PM Capital

PM Capital Australian Companies Fund

Market-leading performance built on global insight, flexible investment mandate and award-winning team.

JULY 2022

Key Fund Facts:

Fund category:
Australian equities (Long/Short)

Investment style:
Fundamental, bottom-up research-intensive approach

Inception date:
20 January 2000

Number of stocks:
As a guide, 15-25 stocks

Currency:
Actively managed (A$ base)

Minimum direct investment:
$20,000

Recommended investment time:
Seven years plus

Fees (pa)
Mngt fee: 1.09%
Perf. fee: 20% (subject to a high water mark) of the excess above the RBA Cash Rate and S&P/ ASX200 Accumulation Index.

Buy/ sell spread:
+/- 0.25%

Dealing frequency:
Daily

APIR Code:
PMC0101AU

Contents

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Important information

This document 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 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 document 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). This report does not take into account the objectives, financial situation or needs of any investor which should be considered before investing. Investors should consider the Target Market Determinations and a copy of the current Product Disclosure Statement ('PDS') which is available from pmcapital.com.au, 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 2022 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 PM Capital Global Companies Fund is the MSCI World 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 PM Capital Australian Companies Fund is the S&P/ASX 200 Accumulation Index. See www.asx.com.au for further information.

Co-Portfolio Manager's Note

Since its inception in January 2000, the PM Capital Australian Companies Fund has delivered market-leading returns for financial advisers and their clients.

The Fund's short- and long-term outperformance is due to three main factors:

- The Australian Companies Fund applies PM Capital's global insights in an Australian context. PM Capital is a leading global equities manager through the PM Capital Global Companies Fund.
- The Australian Companies Fund has a high-conviction style and flexible mandate. Unlike many Australian equities funds, our portfolio does not "mirror" the S&P/ASX 200 Index. The Fund has a concentrated portfolio of 15-25 companies and narrow sector exposure. The Fund's investment mandate allows it to hold 0-20% of the portfolio in international companies if there are better opportunities overseas.
- The Fund has a demonstrated process from a proven manager. PM Capital's investment style is to buy companies when they trade at bottom-quartile valuations and sell when they achieve top-quartile valuations. Our investment processes are built on patient, disciplined, long-term investing. We believe pricing anomalies can take 7-10 years (a typical investment cycle) to be exploited fully.

  Since PM Capital's foundation in 1998, this investment style has delivered attractive returns for our clients.

As such, the Australian Companies Fund may suit long-term investors (seven-year-plus investment horizon) who seek a high-conviction portfolio of Australian equities, unconstrained by index benchmark weightings and short term risks. These investors understand the power of genuine long-term investing that avoids the "In-crowd" - and the benefits of funds that have the skill and conviction to take positions in deeply out-of-favour sectors and companies.

We believe the Fund's best attribute is its consistency. The same Chief Investment Officer has overseen the Fund, using the same investment process, since its inception.

We hope you find this whitepaper useful and would be delighted if you refer it to colleagues or clients who might benefit from the PM Capital Australian Companies Fund.

For the latest video and written insights on the Fund – and its monthly and quarterly updates – visit the PM Capital website (www.pmcapital.com.au).

Good investing,

Kevin Bertoli

John Whelan

Australian Companies Fund

1 Market-leading performance

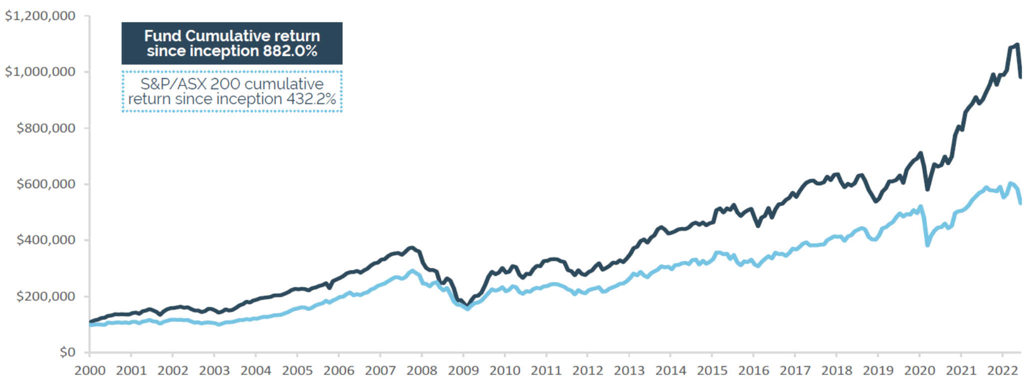
Since its inception in 2000, the PM Capital Australian Companies Fund's cumulative return is approximately 2 times greater than that of the S&P/ASX 200 Accumulation Index.[1]

