlying rationale behind the redeemable equity structure that is PTrackERS is to allow the capital base to be grown without diluting NTA of either investors in PGF or GO 2025. Dilution has been a persistent issue in the LIC / LIT segment. The Manager will target a defined distribution yield of between 3% and 4% per annum plus franking where franking is available. Should the underlying income derived from the constituent companies in the PGF portfolio be less than the defined amount a component of the dividend may be paid out of capital.

INVESTOR SUITABILITY

PM Capital is a high conviction, contrarian investor, seeking valuation anomalies in good businesses. Its conceptualisation of investment opportunities generally sets it apart from the bulk of global equities investment managers. P25PA provides a significantly differentiated portfolio relative to peers, offering genuine portfolio diversification benefits. As a component of an investor's global equities sub-portfolio, it not only brings an attractive returns proposition but may serve to lower overall risk due to this differentiated portfolio. For a global equities mandate, the dividend yield at 4.1% p.a. is relatively strong and in part reflects the value and solid business investment style. Further, absolute dividend levels have grown consistently over time.

VIEW

IIR ascribes a "RECOMMENDED PLUS" rating to PTrackERS. IIR views PTrackERS as a simple (in the positive sense) and effective structure that importantly addresses two key inherent risks with LICs. Specifically, dilution risk when raising additional capital and discount to NTA risk (addressed at the maturity date). In effectively removing these risks, the capital raising and the mechanism by which it is being undertaken should also provide general benefits for both GO 2025 and PGF shareholders by way of the increased scale of FUM. The structure is expected to benefit all shareholders with respect to increased liquidity, greater probability and likelihood of trading closer to NTA (there is a strong correlation between FUM size and likelihood of trading at a premium or discount to NTA) and, critically, a decrease in the fixed cost per dollar of investment of the strategy (potentially leading to lower total costs incurred by investors).

In relation to PGF, we refer investors to the separate report that IIR has simultaneously produced and published. In short, IIR ascribes a "RECOMMENDED PLUS" rating to the PM Capital Global Opportunities Fund Limited. The Fund is managed by an experienced and stable senior team that has a significant alignment of interest with investors by way of equity ownership in PM Capital and significant co-investment in the Fund. The Fund provides

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

a differentiated product offering, with selective and concentrated long term investments providing diversification for the client. The portfolio is built on an integrity and consistency of philosophy and process and has been managed by the same CIO / portfolio manager since inception. PM Capital has a solid track-record. The Manager has a particularly solid track-record of picking market inflection points which, tied with effective net equity exposure management, has generated strong outperformance in such periods. Slightly tempering these positives, we note that while PM Capital's strong bench of portfolio managers serves to mitigate key man risk, it does not entirely alleviate that risk which lies with Portfolio Manager, CIO, founder, majority shareholder and key PM Capital business identity Paul Moore. Additionally, PGF has historically traded at a material discount to NTA. The discount has narrowed over the last 12-months. However, it remains to be seen how what has historically been a material performance risk to investors evolves moving forward.

KEY FEATURES OF PTrackERS

- ◆ PTrackERS provides exposure to a segregated portfolio held by GO 2025 which closely mirrors that of PGF. As such, NTA performance will closely track that of PGF.
- ◆ Investment term of seven years consistent with the Manager's suggested investment timeframe in PGF.
- ◆ At the Maturity Date, investors have the choice to redeem at NTA or convert into PGF shares (with no CGT event and no dilution to NTA per security) at conversion ratio based on the respective NTA of P25PA and PGF.
- ◆ Investors will have an incentive to redeem should P25PA be trading at a (material) discount to NTA and, conversely, convert should PGF be trading at a premium to its NTA.
- ◆ An arbitrage opportunity will exist between P25PA and PGF should the two investment vehicles be trading at materially different premium / discount to NTA. This should facilitate liquidity and exert pressure on P25PA in particular, and to a lesser extent also PGF, to trade at least at NTA approaching the Maturity Date.
- ◆ The offer structure is non-dilutive, ensuring all investors receive the full underlying performance generated by the Manager. Provides an equitable outcome between ordinary and PTrackERS investors.
- ◆ The Manager will provide a defined annual dividend policy which is expected to be between 3% and 4% p.a. Should there be a shortfall of income from the underlying investments in the portfolio, then a component will be paid from the return of capital. This structural aspect may also contribute to a deviation in the respective NTA of P25PA and PGF over time.
- ◆ CGT Roll-Over relief exists for those investors that chose not to redeem and continue on as a PGF shareholder at the Maturity Date;
- ◆ The Manager is paying for all costs associated with the offer. This means every dollar invested will be generating investment returns from day 1, and the NTA at the listing date will be equal to the Issue Price.

