



# PM Capital Global Equities

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August 2021

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# What distinguishes PM Capital

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**Alignment** with our co-investors and our since inception **top decile track record** is what makes us unique.

**Size, time horizon** and our focus on **genuine long terms anomalies** are our key competitive advantages.

We are further distinguished by our focus on **the impact of tax on underlying returns**.

Our opportunity set is provided by the fact that most investors are not prepared to deal with the **stress or business risk** of short term price action.

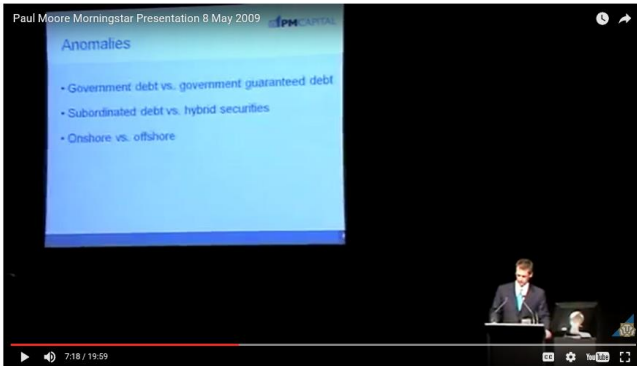
**Valuation the critical factor** – buy bottom quartile valuation, sell top quartile.

**A simple repeatable process; 20+ years, same philosophy, same process**

# Consistency of excess returns comes from consistency of process

Most critical  
part of the  
equation

## Investing in genuine long term anomalies



1986 - Sydney money show

**Morningstar**  
*May 2009*

**Moneyball**  
*May 2017*

**Why invest in anomalies?**  
*Portfolio Construction Forum*  
*October 2017*

**Bondnado**  
*February 2018*

## So why invest in anomalies?

*"To state the obvious, if you want to be a successful investor, you have to be doing something that others are not."* Paul Moore

## Why people don't invest in anomalies

*"Worldly wisdom teaches us that it's better for reputation to fail conventionally than to succeed unconventionally."*

John Maynard Keynes

# Global brewing

## Investment process – idea generation

### Industry consolidation/ globalisation

A simple,  
repeatable process.

## Observations by CIO Paul Moore – Global brewing

1

**Anheuser  
Busch**

20+ PE multiple

**Coca-Cola**

A global brand

20+ PE

**Heineken**

A global brand

10 PE

2

- Historic poor use of capital
- Shareholder dilution due to market share acquisitions
- PM reads annual reports and clear that shareholders were putting pressure on management to reverse

3

Globalisation

- Emergence of global brands at premium prices
- Market share focus to organic growth focus

Consolidation

- AMBEV desire to consolidate and diversify
- Budweiser gold- plated

4

Exit objectives:

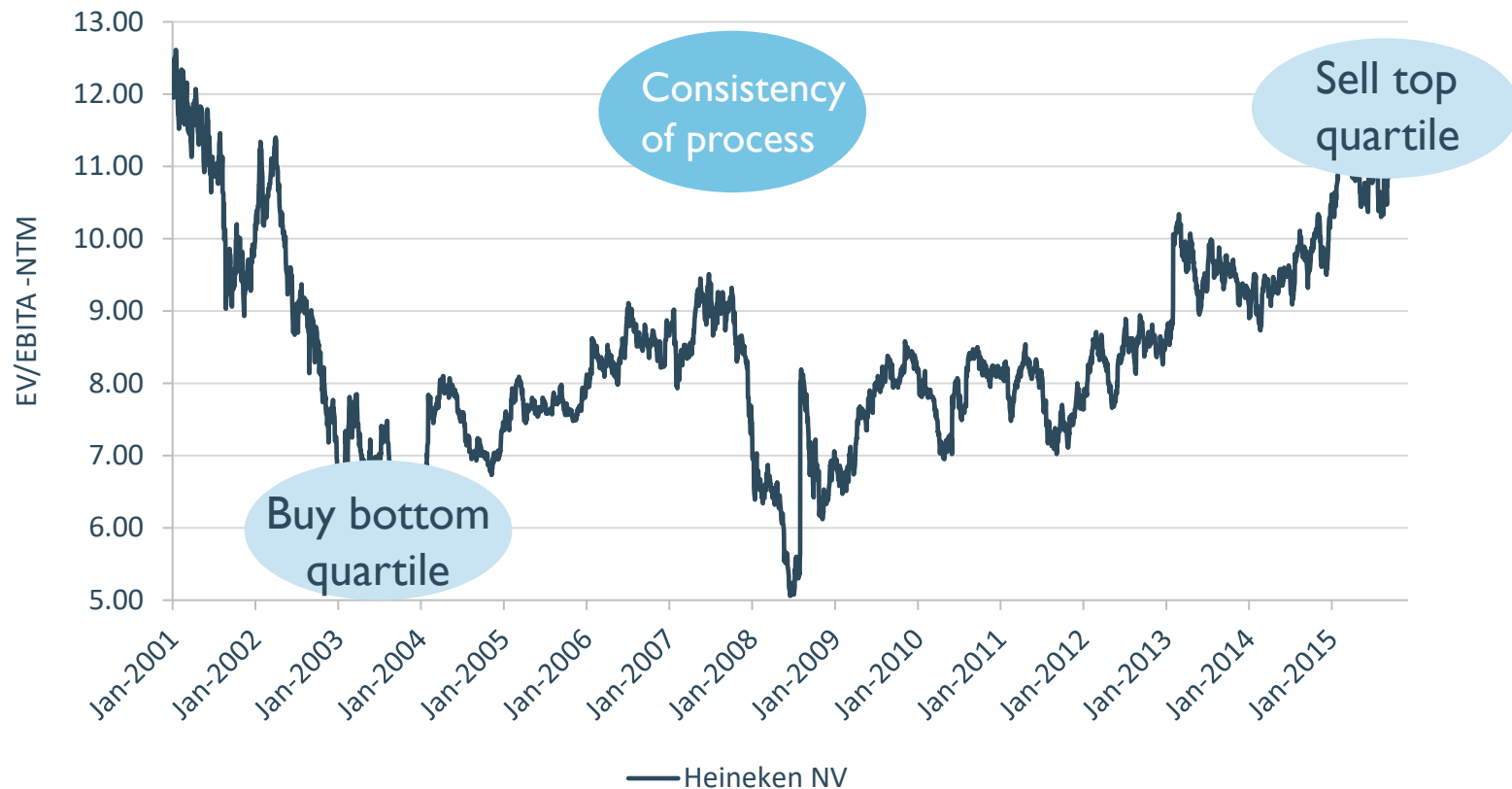
- > 20 PE
- SAB/ABI merger

**A simple business, an observed valuation disparity, a simple idea**



# Global brewing








## Valuation observation



# Global brewing

## Evolution of investment thesis

Reference: Good ideas are hard to find

	JUN 04	JUN 05	JUN 06	JUN 07	JUN 08	JUN 09	JUN 10	JUN 11	JUN 12	JUN 13	JUN 14	JUN 15	JUN 16	JUN 17	MAR 18
<b>EUROPE</b>															
Ambev	2%														
Interbrew/Inbev/AB InBev	3%	3%	3%	3%	2%	3%	4%	5%	4%	3%	2%	2%	2%		
Carlsberg	5%	3%	2%												
Scottish & Newcastle PLC			3%	3%											
Heineken Holdings		2%	4%	6%	7%	5%	5%	5%	5%	3%	3%	3%	4%	3%	
SAB Miller									2%						
<b>AMERICAS</b>															
Anheuser Busch Cos Inc				3%	5%										
Molson Brewing	2%														
FEMSA					1%										
Grupo Modelo					4%	3%	2%								
<b>ASIA</b>															
Kirin Brewery	2%	3%		2%											
Asahi Breweries	2%	4%	4%	2%	2%	2%	2%								
HiteJinro					1%	1%	1%	1%	1%						
TOTAL EXPOSURE	16%	15%	16%	19%	22%	14%	14%	11%	12%	6%	5%	5%	6%	3%	0%

A. Merger with Interbrew

B. Merger with Coors

C. Acquired by Heineken & Carlsberg

D. Merger with InBev

E. Beer business sold to Heineken

F. Acquired by Anheuser Busch InBev

G. Acquired by Anheuser-Busch InBev



CIO Paul Moore and Staropramen-Brewery's Brew Master, part of Interbrew's Czech Business April 2004