Unlike many Australian equity funds, the Fund has not had long periods of large underperformance after strong outperformance. The Fund is one of only 51 funds in its peer category since its inception that still operates. This highlights the low survival rate of underperforming funds in Australian equities.

Chart 1: PM Capital Australian Companies Fund vs S&P/ASX 200 (30 June 2022).

Australian Companies Fund	Inception Date	Exit Price ($, cum)	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Total Return
Fund performance	**01-2000**	**2.9972**	**10.6%**	**16.8%**	**9.9%**	**9.9%**	**12.5%**	**10.7%**	**882.0%**
S&P/ASX 200 Accumulation Index			**-6.5%**	**3.3%**	**6.8%**	**6.9%**	**9.3%**	**7.7%**	**432.2%**

Growth of AUD $100,000



Fund Inception 20 January 2000. These figures represent past performance only. No guarantees exist of future returns above or below these figures. Past performance is no indication of future performance. Neither PM Capital nor any other person makes any representation as to the future performance or success of, the rate of income or capital return from, recovery of money invested in, or income tax or other taxation consequences of, any investment in the Fund. As at 30 June 2022. Chart reflects Fund growth net of actual fees. Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax.

2 Consistent long-term returns

"...Standard performance-measurement periods, such as three, five or even 10 years, are far too short to evaluate a manager with confidence..."

Morningstar Manager Research[2]

"Research suggests that actively managed (fund) winning streaks are often short-lived."

S&P Dow Jones Indices[3]

PM Capital believes investors should assess fund performance over longer periods (7, 10 and 20 years) for three main reasons:

- **Investment cycles typically take 7-10 years to play out.** Assessing performance over a decade indicates how a Fund exploited pricing anomalies through a full cycle.
- **Multi-decade Fund assessment confirms manager skill.** Equities managers that top peer rankings over two consecutive full investment cycles (10- and 20-year return periods) are rare because few managers can sustain such performance. The PM Capital Australian Companies Fund is a top-performing fund in its category over both 10 and 20 years.[4]
- **Long-term fund assessment reduces manager-selection risk.** For more than two decades, PM Capital has seen many Australian equities funds deliver short-lived outperformance through "momentum investing" or chasing the latest investment "fad". Often, these funds attract inflows, but they cannot sustain long-term performance and inevitably close or change their investment style/personnel. By assessing funds over longer periods (7, 10 and 20 years), investors can determine if the fund has had the same leadership and processes to deliver "alpha" for clients through investment cycles.

S&P's Australia Persistence Scorecard for year-end 2021[5] found only a minority of high-performing funds[6] in Australian equities persisted in outperforming their respective benchmarks or consistently stayed in their respective top quartiles for five consecutive years. S&P found:

- **Short-term performance is elusive.** Only a fifth of Australian equity funds in the top performance quartile in 2019 remained there in 2021.
- **Performance persistence deteriorates over long periods.** Only 3.8% of Australian equity funds that had top-quartile performance in 2017 were in that quartile in 2021.
- **Performance is volatile.** Of 388 Australian active funds that beat their respective benchmarks in 2017, only 4.4% managed to outperform in the following four consecutive years (2018-2021). This confirms PM Capital's view that too much short-term fund performance in Australian equities is driven by investing in companies with strong price momentum, to achieve short-term outperformance and fund inflows.