SWOT ANALYSIS

Strengths

- ◆ The PTrackERS structure creates an alignment and accountability for the Manager. Investors have the choice of remaining invested via an exchange of PTrackERS into PGF Shares, or leaving by redeeming based on NTA at 30 June 2025. This feature makes the Manager highly accountable for investment performance and communication, as clients can redeem if not satisfied with either the NTA or share price performance.
- ◆ In essence, PTrackERS allow the capital base to be grown without diluting NTA of either investors in PGF or GO 2025. This is a significant improvement to many LICs that have diluted shareholders by raising capital at a discount to NTA. As such, returns will be easily understandable, not impacted by capital flows and corporate actions.
- ◆ The structure creates a hard catalyst for PTrackERS to trade at NTA by at least the conversion date. If the share price is at a material discount to NTA then there is a definite incentive for investors to redeem, with the Manager effectively losing that capital. It serves to create a heightened investment manager accountability in the LIC / LIT segment.

- ◆ The structure is expected to enhance PGF with respect to increased liquidity, greater probability and likelihood of trading closer to NTA (there is a strong correlation between FUM size and likelihood of trading at a premium or discount to NTA) and, critically, a decrease in the fixed cost per dollar of investment of the strategy (potentially leading to lower total costs incurred by investors).
- ◆ The Manager is paying for all costs associated with the offer. This means every dollar invested will be generating investment returns from day 1, and the NTA at the listing date will be equal to the Issue Price.
- ◆ Broadly speaking, the structure provides investors with all the benefits of an LIC but with the protection that at the end of the investment term the ability to exit at parity to NTA. It removes the share price to NTA performance risk inherent in LICs.
- ◆ An arbitrage opportunity will exist between P25PA and PGF should the two vehicles trade at materially different Premium / discount to NTA. In theory this may create liquidity and exert pressure to trade towards NTA.

Weakness

- ◆ Whilst feedback from the market place may be that retirees in particular like a defined dividend policy and do not object if a component represents a return of capital, IIR is not particularly positive on the approach. In our mind, it is an unnecessary example of product engineering as we believe investors should be left to their own discretion to realise capital.
- ◆ Both the fee and dividend differential between P25PA and PGF will lead to a deviation in NTA performance over time between the two vehicles. We view this as an unnecessary complication. The respective fee structures are 1.5% MER and no performance fee (P25PA) versus 1.0% and a 15% performance fee on excess returns.

Opportunities

- ◆ Australian investor preferences are often biased towards products and services that depend substantially on the performance of the Australian economy. This domestic bias can lead to investment outcomes that do not benefit from global diversification. GO 2025 creates an opportunity to help address this issue.
- ◆ GO 2025 presents a differentiated product / portfolio offering based on the high conviction, benchmark unaware, contrarian investment style of the Manager. As a component of an investor's global equities sub-portfolio, it not only brings an attractive returns proposition but may serve to lower overall risk due to this differentiated portfolio.

Threat

- ◆ While GO 2025 should trade at or very close to NTA at the Maturity Date, there is no guarantee it will do so prior to the seven year maturity date. We note that PGF has historically traded at a material discount to NTA. Having said that, the discount has narrowed considerably over the last 12-months (4.3% discount at 30 June 2018), possibly on account of the Manager stepping up sales, marketing and shareholder engagement initiatives in recent years (a positive).
- ◆ GO 2025 investors should note that the portfolio may perform materially different to both peers and international equities markets in general on account of the Manager's relatively unique conceptualisation of the investment opportunity set. We view this more a feature than a risk per se.
- ◆ Investors should be aware that the more concentrated, high conviction and often contrarian nature of the portfolio in which the Manager is seeking genuine anomalies is likely to generate a higher degree of risk than the market. By definition, this investment approach is based on performance variance to the market.