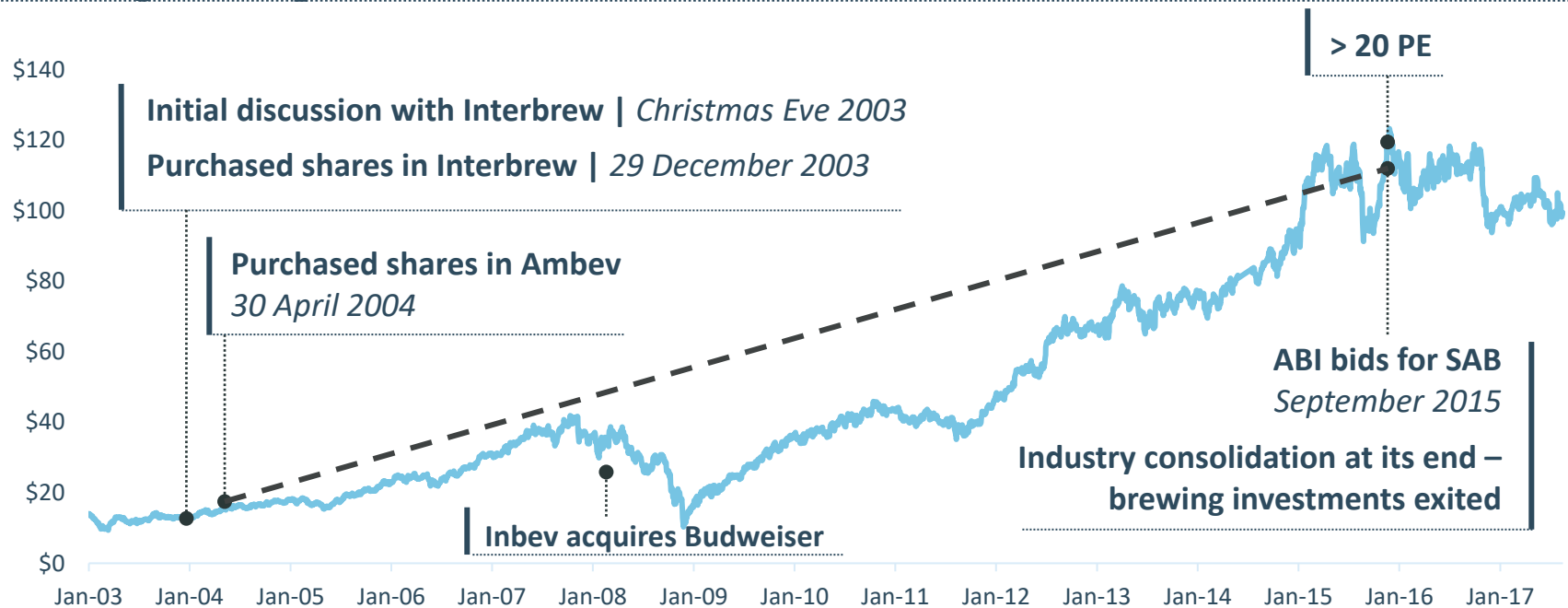


**ASX position:** Fosters **Asia positions:** Carlsberg Malaysia and Heineken Malaysia

**One simple idea. 14+ years. 16 iterations**

# Global brewing Anheuser-Busch Inbev

## Closing stock price



### Business risk

*HEIN - Simple business,  
great brand, 100+ years*

### Investment risk

*Double digit ungeared  
yield*

### Price action risk

*Patience and conviction  
the only issue*

**Price action is not investment or business risk – focusing on will  
preclude you from the very best investments**

# Consistency of process - valuation determines long term returns

<b>2003 Global Brewing</b>	Industry consolidation / 10 PE	<b>bottom quartile</b>	<b>15 years</b>
<b>2009 Credit</b>	A once in a lifetime opportunity	<b>bottom decile</b>	<b>8 years</b>
<b>2011 Las Vegas</b>	From crisis comes opportunity / 15% gross rental yields	<b>bottom decile</b>	<b>12 years+</b>
<b>2011 Bank of America</b>	0.5 book value	<b>bottom decile</b>	<b>12 years+</b>
<b>2012 Global Oligopolies</b>	Google, Visa / 12-15 PE	<b>bottom decile</b>	<b>10 years+</b>
<b>2015 Alternative Asset Managers</b>	10%+ dividend yield	<b>bottom decile</b>	<b>6 years+</b>
<b>2020 Value v Growth</b>	Record valuation dispersion	<b>bottom decile</b>	<b>2 years+</b>

**\$1083<sup>^</sup>**

**v**

**\$264<sup>\*</sup>**

**Genuine long term opportunities**  
**Simple ideas – Simple businesses – Multiple iterations**



# Experienced Global team



**Paul Moore** | PM Capital's founder, CIO, first investor in our Global Companies Fund and its portfolio manager since its inception in 1998

Tenure / Experience

22/35



**Kevin Bertoli**  
Portfolio Manager



**Jarod Dawson**  
Portfolio Manager



**John Whelan**  
Portfolio Manager



**Andrew Russell**  
Portfolio Manager

Tenure / Experience

15 / 15

16 / 25

12 / 17

1 / 15



**Annabelle Miller**  
Investment Analyst



**David Murray**  
Credit Analyst



**Alex Warnaar**  
Investment Analyst

Tenure / Experience

6 / 9

1 / 5

2 / 4

## Global Accountability, Collaboration, Peer Group Review

### We are all Analysts / Portfolio Managers

### Strong bench of portfolio managers, deep experience = Succession planning

# “Groupthink”

Where all men  
think alike, no one  
thinks very much

Walter Lippman



## PM Capital Market Insights

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# The importance of a long term framework

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- **Investment fundamentals are changing; interest rates and inflation have likely troughed and valuation dispersion has been at record levels.**
- **Financial markets have never been longer duration (exposed to a change in current historically low interest rates)**
- **Consistency of a disciplined and proven philosophy and process has never been more important**
- **The most critical investment parameters, always have and always will be, valuation and patience.**
- **Valuation determines long term returns and patience makes sure those returns are achieved**

**Same philosophy, same process, 30+ years**

# The Great Race to zero rates

## August 2020

Germany	-0.909%
Japan	-0.29%
USA	+0.318%
Australia	+0.555%
Greece	+0.919%



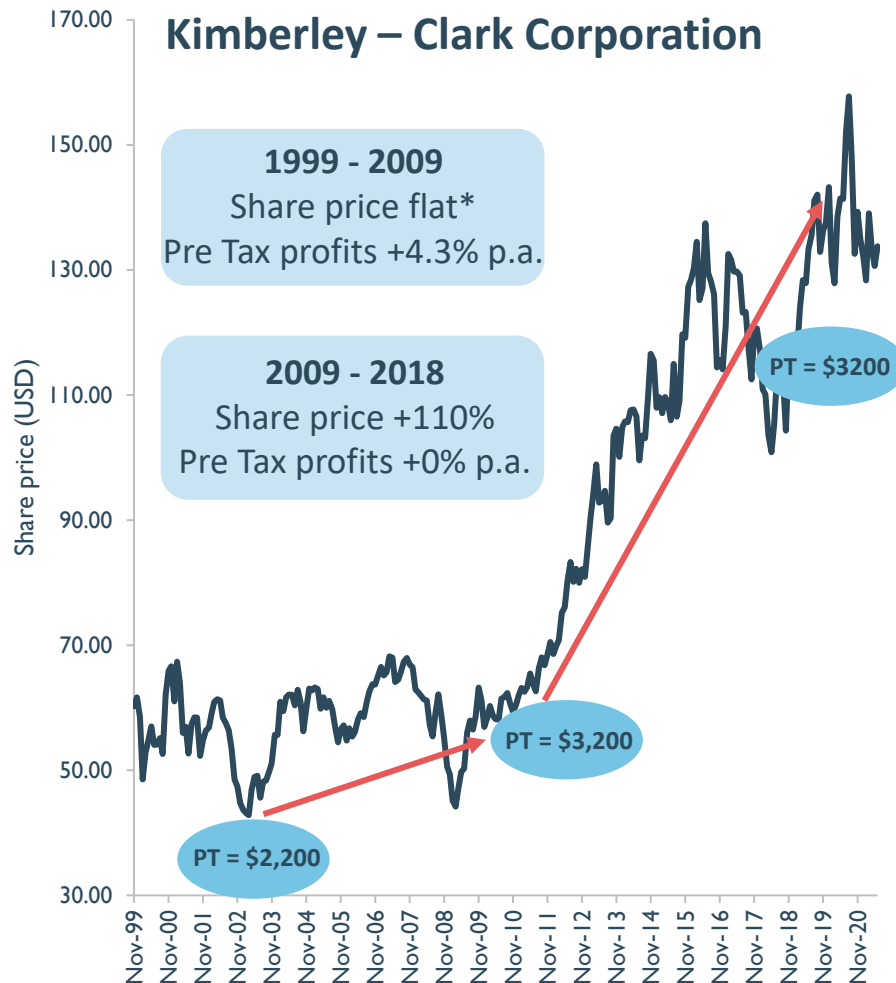
= Maximum crowding

= Record valuation dispersion

**The yield on Greece's three-year bonds turned negative on Monday, reaching an intraday low of minus 0.037%**

Monetary authorities and process are clearly impacting valuation

# Rates and Passive



**1989**

**Sell** Emperor's palace (Japan)  
**Buy** California!!!

**2019**



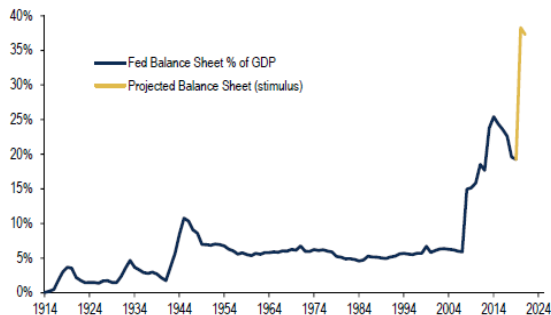
**2020**

**Sell** Apple (keep Walt Disney) 1144bn  
**Buy** Germany 941bn  
Italy 245bn

# At a point of cyclical...

## Max monetary and fiscal stimulus

Federal Reserve Balance sheet since 1914



US government spending as a % of GDP since 1901



Record monetary stimulus

+

Record Fiscal stimulus

+

Record pent up savings - JPM TTM Deposit growth 36% year on year

=

Record boat / car / caravan / jet ski ....sales

+

Record house prices

+

Cryptocurrency – a computer game that mimics gold mining (Top 5 CO2 emitter/ security?)

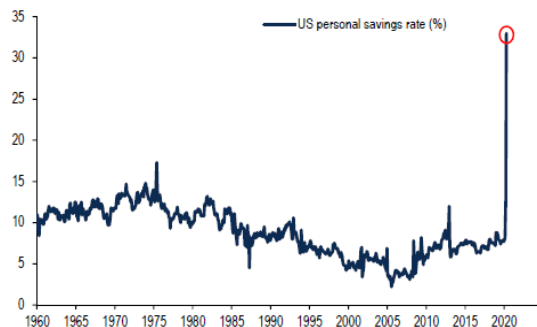
=

1.4% 10 Year US Government Bond?