3 Global insights in an Australian context

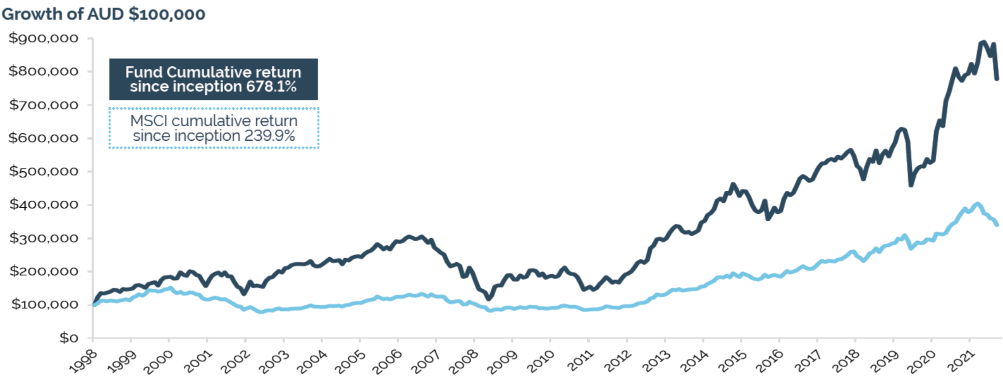
The PM Capital Australian Companies Fund benefits from – and contributes to – PM Capital's global insights. The ability to draw on PM Capital's global expertise, research and ideas – and apply them in an Australian context – is a significant competitive advantage for the Fund.

PM Capital is a leading global equities manager through the PM Capital Global Companies Fund. In June, Morningstar ranked the PM Capital Global Companies Fund as the top-performing fund in its survey of global equities managers (on a calendar year-to-date basis).

As Chart 2 below shows, the PM Capital Global Companies Fund has delivered exceptional excess returns over the long term.

Chart 2: PM Capital Global Companies Fund (30 June 2022)

Global Companies Fund2	Inception Date	Exit Price ($.cum)	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Total Return
Fund performance	**10-1998**	**4.2756**	**-0.9%**	**12.2%**	**10.1%**	**8.7%**	**16.4%**	**9.1%**	**678.1%**
MSCI World Net Total Return Index (AUD)			-6.5%	7.7%	10.0%	9.3%	14.0%	5.3%	239.9%



Fund Inception 28 October 1998. These figures represent past performance only. No guarantees exist of future returns above or below these figures. Past performance is no indication of future performance. Neither PM Capital Limited nor any other person makes any representation as to the future performance or success of, the rate of income or capital return from, recovery of money invested in, or income tax or other taxation consequences of, any investment in the Fund. Chart reflects Fund growth net of actual fees. Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax.

Applications of our global insights to the PM Capital Australian Companies Fund include:

Global insight	Application to Australian Fund	Outcome for Fund
Copper		
In late 2018, we identified copper as a particularly attractive segment of the global commodities market due to emerging supply constraints that would underpin higher copper prices in coming years. We initiated a position in 2018 and added to it in 2020. Key global copper holdings included Freeport-McMoRan and First Quantum Minerals.	We drew on our global insights about copper to build a position in Oz Minerals, a leading ASX-listed copper producer. At the time, Oz Minerals traded at a bottom-quartile valuation, even though it had low-cost copper and gold ore bodies; improving production; gold optionality and a strong balance sheet.	After strong share-price gains in our global and Australian copper positions, we reduced exposure to copper stocks. PM Capital retains a positive long-term view on copper's fundamentals but believes pricing anomalies in the sector are no longer extreme.
Energy		
Like copper, our positive view on oil was based on long-term supply constraints. The market underestimated the lack of investment in new and existing oil production and how this would support a higher price. Our core global energy positions included Shell plc, which was first purchased in 2020, as well as Chinese National Offshore Oil Corporation.	We applied this positive view on oil to the Australian Companies Fund by initiating a position in Woodside Energy Group in 2021. At the time, Woodside was about 60% below its peak share price and on a single-digit Price Earnings (PE) multiple (at US$65 oil). Woodside had low-cost oil and gas assets and strong free cash flow.	Energy was the top-performing sector in 2021 and has been among the best-performing sectors so far in 2022. Energy stocks (including ASX-listed coal companies, such as Coronado Resources and Stanmore Resources), comprise 20% of the Fund.[7] *(The Case Study on page 11 has more information on the Fund's investment in coal stocks).*
Banks		
In 2021, PM Capital consistently argued that inflation would be a bigger problem than markets expected. We believed global banks would benefit from higher interest rates through their Net Interest Margin; and an easing of global regulation.	The Fund bought Westpac, ANZ and NAB in March 2020 at the peak of the COVID-19 sell-off and increased its position in early 2021. The Fund also holds ING Groep, a Dutch bank. European banks remain undervalued.	The Fund retains a positive view on Australian banks as our thesis on higher inflation and interest rates plays out for the banking sector.