OFFER AND PRODUCT OVERVIEW

PGF and GO2025 are seeking to raise a minimum of \$105 million and a maximum of \$491 million (75.0 million and 350.9 million securities issued respectively) in the Offer which will comprise an Entitlement Offer to shareholders in the PM Capital Global Opportunities Fund (PGF) as at the Record Date, a General Offer and a Broker Firm Offer. The Issue Price is set at \$1.40 per PTrackERS, which is designed to be very close (but may not match) the NTA of PGF on the issue date.

Investors entitled to participate in the Entitlement Offer are shareholders of PGF as at 9 July 2018, and are eligible to subscribe for 1 PTrackERS for every 1 PGF share held. All securities offered by GO 2025 will be first offered to shareholders in PGF on a 1 for 1 basis. This is up to 350.9 million securities to be issued at an Issue Price of \$1.40 per PTrackERS to raise up to \$491 million. Any remaining securities which are not taken up under the Entitlement Offer will be made available under the General Public Offer and the Broker Firm Offer.

Investors who participate in the Entitlement priority allocation will be allocated their full entitlement (subject to minimum subscription requirements). If the Offer is oversubscribed, applications in the General Offer and Broker Firm Offer will be scaled back.

PGF shareholders may subscribe for more PTrackERS than their entitlement. However, the excess will form part of the General Public Offer. Excess applications may also be made under the Broker Firm Offer.

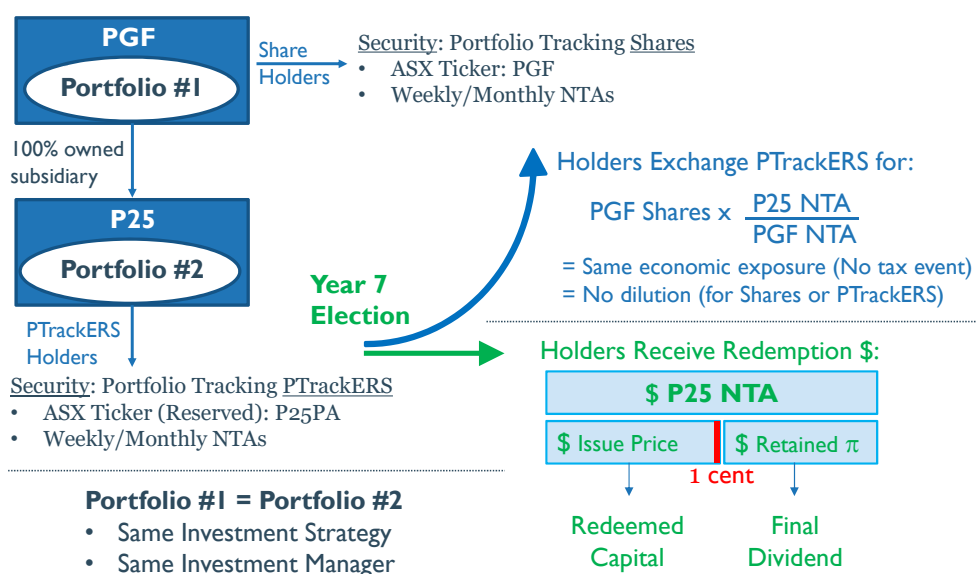
Key Dates for the Offer	
Detail	Date
Announcement of the Offer	Monday 2 July 2018
Lodgement of Prospectus with ASIC	Monday 2 July 2018
Expected expiry of Exposure Period	Monday 9 July 2018
Record Date (for determining Eligible Shareholders)	Monday 9 July 2018
Entitlement Offer Opens	Tuesday 10 July 2018
Entitlement Offer Closes	Wednesday 8 August 2018
General Public Offer Opens	Tuesday 10 July 2018
General Public Offer Closes	Friday 10 August 2018
Broker Firm Offer Opens	Tuesday 10 July 2018
Broker Firm Offer Closes	Friday 10 August 2018
Issue of PTrackERS	Friday 17 August 2018
Expected despatch of Holding Statements	Friday 17 August 2018
Commencement of trading on the ASX	Wednesday 22 August 2018

PTrackERS can be traded daily on the ASX consistent with shares of LICs. They will be separately listed, they'll have their own ticker (ASX: P25PA). Similar to PGF, an NTA will be published on a weekly basis. We note that the NTA of PTrackERS may deviate from PGF over time based on potentially different distribution levels (given the defined distribution policy of P25PA) and different fee structures between the two vehicles. Should the premium / discount to NTA of the two vehicles differ then theoretically an arbitrage opportunity will exist.