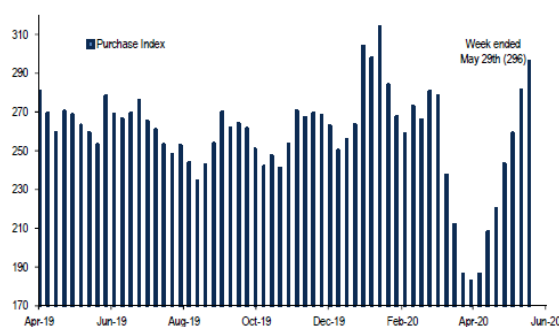
**Transitory ?**

## Here comes the macro

US household savings rate since 1960



US mortgage purchases index

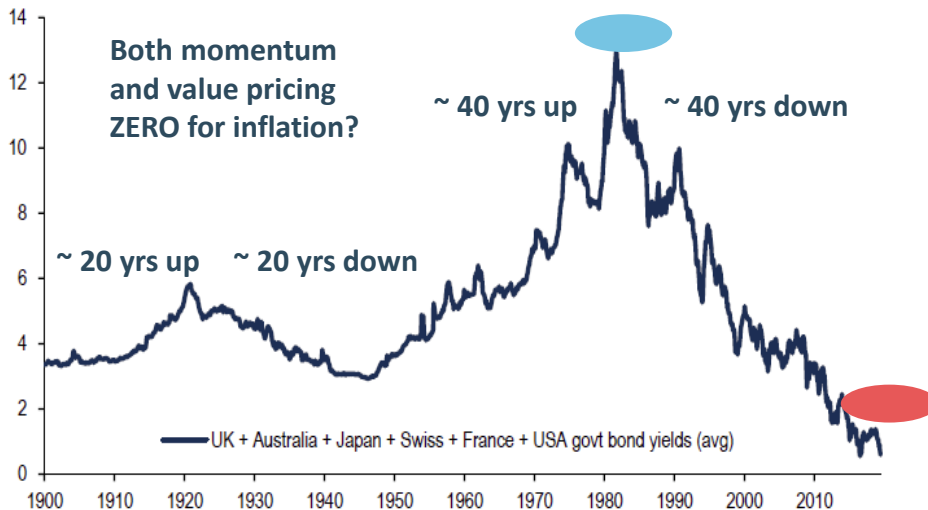


# And secular inflection?

Oct 1979: Volcker declares war on inflation (running at 13% pa). *Containment of inflation is fundamental to a restoration of sound economic growth.*

December 2019: Powell declares war on deflation; *“I would want to see...a significant move up in inflation that’s also persistent ...That’s my view.”*

Chart 1: Global government bond yields at record lows



Cartoon by: Johannes Leak

How pay for record debt - default, taxation (Biden 28%), inflation?

“it would be important for the Fed to remain dovish even after any “lift-off” on interest rates”

October 2020 – FED Governor Brainard

Zero rates, exponential monetary stimulus, exponential fiscal stimulus = change in investment dynamics

# COVID-19

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**“There are decades where nothing happens; and there are weeks where decades happen.”**

**Vladimir Lenin**

**Short term, the market followed the typical post-crisis path**

- Fear, recovery, flight to quality and then rotation

**Longer term March 2020 was a rare investment opportunity**

- the best cyclical businesses at all time relative low valuations

# Ten year cycles

## Top- ten market by market cap: how often do winners stay on top?

1980	1990	2000*	2010	2020
IBM	NTT	Microsoft (-74%)	Exxon Mobil	Apple Inc.
AT&T	Bank of Tokyo-Mitsubishi	General Electric (-87%)	Petro China	Microsoft
Exxon	Industrial Bank of Japan	NTT DoCoMo (-85%)	Apple Inc.	Amazon Inc.
Standard Oil	Sumitomo Mitsui Banking	Cisco Systems (-88%)	BHP Billiton	Facebook Inc.
Schlumberger	Toyota Motors	Wal-Mart (-39%)	Microsoft	Alphabet Inc. (C)
Shell	Fuji Bank	Intel (-71%)	ICBC	Alphabet Inc. (A)
Mobil	Dai ilichi Kangyo Bank	NTT (-85%)	Petrobras	Johnson & Johnson
Atlantic Richfield	IBM	Exxon Mobil (-25%)	China Construction Bank	Visa A
General Electric	UFJ Bank	Lucent Technologies (-87%)	Royal Dutch Shell	Nestle
Eastman Kodak	Exxon	Deutsche Telekom (-89%)	Nestle	Procter & Gamble

### Survivors

2/10

2/10

2/10

3/10

???

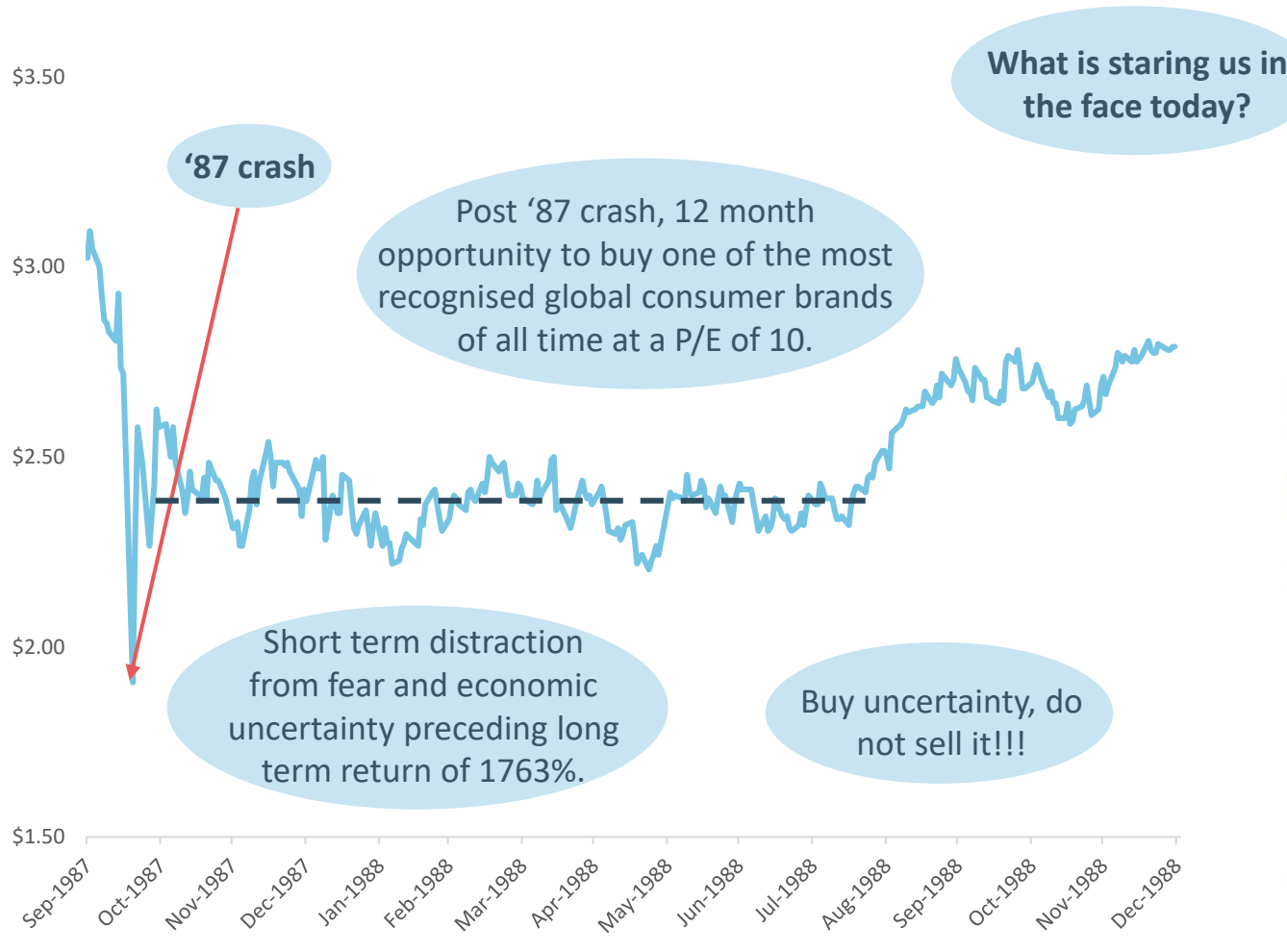
**Who will be the survivors in 2030?**

**More importantly, who will be the new entrants?**

# Post '87 crash - Coca-Cola



# Post '87 crash - Coca-Cola



# Post “TMT” / Post “GFC”



- Perception - old economy (Pets.com!!!!)
- Reality – Tier 1 ore bodies / reserves (Pet food in a garage)
- Profitable at bottom quartile commodity prices – Fe \$30
- AMZN, CSCO -90% v BHP + 557%!!

Source: BHP: Bloomberg. 10 year cumulative return from 1999 to 2009.



- Uncertainty – mobile disruption of payments
- Reality – enabler and beneficiary of mobile payments
- Bottom quartile valuation for growth and quality profile
- Still a great business but reflected in valuation - SOLD

Source: Visa: Bloomberg. 10 year cumulative return from 2011 to 2020.

# Post COVID-19 - Value?

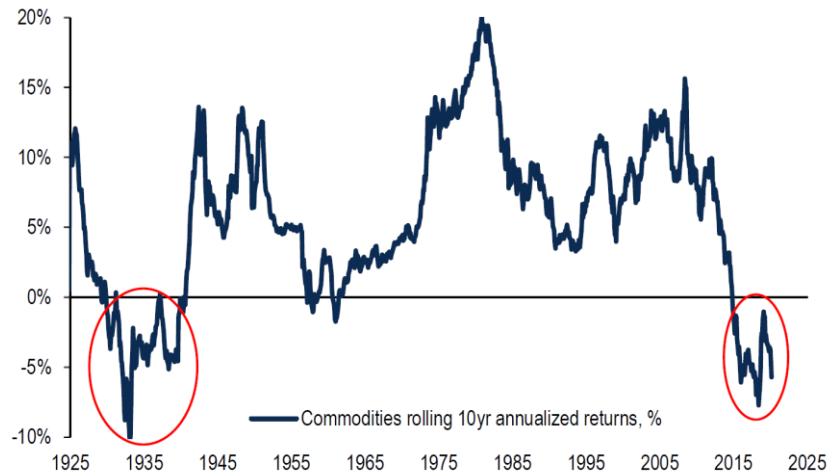
## The worst returns to value stocks

What is staring us in the face today?