Global insight	Application to Australian Fund	Outcome for Fund
Casinos		
Through the PM Capital Global Companies Fund, we have long experience in investing in US and Chinese casinos. In the short term, we expect casinos - a sector currently deeply out of favour - to benefit from a recovery in entertainment demand after the pandemic. Longer term, we have a favourable view on high-quality casinos that are backed by valuable property holdings in prime locations.	The Australian Companies Fund last year initiated a position in Crown Resorts, believing it had been oversold due to regulatory reviews of its operations, management/board changes and the effects of the pandemic on casino patronage. We believed Crown's valuation was underpinned by its property holdings.	The Fund exited its position in Crown this year after its acquisition by Blackstone Inc. Having realised profits in Crown, the Fund initiated a position in rival operator, The Star Entertainment Group, after its valuation was negatively affected by regulatory reviews of its operations and headwinds from COVID-19. We see investment parallels between The Star and Crown.
Tech		
PM Capital has had a negative view on information technology stocks, particularly the "total addressable market" companies that have low or no earnings. We expected aggregate tech valuations to fall sharply as central banks raised interest rates – and continue to expect ongoing falls in 2022 as more tech companies downgrade their earnings or raise equity capital and lower prices, diluting shareholders.	The Australian Companies Fund has had minimal exposure to technology during the sell-off in tech stocks in 2022 (by sector, online classifieds and internet stocks accounted for 4% of the fund).[8] The Fund has short positions in REA Group and Seek. We believe the market is underestimating the challenges in online classified advertising as Australia's economy slows.	Australian tech stocks have fallen sharply this year. The S&P/ASX All Technology Index has a year-to-date total return of -39%.[9] REA Group is down 38% year-to-date[10] and Seek has fallen 14% over the same period. On the buy side, the Fund successfully exited its position in iCar Asia, an online car-advertising network in Southeast Asia, after Carsome Group acquired that business.

4 Differentiated product offering

The PM Capital Australian Companies Fund has a unique investment style and philosophy. The Fund's high-conviction and flexible mandate differentiates it from peer funds, providing opportunities for portfolio alpha generation from Australian equities over long periods.

High conviction	The Fund typically holds a concentrated portfolio of 15-25 stocks that meet our criteria. The result: real active management and alpha generation for clients over long periods.
Benchmark unaware	The Fund is unconstrained by benchmark weightings in the S&P/ASX 200 Index, meaning it is less affected by high sector concentration in the Australian sharemarket. Our portfolio is not based on overweight or underweight positions in sectors or companies, but on our reward/risk assessment of opportunities.
Style unaware	We identify significant pricing anomalies in simple businesses and search for repeatable ideas across markets. We avoid labels such as 'value investor', 'growth investor' or 'growth at a reasonable price'. We believe rigid adherence to labels – a trait of many peer Australian equity funds – limits opportunities for alpha generation.
Size agnostic	The Fund is not limited by company size. Unlike many peer funds, we do not hold only large-cap stocks. Our holdings range from multinational companies with multi-billion-dollar capitalisation to ASX-listed small-cap stocks.
Flexible mandate	The Fund can invest 0-20% in international companies if we believe they provide more compelling opportunities. This flexibility enables the Fund to leverage PM Capital's best global ideas in resources, banking and other sectors.
Tax	A focus on the impact of tax on underlying returns distinguishes the Fund. Our long-term investment approach results in lower portfolio turnover compared to many of our peer funds.
Patience	The Fund is a true long-term investor. We seek to exploit the full value of an investment opportunity over a 7-10-year business cycle. Patience is integral to our investment process, and something in low supply in many peer funds that focus on short-term performance through momentum investing.
Tenure/ consistency	The Fund has had the same process and chief investment officer for over two decades. The Fund's co-portfolio managers have well over a decade of tenure at PM Capital. This is a valuable trait in a market characterised by low fund survival rates, high personnel turnover and frequent changes in investment style.