The investment term of PTrackERS is seven years, which is consistent with the Manager's suggested investment timeframe in PGF. At the end of the seven year term investors have the choice to redeem at NTA or convert into PGF shares and retain the investment for a period of choosing. There will be an incentive for investors to redeem should PTrackERS be trading at a (material) discount to NTA and, conversely, convert into ordinary PGF shares should PGF be trading at a premium to NTA. Given the ability to redeem based on NTA at the end of the seven year investment term this should exert particular pressure on PTrackERS approaching the conversion date to trade at least at, or very near, NTA, and also PGF shares.

Portfolio Tracking Exchangeable Redeemable Securities ('PTrackERS')

How do they work – Akin to LIC equity, but, redeemable



PGF's and GO 2025's Investment Strategy will be managed consistent with PGF and PM Capital's unlisted managed investment scheme, the PM Capital Global Companies Fund.

GO 2025 has a distribution policy that intends to target a defined distribution yield of between 3% and 4% per annum, plus franking where franking is available. It is possible that a component of the defined distribution could be paid out of capital returns should there be a shortfall between the dividend income derived from the investments in the underlying portfolio and the defined income payment. We note that historically PGF has generated an average dividend yield in the vicinity of 4% p.a.

The Manager will generally make distributions on PTrackERS semi-annually (expected to be in or around March and September of each year). No distributions will be made during the first 6 months after the PTrackERS have been issued. As such, it is expected that the first semi-annual distribution will be made in March 2019.

Importantly, GO 2025 does not intend to issue any further securities over the life of the product (seven years). The Manager notes that changes in an LIC's capital adds complexity for investors wishing to track and obtain the underlying performance of the Investment Manager. By participating in the offer, investors enter at NTA, have the option of exiting based on NTA at maturity, and will not have NTA diluted due to capital raising. As such, tracking performance over the life of the PTrackERS should be more straight forward than with traditional LICs which frequently undertake dilutive capital raising programs (such as SPPs and DRPs).

The Manager is paying for all costs associated with the offer. This means every dollar invested will be generating investment returns from day 1, and the NTA at the listing date will be equal to the Issue Price.

In relation to fees in GO 2025, the management fee is equal to 1.50% per annum of PTrackERS NAV. There is no performance fee. We note that the fee structure differs from that applicable to ordinary shareholders in PGF, which is 1.0% and a performance fee of 15% of excess returns over the MSCI World Net Total Return Index (AUD). This difference will in all likelihood lead to a deviation over time of the NTA performance of the two investment vehicles.

BACKGROUND

Unlike unlisted managed funds, LICs / LITs are based on permanent capital, with the entry / exit mechanism for investors being by way of a tradeable security on a securities exchange and at the prevailing share price. LICs/LITs may trade at a discount or premium to NTA and over time the discount or premium may change. This represents an additional returns risk to an unlisted managed fund. It may work for or against for a particular investor over a particular investment timeframe but, it nevertheless, represents an additional risk.

LIC / LIT investment managers can raise additional capital through a variety of ways, including options issues, share purchase plans (SPPs), dividend reinvestment plans (DRPs), entitlement offers and placements. There are advantages to the shareholder of increased scale: increased liquidity, increased research coverage, greater probability and likelihood of trading closer to NTA (there is a strong correlation between FUM size and likelihood of trading at a premium or discount to NTA) and, critically, a decrease in the fixed cost per dollar of investment of the strategy (leading to a lower MER).

To date, the issue with capital raisings in the LIC / LIT sector has been that they have been almost without exception dilutive to existing shareholders. The historically commonly issued one-for-one 'loyalty options' have often been dilutive, potentially significantly so. DRPs, SPPs and some entitlement offers and placements have been issued at discounts to the prevailing shareprice and NTA and, hence, also dilutive.