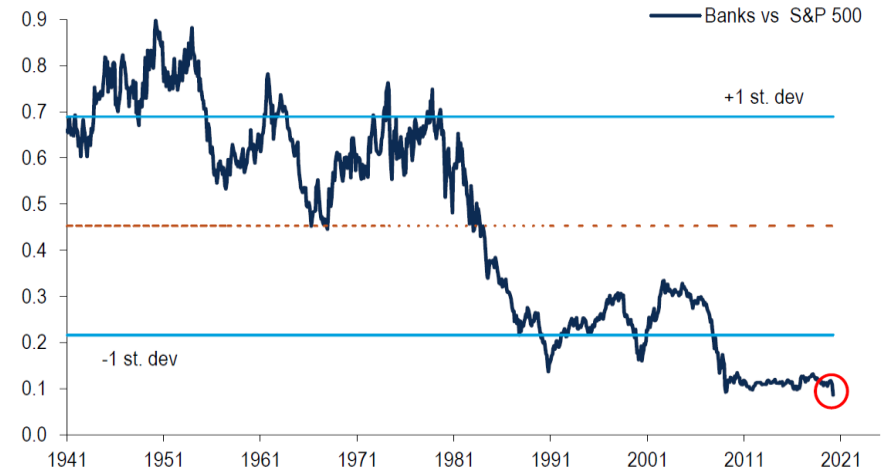


# Sector valuation

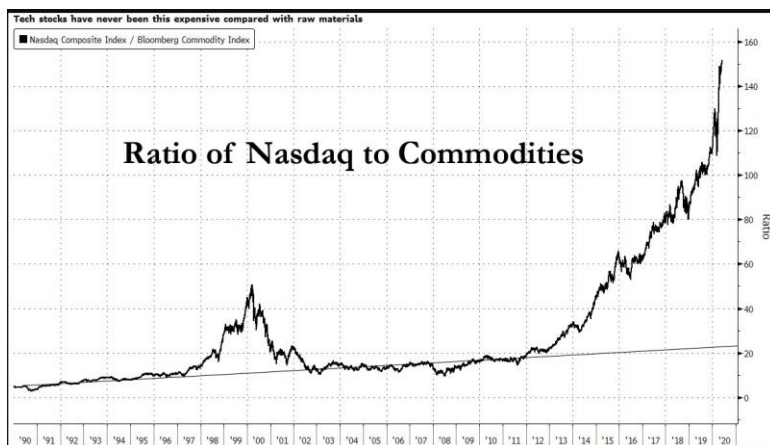
Rolling 10yr annualised price returns since 1924, commodities



Banks v S&P 500, relative performance (USD)



Industrial Commodities - Copper



S&P 500 5 largest stocks as a % of market cap



# Freeport-McMoRan Copper

The easy copper deposits have been found over the years. Modern deposits at the surface are much lower grade and require tremendous investment in infrastructure, mining and processing.

Increasingly, mines are underground where costs are greater.

*Richard Adkerson, CEO Freeport-McMoRan*



**“If there is a strategic metal, it’s copper. If you believe in electrification, copper is the metal and copper comes with gold.”** *Mark Bristow, CEO Barrick Gold*

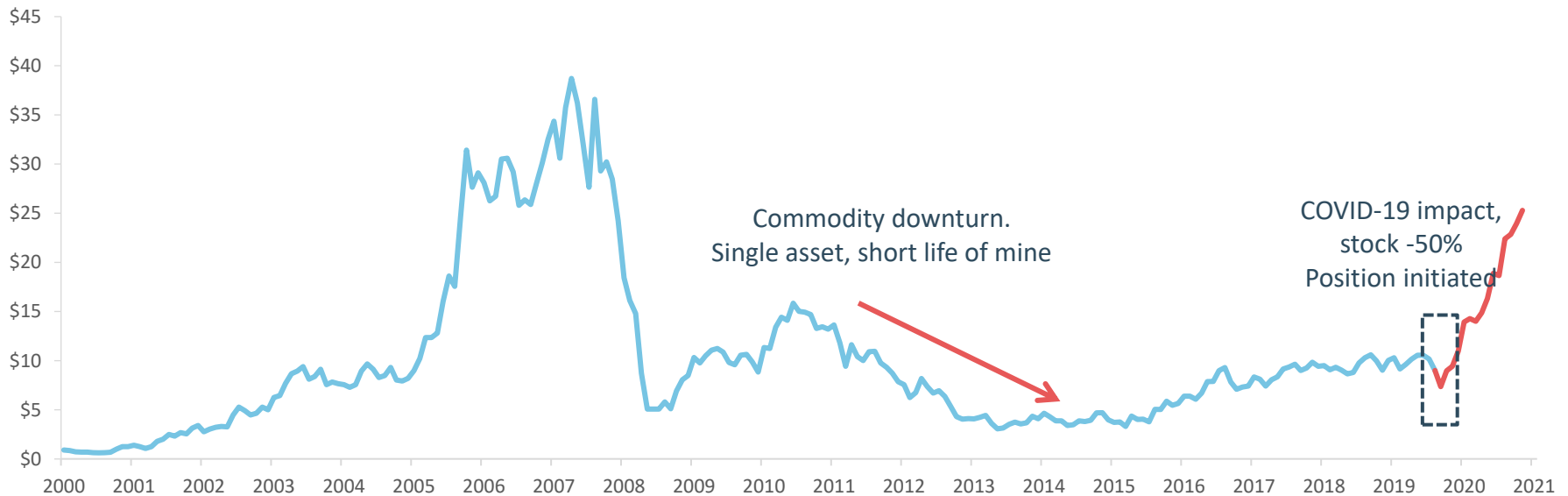
# Applying global insights...Oz Minerals

Transitioned from single asset company (Prominent Hill) with production nearing end of life, to a portfolio of mines with a growing production base

Low cost copper / gold ore bodies.

Gold ~30% consolidated revenues = inflation hedge

New greenfield project Carrapateena phase-1 CAPEX completed, commercial production achieved. Ramp up milestones being achieved ahead of expectations



Net cash position.  
Future capex obligations funded via operating cash flow

Covid19 selloff at \$2.2 Cu <10x P/E  
>US\$3.50/lb = Cu price that incentivises new greenfield production  
<5x P/E

Optionality to expand scale at Prominent Hill and Carrapateena beyond current base case

# Valuation, not macro, is the issue

## What creates anomalies?

- 1 Fear and the avoidance of pain – investors look backwards not forward (GFC)
- 2 Acting on perception and not fact (Brands/ Blue-chips)
- 3 A short term focus - severe cyclical downturns priced as permanent when transitory (Viva Las Vegas)
- 4 **Distraction - the most common being macro-economic** (GFC/ Brexit/ Trump)
- 5 Conflict and misunderstanding
- 6 Process investing (Alternatives)

## March 2020 - worst ever economic scenario\*

\$2.30	Cu environment
\$5.30	Share price
18.9%	FCF Yield
0.5%	Bond Yield
\$4.00	Cu environment
81.8%	FCF yield

**Irrespective of  
environment, a unique  
investment opportunity**

**And if economy does  
recover!!**

## March 2021

\$4.05	Spot Cu price
\$35	Share price
12.4%	FCF Yield
\$5.00	Peak Cu?
\$35	Share price
15%	FCF yield

# Investment process – idea generation

## Diversified Mining

### Valuation Observations - Teck

1

#### BHP

12-14 P/E at mid cycle commodity prices

#### Teck

6-8 P/E at mid cycle commodity prices

#### Teck

Spot P/E = 3.3x

2

- Historically ill-timed capital allocation with no accountability
- No free cash flow as undertaking two large capital investment projects
- Oil sands and metallurgical (steelmaking) coal businesses out of favour

3

- Strong underlying assets: best zinc mine globally, leading metallurgical coal mines alongside BHPs' with exceptional earnings power, strengthening copper portfolio
- Projects coming to an end, entering period of high free cash flow generation, renewed management focus

4

- Exit objective 12 PE at mid cycle commodity prices.
- Successfully realized catalysts include exit oil business, complete QB2 copper mine project, selling/partnering other copper development assets

**A simple business, an observed valuation disparity, a simple idea**

# Investment process – idea generation

## Best in class industrial franchises

### Valuation Observation - Siemens

1

Siemens  
P/E = 12

Industrial Peers  
P/E = 20+

2

- Complicated conglomerate
- Energy business low margin / negative growth clouding the higher margin digital industries and healthcare businesses
- Restructuring to simplify the business a drag on short term cash flow

3

- Ownership of tier 1 franchises in its four main businesses (digital industries, healthcare equipment, smart infrastructure & rail)
- Conglomerate to pure play automation businesses
- Simplification and focus on free cash flow generation
- Stock price -50% during the depths of COVID-19 = full position

4

Exit objectives:

- Recognition of best in class franchises
- Peer type valuation multiples

# Investment process – idea generation

## Domestic Deposit Franchises

### Valuation Observation – ING

1

ING  
P/B = 0.5

CBA  
P/B = 2.0

2

- Post GFC – capital trapped due regulatory purgatory and earnings degradation from zero rates
- Post COVID-19 – negative rates collapse earnings, dividends on hold; the final straw
- Most hated global sector?

3

- Domestic banking is a wonderful business if you don't do anything stupid!!
- Crisis ring-fences management to an internal focus; costs and core business
- 2020 results; profits, capital build and now a path to return excess capital
- “Adjusted” PE 5; 10%+ effective dividend yield 2022 v CBA PE 20
- Higher capital, lower credit risk & volatility of earnings, full pay out of earnings = higher valuation

4

Exit objectives:

- Sell: Positive economic sentiment, PE 12.5 – 15, PB 1.5 (+200%)

If Westpac  
was a PE of 7!!