The Fund's differentiated product offering is applied in four main ways:

Idea generation

- Often begins with out-of-favour sectors.
- Use of quantitative fundamental data and qualitative tools (company visits, industry conferences, value-chain conversations.)
- Focused research on investment pricing anomalies.
- Not limited to one equation or investment model. Blends experience, intuition, and a deep understanding of fundamentals.
- Typically favours companies with dominant franchise, low-cost operations, predictable strong balance sheets and high free cash flow. Simple businesses that respect shareholder capital.

Determine fair value

- Validate investment opportunities through intensive industry, company and market research. Many ideas rejected.
- Focus on whole-of-supply chain. The best insights are often gleaned from a company's upstream/downstream stakeholders.
- Not limited to a single valuation model. Various valuation models are used, depending on the company and its industry.
- Use of multiple valuation models to test our valuation estimate.
- Investment summary. Our research findings are consolidated into an investment report that includes a business, management, valuation, technical and financial summary.

Identify catalyst

- Understand why the market has mispriced a stock.
- Determine the stock's fair value in normal market circumstances.
- Identify the catalyst to remove the stock's mispricing.

Exit

- Before purchase, determine condition for exit of holding.
- Regularly review exit conditions, based on company/market conditions.
- Prepared to hold positions for five years or more, withstand short-term market volatility, and deploy more capital into high-conviction ideas if opportunities emerge.
- Aim to sell at top-quartile valuation and rotate capital into companies at bottom-quartile valuations.

5 Our people

The PM Capital Australian Companies Fund is managed by a highly skilled and experienced investment team with long tenure at the Fund and firm. The Fund's key personnel are:

Kevin Bertoli - Co-Portfolio Manager, Equities.
Industry experience 16 years, PM Capital experience 16 years.
An expert in Australian and Asian equities, Kevin's experience extends to global equities in the commodities, technology/internet and consumers areas. Kevin uses these global insights to identify opportunities in an Australian context, and vice versa.

John Whelan - Co-Portfolio Manager, Equities.
Industry experience 18 years, PM Capital experience 13 years.
John has successfully covered the Australian equity market for over a decade. He also has primary responsibility for the financial, industrial and real-estate sectors globally. His expertise in global financial stocks is an asset for the PM Capital Australian Companies Fund given the market's high weighting in financial stocks.

Paul Moore - Chairman and CIO
Industry experience 36 years, PM Capital experience 23 years.
Paul is one of Australia's most highly regarded equities managers. During a distinguished career, he has won multiple awards as an International Equity Manager and run some of Australia's best-performing global equities funds. Paul is known for his patient, high-conviction investment style and ability to identify significant pricing anomalies.

Team Structure

6 Case study: Coal producers

This case study appeared in PM Capital's Building Wealth in FY23 and beyond report, published in June 2022. That report provides detailed commentary on key investment themes within PM Capital's global, Australian and income funds.

The PM Capital Australian Companies Fund initiated a position in Australian oil and coal stocks in the first half of FY22. After strong gains in its core copper holdings, the Fund reduced its position and rotated into energy stocks. In September 2021, the Fund built a new position in Woodside Energy Group, Australia's largest energy stock. The rally in Woodside shares since then has contributed to the Fund's outperformance over one year.[11]

Coronado Global Resources

In December 2021, the Fund initiated a position in Coronado Global Resources, a metallurgical (met) coal producer in Australia and the US. The Fund has a positive view on met coal, a key ingredient in steel production. Like copper and oil (other commodities that PM Capital favours), met coal faces supply constraints. There have been few new supply-side developments in met coal. The largest met-coal producers are not committing to new investment or are divesting some of their coal assets. Stable or declining coal production, and slightly higher global steel production, will likely support a higher met coal price in the next few years.