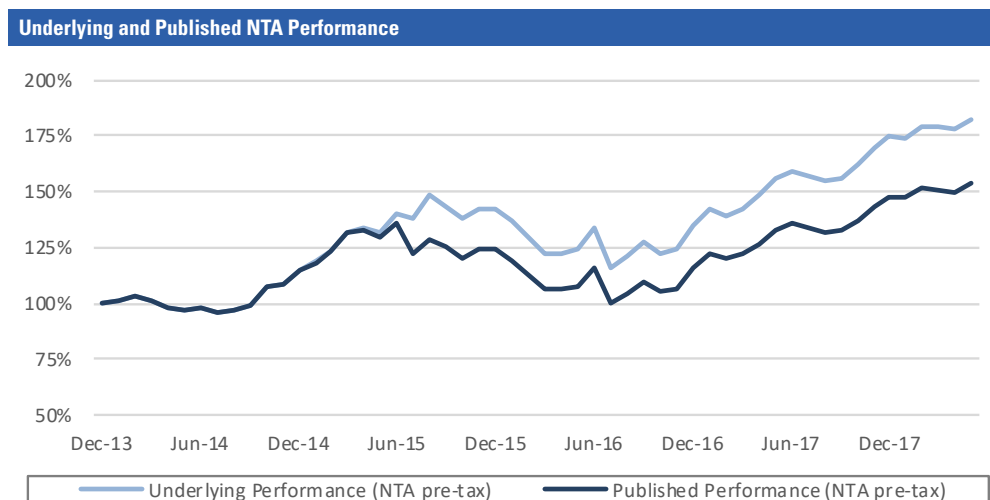
Dilution creates a non-equitable performance outcome across the investor base, with non participating investors incurring an impairment on the total returns they receive from their investment. PGF represents an excellent case in point. As part of the IPO in June 2013, the Manager also issued a one-for-one 'loyalty option' entitlement, with an exercise date of June 2015. Given the NTA level by the exercise date in June 2015 was well in excess of the options exercise price, the loyalty options proved dilutive for those shareholders that did not exercise their options, and significantly so.

The table below summarises the annual performance of PGF. The "published performance" line represents published NTA and returns the Company has delivered. The "underlying performance" represents the performance the Manager would have delivered without the dilutionary impact of the one-for-one option exercise on 30 June 2015. Essentially, the Manager has delivered underlying pre-tax performance of total returns since inception of 74.6% versus the fully diluted performance (with the impact of the options issue) of 47.4%. Investors that did not participate in the options issue have suffered a material impairment to their investment.

PGF as at 31 May 2018 (% p.a.)					
	1-yr	2-yr	3-yr	4-yr	Incept
Underlying Performance*	13.4%	16.1%	8.8%	16.4%	13.3%
Pre-Tax NTA + Dividends Performance**	12.0%	14.6%	3.7%	11.6%	9.1%
MSCI World Net Total Return Index (AUD)	9.8%	11.5%	8.1%	12.9%	12.6%
Share Price + Dividends	21.4%	19.6%	8.8%	9.2%	7.2%

* Manager pre-tax performance (adjusts NTA performance for capital flows such as option exercise, DRP and payment of tax). Stating position = IPO Offer price of \$1 per share

** Utilises raw as published Pre-tax NTA per share + dividends (no adjustment made for impact of option exercise)



The Manager set out to raise additional capital but in a way that 1) was not dilutive and 2) removed the risk of participating investors being in a situation of potentially selling their investment at a discount to NTA should the share price be at a discount to NTA. In effect, structure a capital raising that provided a demonstrably better experience for LIC / LIT investors by ensuring the underlying performance generated by the manager was that received by investors. We should note, and as the Manager openly concedes, part of the

motivation to do so was out of self-interest, with the Manager being the largest investor in PGF it did not want to dilute itself. But this represents a clear example of the positives of alignment of interests with investment managers having a substantial, 8.9% in the case of PGF, investment in the LIC they manage.