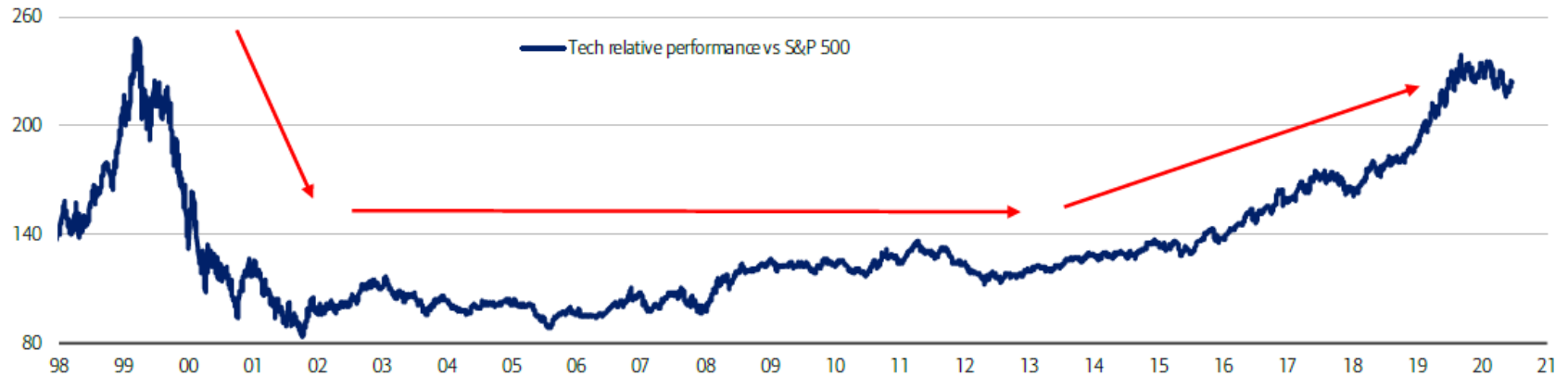
**A simple business, an observed valuation disparity, a simple idea**

# Problem sectors take years to rise from the ashes

And require three steps: I. Shoring up capital; II. Consolidation; and III. Investor Indifference

**Exhibit 58: Tech 10yrs after bubble burst = Financials today**

S&P 500 Tech relative performance vs. S&P 500 1997-present (indexed to 100 12/31/1997)

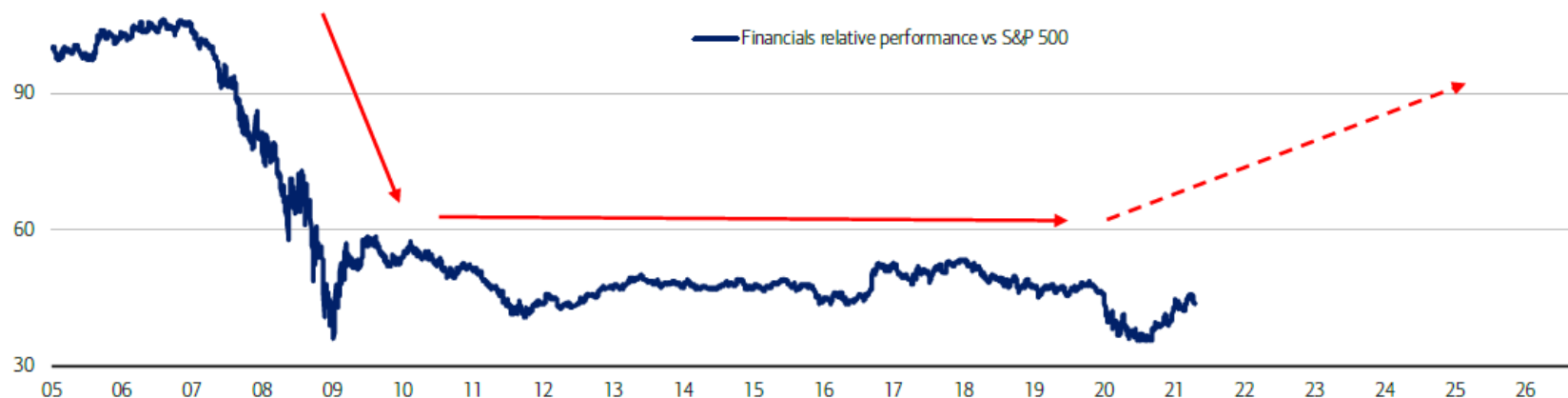


Source: BofA US Equity & Quant Strategy, Bloomberg

BofA GLOBAL RESEARCH

**Chart 1: Financials poised to outperform after a 10yr period of post-crisis healing (similar to Tech following the Tech Bubble)**

S&P 500 Financials relative performance vs. S&P 500 2005-present (indexed to 100 12/31/2004)



# Investment process – idea generation

## Energy

### Valuation Observation – Royal Dutch Shell

**1**

**RDS**  
**@ \$60 oil**  
**P/E = 8**

**Chevron**  
**@ \$60 oil**  
**P/E = 18**

**2**

- Covid 19 collapse in demand
- March 2020 Saudi price war with Russia
- Spot oil prices go negative, RDS cuts dividend, ESG war on carbon, RDS -65% from peak share price

**3**

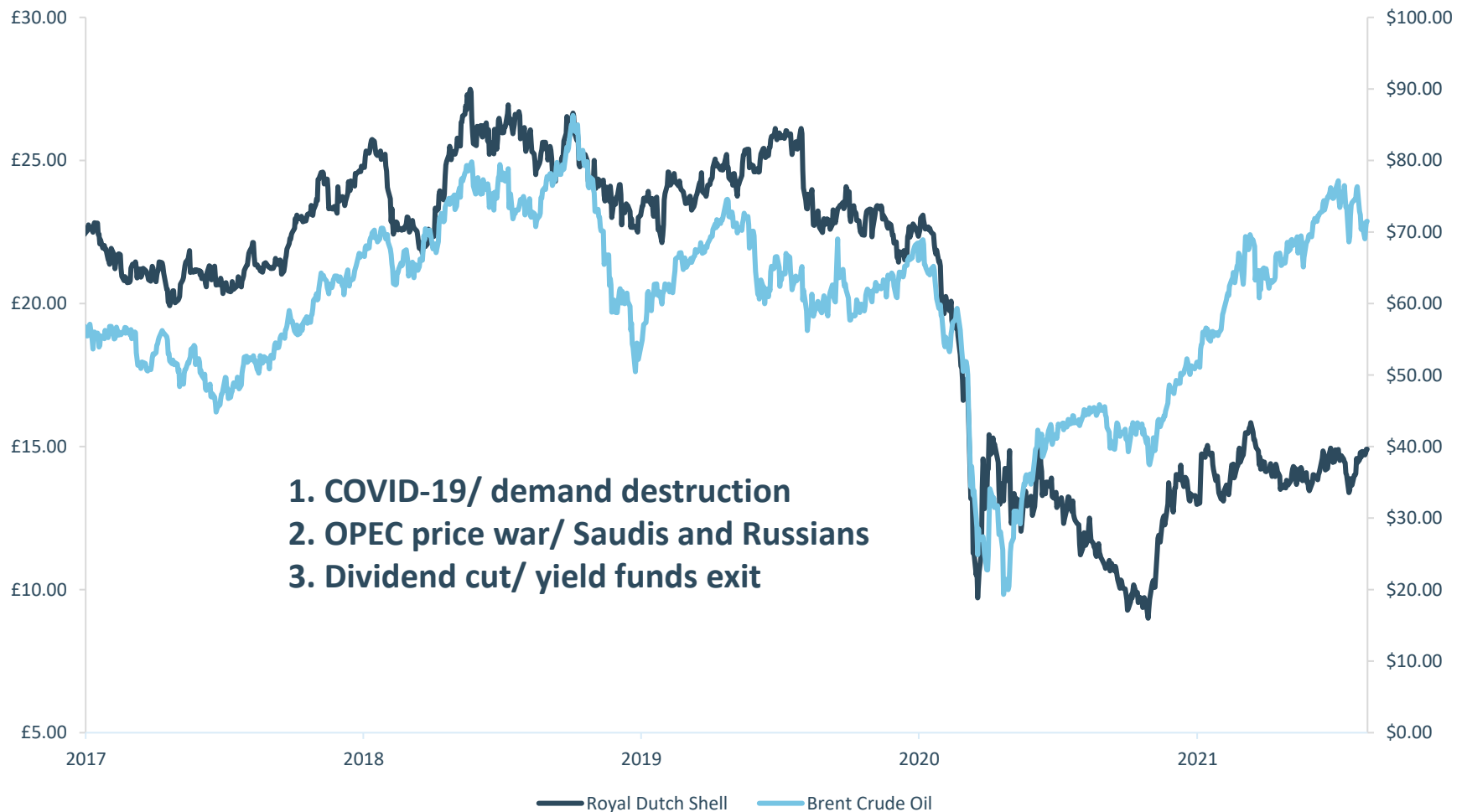
- Net zero emissions constrains oil investment – in particular shale
- Post Covid 19 recovery in oil demand
- Risk of supply deficit – OPEC regains control
- RDS LNG, gas trading and retail operations higher value energy businesses
- Significant increase in dividends and buybacks at spot oil prices

**4**

- Exit objectives:
- Sell: @15 spot PE, parity with Oil majors

**A simple business, an observed valuation disparity, a simple idea**

# Royal Dutch Shell



# Investment process – idea generation

## Severe cyclical downturn

### Valuation Observation – Macau / Wynn Resorts

1

**COVID-19  
cross border  
visitation zero**

**Share prices peak  
to trough  
-80%**

**<5 PE  
normalised  
earnings**

2

- Pre COVID-19 = US-China trade dispute created uncertainty around license renewals
- COVID-19 = worst case scenario; borders closed and doors shut = zero revenue
- Balance sheets & liquidity front and centre

3

- Wynn the premium player; highest margins in the industry. Macau, Boston, Las Vegas
- Balance sheet could handle a 15 month shutdown
- COVID-19 doesn't change LT earnings profile of the businesses.
- Macau the Vegas of Asia; improving accessibility (visas, transportation infrastructure, lodging)
- Potentially for higher margins post COVID-19 after period intense cost focus

4

Exit objectives:

- Sell >20x P/E on normalised earnings
- Capital return catalyst via increasing dividends
- License renewal catalyst

**Crown Resorts**

# Wynn Resorts

Premium global casino operator – Macau, Las Vegas, Boston – properties & brand difficult to replicate