Like oil, met coal supply has been affected by ESG concerns over new fossil-fuel investments. It is harder to get financing for new coal projects, meaning a rising cost of capital. Shareholders of large coal companies are seeking higher dividends rather than investment in new projects.

Coronado was out of favour when the Fund built its position. The company raised equity capital twice during COVID-19 as low coal prices persisted and as the market reacted negatively to the company's capital-allocation strategy to use debt to fund a large dividend. As the market focused on Coronado's financial challenges, coal prices improved in late 2021. Coronado generated substantial earnings, its balance sheet had enough cash to offset all its debt, and it had high leverage to the rising met coal price due to its large production of coal.

Coronado's current share price[12] is substantially higher than the Fund's average entry price.[13] In May, Coronado declared a special dividend and has indicated it will distribute 60-100% of free cash flow each year to shareholders. Despite its share-price gain over 12 months, Coronado trades on a lower valuation multiple than comparable thermal coal miners, even though thermal coal is likelier to be disrupted by the move towards wind and solar power. Technology to displace met coal in steel production is still in its infancy.

Stanmore Resources

In March 2022, the Fund initiated a position in Stanmore Resources, another Australian met coal producer. In May, Stanmore completed its acquisition of BHP Group's 80% interest in BHP Mitsui Coal (BMC). When the deal was announced in November 2021, coal prices were lower than today. Stanmore raised equity capital at $1.10 a share, a price we believed did not reflect met coal's improving prospects. The Fund initiated its position in Stanmore through that capital raising.

As coal prices hit record highs in March, Stanmore was well-positioned to benefit from higher prices. The Russia-Ukraine war encouraged more customers to move away from Russian coal supply (Russia is a dominant supplier of lower-grade coking coal – PCI – the grade Stanmore mostly produces).

Stanmore's high debt, a potential risk in November 2021 when coal prices were much lower, has enabled it to increase its leverage to rising coal prices. As part of its financing contracts, Stanmore will likely pay down debt rapidly in the current coal-price environment, de-risking its balance sheet. The Fund's investment in Stanmore and Coronado again emphasised the benefits of buying out-of-favour energy assets that are mispriced.

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Platform availability

	Australian Companies Fund	Global Companies Fund	Enhanced Yield Fund
AMP North		Yes	Yes
Asgard	Yes	Yes	Yes
BT Panorama	Yes	Yes	Yes
Colonial FirstChoice		Yes	Yes
Colonial FirstWrap		Yes	Yes
Grow Wrap	Yes	Yes	Yes
Hub24	Yes	Yes	Yes
IOOF - Pursuit Select		Yes	Yes
Macquarie Wrap	Yes	Yes	Yes
Mason Stevens		Yes	Yes
MLC Masterkey		Yes	
MLC Wrap	Yes	Yes	Yes
Netwealth	Yes	Yes	Yes
Praemium SMA	Yes	Yes	Yes
uXchange		Yes	Yes
Voyage		Yes	Yes
Wealtrac		Yes	Yes

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Notes and References

1 To 30 June 2022.

2 Kaplan, P., Kowara, M., (2018), “How long can a good fund underperform its benchmark?’. Morningstar Manager Research. March 2018.

3 Luk, P., Wang, T. (2022), “Australia Persistence Scorecard,”. S&P Dow Jones Indices. June 2022.

4 31 May 2022. Based on Morningstar Peer Rankings.

5 Luk, P., Wang, T. (2022), “Australia Persistence Scorecard,”. S&P Dow Jones Indices. June 2022.

6 Defined as Australian Equity General funds.

7 At 31 May 2022.

8 At 31 May 2022.

9 Source S&P Global. To June 22, 2022.

10 To June 22, 2022.

11 To end-April 2022

12 $1.71 at 30 June 2022.

13 $1.10 a share.

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