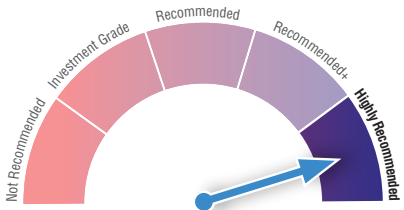
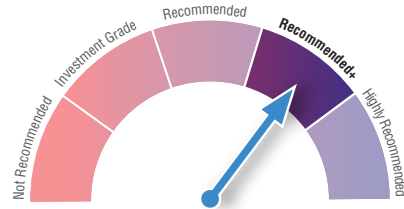
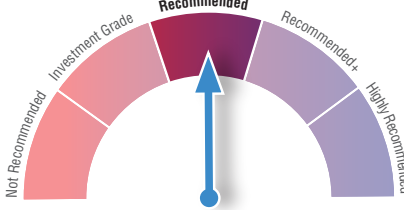
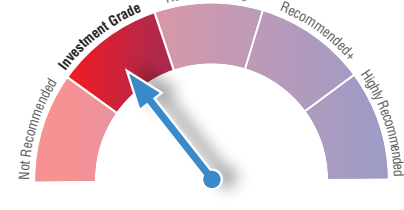
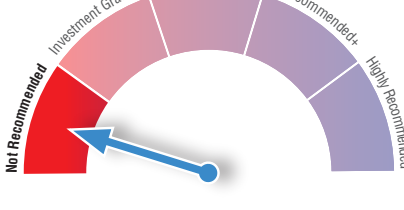
In short, the Manager resolved that the real way to solve these issues was through a redeemable equity structure in which investors can redeem their investment based on NTA (and where the Manager bears the offer costs so that investors have 100 cents to the dollar generating investment returns). Additionally, the intention was not to enforce a disposal upon investors as that would create a capital gains tax event. As such, the offer enables investors to convert their investment into ordinary PGF shares if they so choose to.

The structure creates a hard catalyst for the Manager to trade at NTA by at least the conversion date. If the share price is at a material discount to NTA then there is a definite incentive for investors to redeem, with the Manager effectively losing that capital. It serves to create a heightened investment manager accountability in the LIC / LIT segment.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

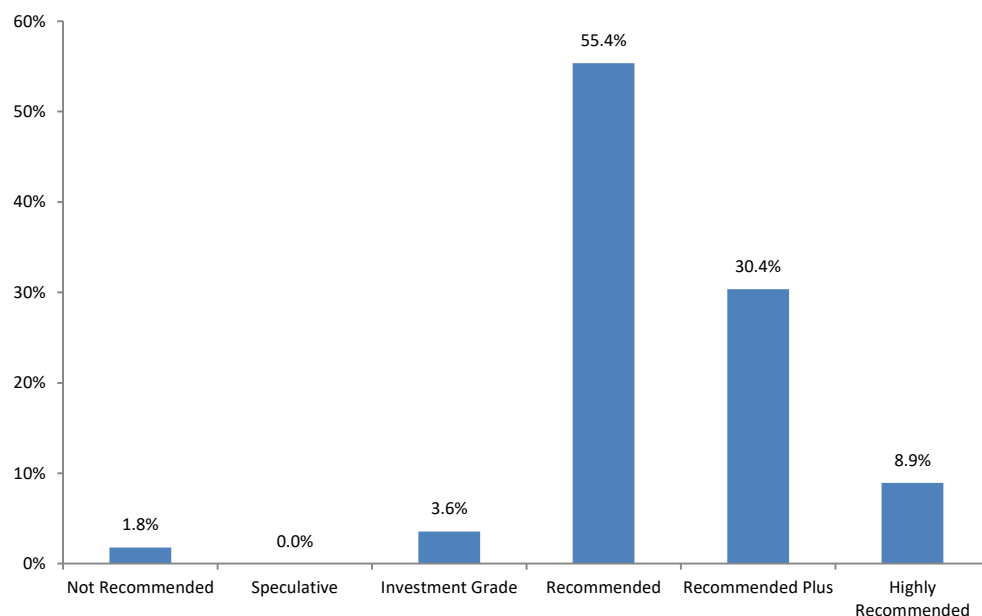
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>70–79</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Investment Grade</p> 	<p>60-70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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