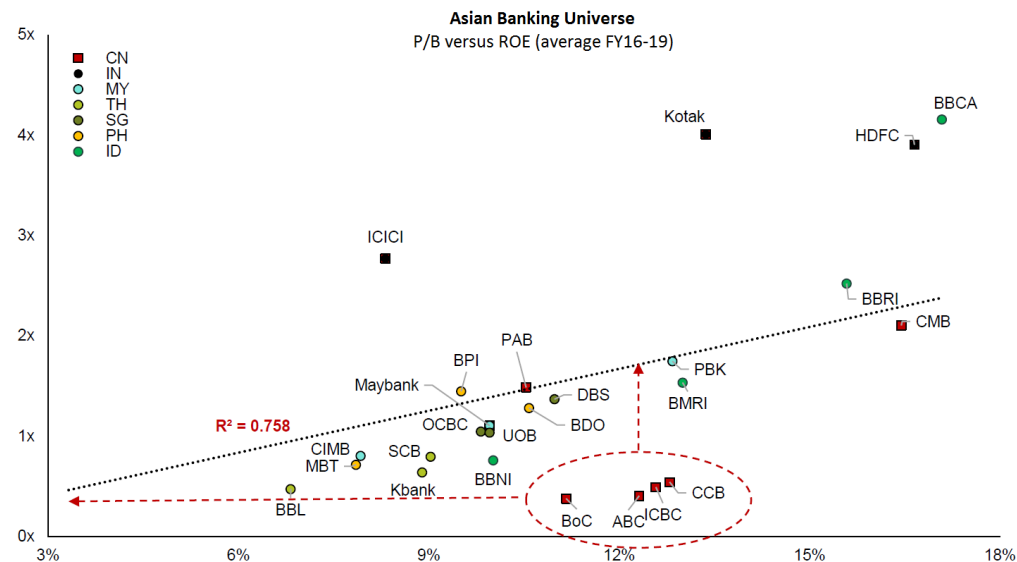
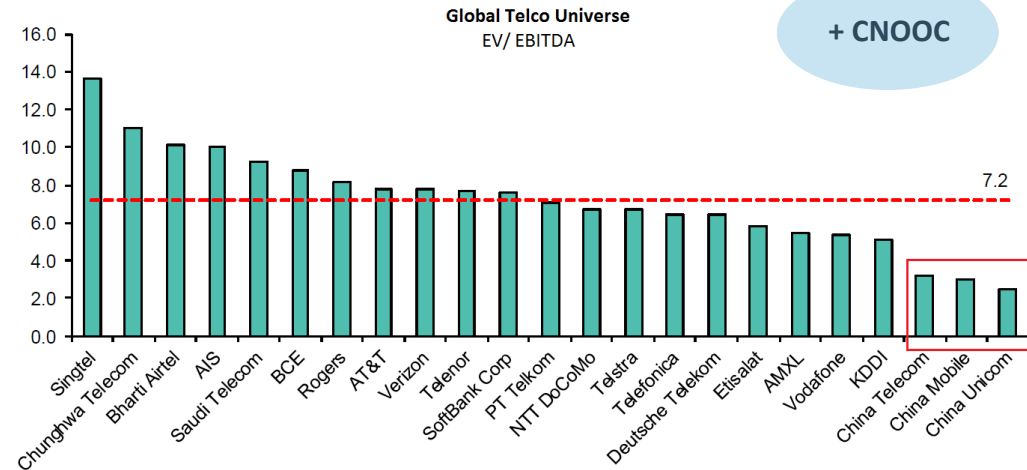
A decade+ of investing in Macau = participated in multiple cycles.  
Capital intensive casino business = long term structural growth doesn't come in a straight line.



\*Purchased via Wynn Resorts majority owned Wynn Macau which is listed in Hong Kong. Data Source: FactSet, PM Capital

# Large cap China 'value'

Trough valuations, absolute and relative to peers



# Investment process – idea generation

## Severe cyclical downturn/ process investing

### Observations – Alternative investment managers

1	<p>Fees fall in 2014/15 - but transitory</p> <p>&lt; 10 PE</p> <p>&gt; 10% Yield</p> <p>Inflows favouring alt. mgrs</p>
2	<ul style="list-style-type: none"> <li>2014/15: share prices declined as the performance fee cycle was seen to peak.</li> <li>Significant valuation difference between traditional and alternative managers.</li> <li>Partnership structure acts as a barrier to institutional investors.</li> </ul>
3	<ul style="list-style-type: none"> <li>Good businesses, easy to understand – sharpest minds on the Street.</li> <li>Secular demand for alternatives has risen.</li> <li>Conducive market environment for capital allocation, generation of performance fees.</li> </ul>
4	<p>Exit objectives:</p> <ul style="list-style-type: none"> <li>Generational ownership change likely ✓</li> <li>Tax reform; lower tax leakage = transition to C Corp structure, facilitating index inclusion ✓</li> <li>Sell &gt;15PE Fully Taxed, &gt;Traditional Fund Manager PE, Performance fee peak - 2021?</li> <li>Valuation objectives exceeded; <b>SOLD/ SELLING</b></li> </ul>

**A simple business, an observed valuation disparity, a simple idea**

# Alternative investment managers

## Evolution of investment thesis

		Dec 14	Jun 15	Dec 15	Jun 16	Dec 16	Jun 17*	Dec 17	Jun 18	Dec 18	Jun 19	Dec 19	Jun 20	Dec 20	Jun 21
KKR	Trust	1.9%	2.6%	3.4%	4.2%	4.4%	4.1%	5.1%	4.2%	4.8%	5.2%	5.1%	2.1%		
Blackstone	Trust		1.7%	2.0%	2.0%	2.1%	2.3%	2.9%	3.4%	3.4%					
Apollo	Trust		1.5%	3.5%	4.0%	4.7%	3.8%	3.6%	4.2%	6.0%	7.2%	5.8%	4.8%	8.6%	
Fortress	Trust					1.0%*									
Ares	Trust						1.9%	2.8%	3.9%	4.1%	2.7%	3.0%	1.4%		
<b>Total Exposure (%)</b>		<b>0.0</b>	<b>1.9</b>	<b>5.8</b>	<b>8.9</b>	<b>10.2</b>	<b>11.2</b>	<b>12.1</b>	<b>14.4</b>	<b>15.7</b>	<b>18.4</b>	<b>15.1</b>	<b>13.9</b>	<b>8.3%</b>	<b>8.6%</b>

\*Portfolio position initiated in Fortress Investment Group early Feb, 2017. Takeover offer accepted mid-February, providing an immediate 40% return.

### Average Passive Ownership as a % of Outstanding Shares\*



**“Apollo and Athene to merge  
in all-stock transaction”**  
March 8 2021

**“Leon Black unexpectedly quits Apollo  
investment firm after Epstein inquiry”**  
March 23 2021

**One simple idea. 6+ years. 6 iterations**

# Shorts

## S&P 500

- Adjusting market exposure / tax management

## Nasdaq

Stock Name	Enterprise value (\$Bn)	EBIT			Profit growth	PE*
		2015	2020	2021		
Apple	2,370	66.3	65.3	101.1	7%	26.7
Microsoft	2,014	27.6	53.0	68.0	16%	34.6
Amazon	1,792	2.4	20.4	34.8	56%	60.0
Tesla	767	0.7	1.8	3.9	33%	156.4
Paypal	343	1.3	3.1	4.5	23%	62.2

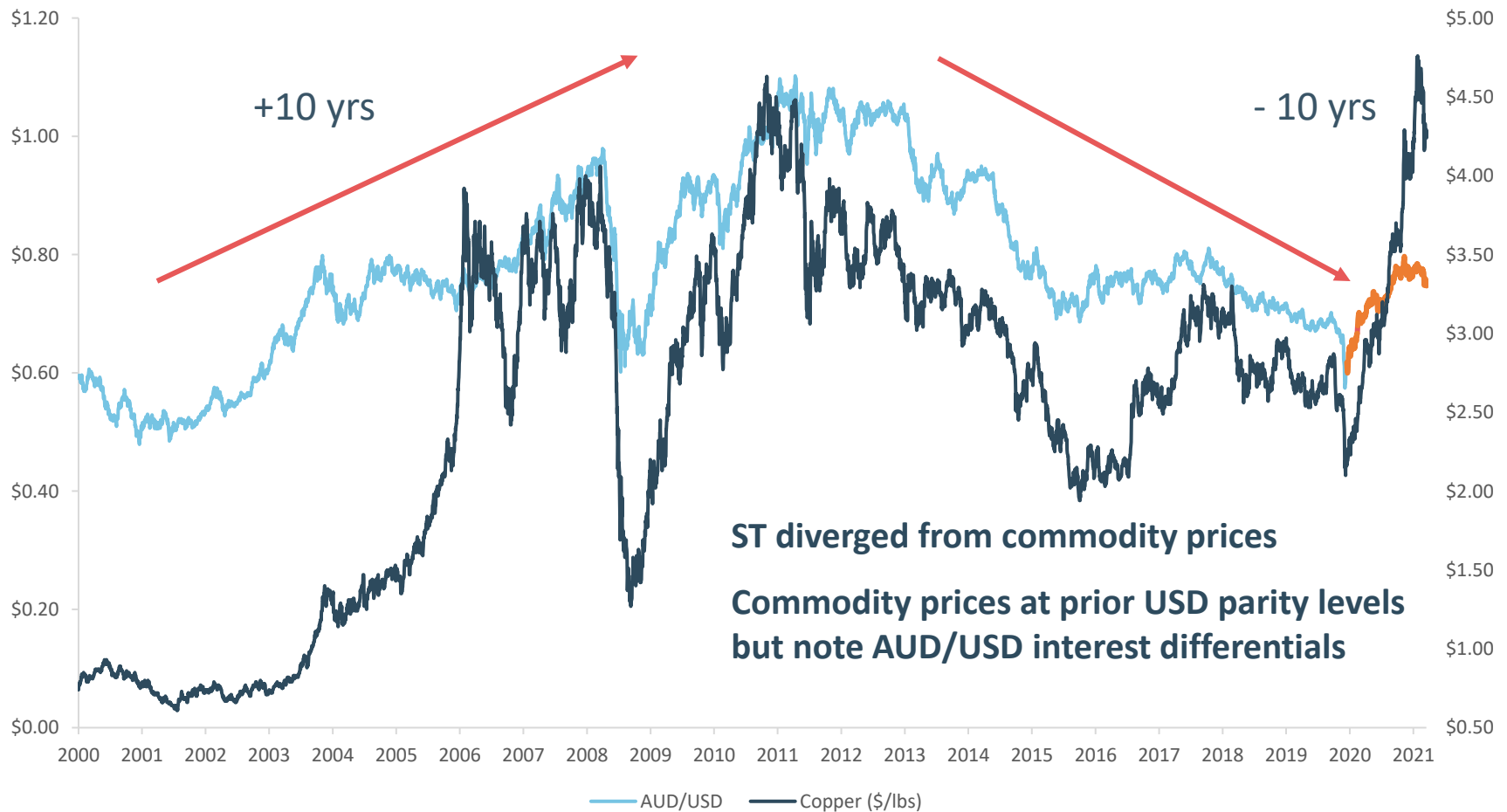
- Quality growth companies
- Prime beneficiaries of lower rates – lower discount rate
- Valuation metrics at record levels – rates and growth need to be sustained?
- Growth headwinds?
  - Global taxation
  - Anti-trust
  - Peer competition – Apple v Tesla v Google

## Direct Shorts

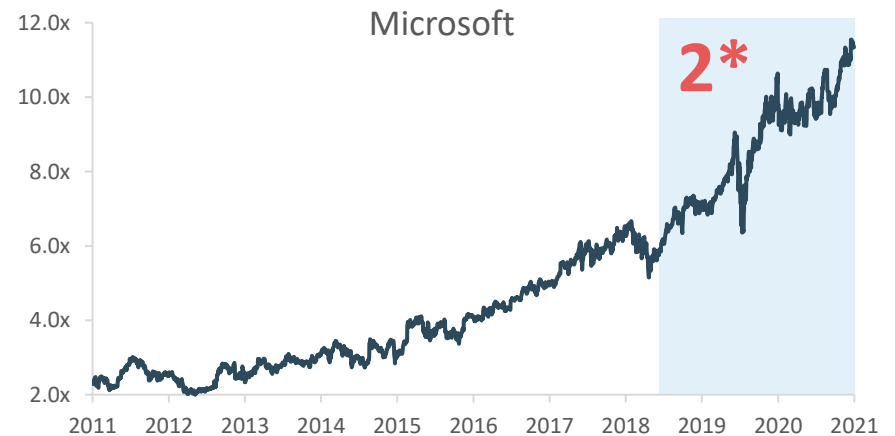
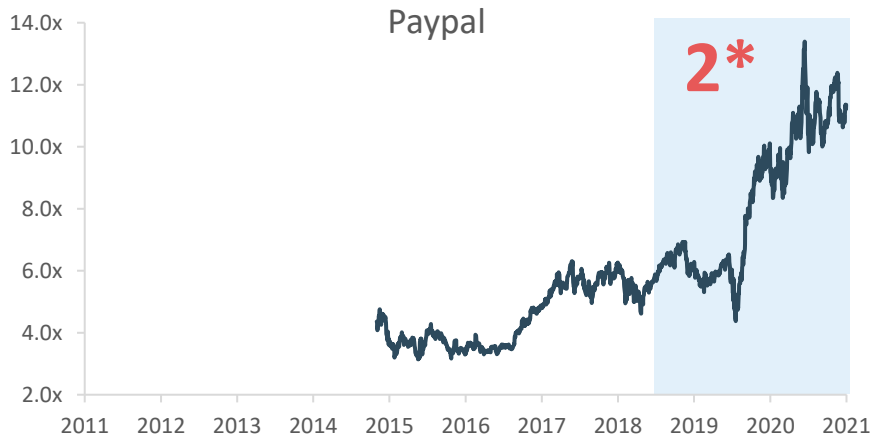
- High beta bond proxies – financial leverage, no growth, no profits

# AUD – A quality cyclical

Note the correlation with Freeport-McMoRan



# Top 10 NASDAQ stocks – Enterprise Value to Sales Multiple



# Portfolio valuation

## Market

Company	FY23 PE
Tesla	83
PayPal	40
Amazon	36
Microsoft	29
Apple	26
Alphabet	23
Facebook	19
S&P 500	20
Nasdaq	26

V

## PM Capital Portfolio

PM Capital themes & stocks	Range	Average PE
European Banks	6-8x	7x
Energy – RDS		7x
European Builders	8-9x	8x
Alternatives- APO		10x
Materials - Copper	8-12x	10x
US Banks	10-11x	11x
European Industrials	9-14x	12x
Macau Casinos	14-17x	
Technology - ORCL		17x

# Valuation determines portfolio composition

Investment Thesis	31 Oct 2019	31 Dec 2019	31 Mar 2020	30 Jun 2020	30 June 2021	
Industrial commodities; copper	5.0%	5.7%	6.6%	18.3%	21.3%	↑ Freeport copper, Teck Resources
Domestic banking franchises; Europe	14.6%	15.4%	11.5%	11.4%	19.1%	↑ ING
Domestic banking franchises; USA	18.6%	16.7%	15.9%	13.9%	16.9%	Bank of America
Vaccine recovery plays; Casinos	8.0%	8.1%	7.4%	8.6%	9.1%	Wynn Resorts
Vaccine recovery plays; Irish/ Spanish homebuilders	8.2%	8.0%	8.1%	8.7%	9.0%	Cairn Home, AEDAS
Alternative Investment Managers	16.3%	15.1%	13.5%	13.9%	8.6%	↓ Apollo Global Management
New economy industrial franchises	-	-	6.0%	6.2%	6.5%	Siemens
Energy	-	-	-	2.4%	7.8%	↑ Royal Dutch Shell
Global Oligopolies	11.3%	9.2%	12.6%	13.8%	1.2%	↓ Deutsche Boerse
Other	16.2%	15.4%	13.7%	12.8%	13.5%	Oracle
<b>Long Equity Position</b>	<b>98.2%</b>	<b>93.6%</b>	<b>95.3%</b>	<b>110.0%</b>	<b>113.0%</b>	
Shorts	-4.1%	-12.2%	-4.6%	-15.0%	-24.6%	
<b>Net Invested Equities (at Market)</b>	<b>94.1%</b>	<b>81.4%</b>	<b>90.7%</b>	<b>95.0%</b>	<b>88.4%</b>	

High conviction / low turnover / tax efficient / simple ideas / simple business


# What did we say last year?


Slides 14-30; pre vaccine, non-consensus.

➤ **10 year cycles + 40 year cycle + record valuation dispersion**


Slide 16 2020 Global Fund Summary

...Supported by quant






**Counter cyclical**



**Time horizon arbitrage**

Fundamental signals have significantly improved over longer time horizons, whereas algorithm-driven signals perform well in the short term, but the decay rate is extreme. Valuations explain almost 90% of the S&P 500's returns variability over a 10-year time horizon. Ironically, what should be an increasingly efficient market has shown signs of becoming less efficient over the long term — alpha opportunities have shrunk on a short-term basis, but have demonstrably risen on a long-term basis.



**Active managers set to shine...**

'Active fund managers are set to flourish over the next decade' Paul Winter, said given current stock market valuations, history suggested investors should expect returns of 3.1 per cent a year over the next 10 years.

Our expectation for pure beta is well below par and in the world where beta won't deliver your required return from equities, you really have no choice but to go active," said UBS head of quantitative analysis.

Slide 22 2020 Global Market Insights

## How to use PM Capital in a portfolio

**In 2000** - Old economy v new economy

*The movements in the technology stocks towards the end of the year reminds me of the "blow offs" in Tokyo in 1989 and Asia in 1993. The lunacy we are witnessing in the .com IPO's is something I have never before witnessed. It far surpasses any other sector bubble of the last 15 years.*

**Dec 1999 to 2009: GCF + 40%^ v MSCI - 29%^**

**In 2010**

*A once in a lifetime opportunity in credit and a once in a generation opportunity in equities.*

**Dec 2009 to 2019: GCF + 309%^ v MSCI + 216%^**

**In 2020**

*When we do conquer this current virus, valuations in cyclical sectors of the market will be recognised as being extraordinary, exceeding the return opportunity for the global market index coming out of the 2009 post-GFC lows.*

**Dec 2019 to 2029: ???**

**Valuation dispersion is where we add our most value**

^ Pro forma 10 year cumulative return from 1999 to 2009 and from 2009 to 2019. Pro forma Fund performance has been calculated based on the new fee structure (implemented 1 December 2018), assuming it had applied from the Fund's inception. These returns do not represent the actual net Fund performance.

"Machines are trading rather than people. And there's been very large growth in algo trading. At the same time, there's less capital put into the market-making community by the banks. So that's gone down, passives have gone up, most algos will be mean-reverting ... there's a lot of noise, and it's bloody hard to get an edge unless you think about a long-term theme."

Michael Hintz - AFR, 7 October 2019

**Long-term active management required**

- Source: Equity & Strategy Focus Point, The ETF-ization of the S&P 500, Part 1, Bank of America Merrill Lynch, 02 July 2017.
- Source: AFR, 20 September 2018.

**FY2021 +52%**

# 2021/22

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**Short term, the market is dictated by the bond market** ➡ *Falling yields = “growth”, Rising yields = “Value”*

**There are also Red Flags typically associated with liquidity and thus, market excess:**

## *The Swift Collapse of a Company Built on Debt*

Greensill Capital promised a win-win for buyers and sellers, until it all fell apart, igniting concerns about opaque accounting practices.

## *He Had \$20 Billion, Then Lost It All In Two Days*

The sudden implosion of Bill Hwang's Archegos Capital Management in late March is one of the most spectacular failures in modern financial history: No individual has lost so much money so quickly.

## *Washington*

A Los Angeles actor was the mastermind of a \$690 million Ponzi scheme that bilked investors who thought their money would finance distribution rights for movies that would run on HBO and [Netflix](#), according to authorities.

## *Total Addressable Market (TAM)*

50 to 10 times Revenue!! Profits not required!!

## **Longer term, it is always about valuation**

Note, not all “value” is value. Value does not mean cheap. Value is a business selling at a discount to its intrinsic worth.

There are specific sectors of the market selling well below their intrinsic worth.

## **Our conclusion**

What ever your risk profile, one should consider holding higher levels of cash in a diversified portfolio and one should only consider investing in those sectors of the equity market that will genuinely give you a satisfactory return. Many sectors of the market are fully valued at best, and we doubt an index fund will give a satisfactory return from current all time high index levels.

# 2021/22+

## It is important to remember that this movie has played out before

Today's **W**ork **F**rom **H**ome movie is just another chapter in memorable market events

- The 1987 Stock market crash
- The 2000 Internet Mania; **T**elecommunications, **I**nformation **T**echnology and **M**edia Enterprises Funds (**TIME** Funds) – Old economy v New economy
- The 2009 GFC – Cash is King

The narrative post each shock was all about volatility. In reality, it was all about playing on investor fears and highlighting relative performance numbers that were being dominated by recent events - note what subsequently happened.

Pre outcome comment	Event	Trough After Event	3yr return post trough		5yr return post trough	
			Fund	MSCI World	Fund	MSCI World
<i>"The movements in technology stocks reminds me of the 'blow offs' in Tokyo in 1989 and Asia in 1993. The lunacy we are witnessing in the .com IPO's is something I have never before witnessed. It far surpasses any other sector bubble of the last 15 years."</i>	TMT	Sep 2002	85.8%	24.2%	105.4%	48.2%
<i>"A once in a lifetime opportunity in credit and a once in a generation opportunity in equities."</i>	GFC	Feb 2009	47.1%	9.1%	187.4%	77.5%

# Pro-active not Reactive

## WFH

In 2020 the easy narrative was to push the WFH growth & momentum story; **the investment opportunity was value.**

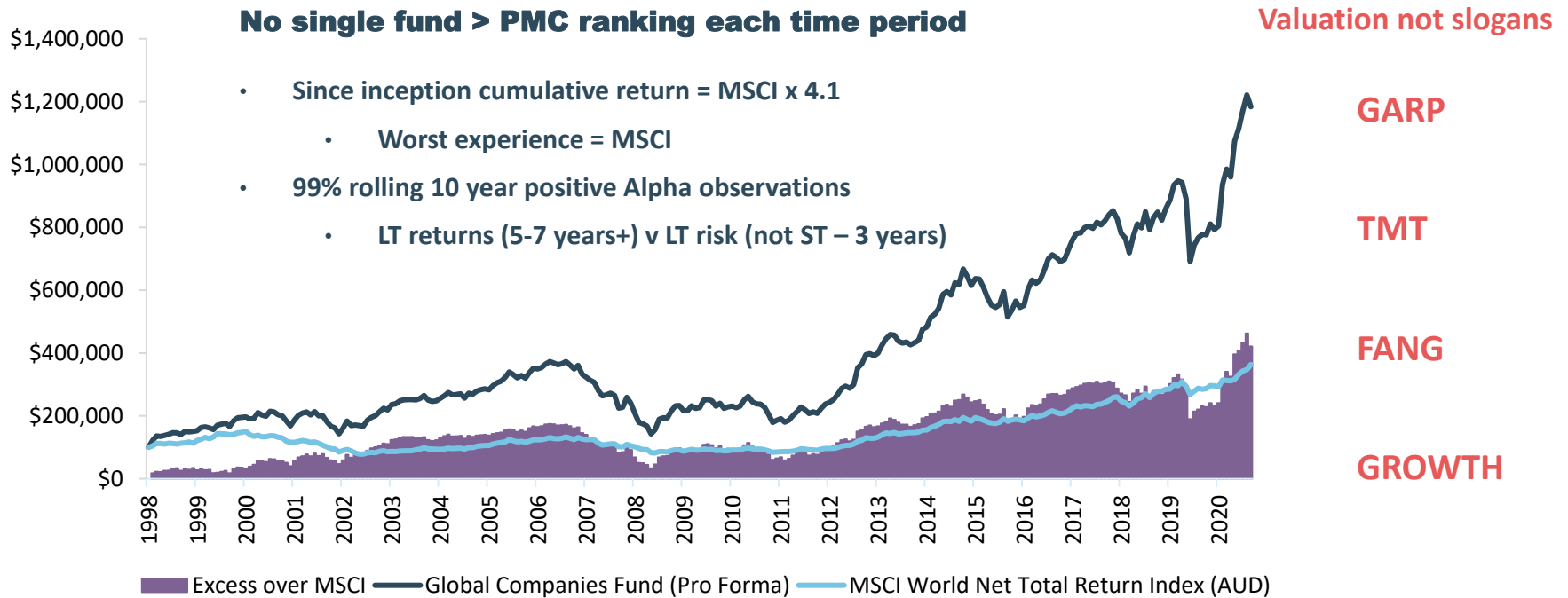
Pre outcome comment	Event	Trough After Event	Return to 30 June 2021	
			Fund	MSCI World
<i>"When we do conquer this current virus, valuations in cyclical sectors of the market will be recognised as being extraordinary, exceeding the return opportunity for the global market index coming out of the 2009 post-GFC lows."</i>	COVID-19	Mar 2020	71.2%	35.3%

**And note; typically, genuine valuation anomalies take 3 - 5 years to return to fair value and 7 – 10 years to then become over valued.**

**Do not make the same mistake again. Be pro-active, rotation has only just begun.**

**And the benefit of being pro-active and focused on long term valuation,  
not short term risk aversion**

# PM Capital Global Companies Fund



GCF - 30 June 2021	1 yr	5 yrs p.a.	10 yrs p.a.	20 yrs p.a.	Since inception p.a.
Fund performance (net of pro forma* fees)	52.1%	18.1%	17.9%	9.2%	11.5%
Fund performance (net of actual fees)	52.1%	17.1%	15.6%	7.3%	9.5%
<b>MSCI (AUD)</b>	<b>27.5%</b>	<b>14.6%</b>	<b>13.8%</b>	<b>5.2%</b>	<b>5.9%</b>
Value Median	31.5%	11.8%	11.3%	4.0%	4.4%
Morningstar Peer Ranking (pro forma*)	3/235	7/177	1/132	3/41	2/32
Morningstar Value Peer Ranking (pro forma*)	3/50	1/38	1/28	1/5	1/4

# Morningstar Peer Rankings

## 30 June 2021

1 Year			10 Years			20 Years			Since Inception		
Peer	Annualised Return (%)	Rank (235 peers)	Peer	Annualised Return (%)	Rank (132 peers)	Peer	Annualised Return (%)	Rank (41 peers)	Peer	Annualised Return (%)	Rank (32 peers)
Peer 1	78.96	1	<b>PMC A</b>	<b>17.90%</b>	<b>1</b>	<b>Peer 4</b>	<b>12.88</b>	<b>1</b>	<b>Peer 15</b>	<b>11.96</b>	<b>1</b>
Peer 2	66.15	2	Peer 8	16.97	1	<b>Peer 15</b>	<b>11.96</b>	<b>2</b>	<b>PMC A</b>	<b>11.52</b>	<b>2</b>
<b>PMC A</b>	<b>52.14</b>	<b>3</b>	<b>PMC D</b>	<b>16.86</b>	<b>2</b>	<b>PMC A</b>	<b>9.2%</b>	<b>3</b>	<b>Peer 16</b>	<b>11.28</b>	<b>2</b>
<b>PMC B</b>	<b>52.14</b>	<b>3</b>	<b>PMC C</b>	<b>16.84</b>	<b>3</b>	<b>Peer 16</b>	<b>8.59</b>	<b>3</b>	<b>Peer 17</b>	<b>10.24</b>	<b>3</b>
Peer 3	50.87	4	Peer 9	16.67	4	<b>Peer 17</b>	<b>8.07</b>	<b>4</b>	<b>PMC B</b>	<b>9.04</b>	<b>4</b>
<b>PMC C</b>	<b>50.76</b>	<b>5</b>	Peer 10	16.46	5	<b>PMC B</b>	<b>6.74</b>	<b>5</b>	<b>Peer 18</b>	<b>6.89</b>	<b>5</b>
<b>Peer 4</b>	<b>50.73</b>	<b>6</b>	Peer 11	16.20	6	<b>Peer 18</b>	<b>6.06</b>	<b>6</b>	<b>Peer 21</b>	<b>6.25</b>	<b>6</b>
<b>PMC D</b>	<b>49.94</b>	<b>7</b>	Peer 12	16.13	7	Peer 19	5.66	7	Peer 23	6.11	7
Peer 5	47.55	8	Peer 13	15.99	8	Peer 20	5.52	8	Peer 24	6.04	8
Peer 6	44.45	9	Peer 14	15.63	9	<b>Peer 21</b>	<b>5.43</b>	<b>9</b>	Peer 25	5.95	9
Peer 7	41.74	10	<b>PMC B</b>	<b>15.62</b>	<b>10</b>	Peer 22	5.40	10	Peer 26	5.95	9

### Key: PMC Global Strategies

PMC A – ProForma PM Capital Global Companies Fund

PMC B – PM Capital Global Companies Fund

PMC C – CFS FC Inv-PM Capital Glb Companies

PMC D – CFS FC W Inv-PM Capital W Glb Companies

### Notes:

Peers are in bold where they appear more than once

ProForma PM Capital Global Companies Fund has been inserted where it would appear on the peer ranking had it been in the Morningstar Peer Group.

# Key points

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- Both funds, identical results!
  - Philosophy and Process
    - **peripheral irrelevant** (team turnover, macro, FUM size and other)
- Volatility only an issue if < 3 – 5 years
  - If < 3 – 5 years you should not be in equities
  - Worst experience MSCI / Cumulative experience 4.1x
- Long term outcomes = a core and permanent part of the portfolio?
  - Adviser input?

***“A financial legacy of the pandemic will be a significant reallocation of assets that has barely begun. But we also think it leads to a more fundamental shift, in a questioning of the underlying assumptions used to form investment decisions.***

***We suggest the way goals are set and how they inform the interaction of asset managers and asset owners needs to shift. This includes an evolution of the proper measure of risk in a world where risk-as-volatility may clash with the risk of loss of purchasing power.”***

Bernstein, July 2021

# Conclusion

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1

COVID-19 created a rare investment opportunity – record valuation dispersion at a time when long term fundamentals are inflecting

2

This movie has played out before; don't let process, fear or inaction divert you from these opportunities. **Be pro-active, not reactive.**

3

**Valuation, not macro, is what matters.** Valuation dispersion is where we make our difference and **rotation has only just begun.**

4

The most critical investment parameters, always has been and always will be, **VALUATION and PATIENCE.**