ABSOLUTE PERFORMANCE FUND

Monthly Report November 2012

Investment Performance[1]	Inception Date	1 Month	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	10 Years pa	Since Inception pa	Total Return
Absolute Performance Fund	**10/98**	**3.4%**	**11.5%**	**20.3%**	**38.0%**	**4.5%**	**-4.8%**	**1.7%**	**5.0%**	**98.5%**
MSCI World ($A)		*0.7%*	*2.4%*	*4.9%*	*11.9%*	*2.3%*	*-5.0%*	*0.4%*	*-0.2%*	*-3.0%*

Founded in1998, PM CAPITAL Limited is a specialist equity and income manager based in Sydney, Australia. We are singularly focused on investing, and manage assets on behalf of financial planning firms, private investors and institutions. PM CAPITAL is owner operated and relatively unique in that shareholders and staff are significant investors in the same fund offerings as our clients.

What is our investment philosophy?

Our investment philosophy is based on the simple principle that the best way to preserve and enhance your wealth over the longer term is to buy a good business at a good price. It is a commonsense businesspersons' approach to investing, with four key ingredients:

- Understand how the business works;
- Understand management's philosophy in managing the business;
- Understand the characteristics of the business that determine its intrinsic valuation; and
- Given the above, what is the reasonable price a rational businessperson would pay for the business?

Why a rational businessperson? Because in the end it is the businessperson, the real owner of a business, that will arbitrage any differential that persists between a stock market valuation and inherent business valuation.

Typically, our initial investment time horizon is two to three years, over which time we believe the greatest inefficiencies in pricing exist. As long as the intrinsic worth of the company continues to compound at a satisfactory rate, we will continue to hold the stock, unless of course the market in our opinion places an excessive valuation on the company's future cash flows, in which case we would sell.

In executing our investment philosophy we would also note that the stock market is far more volatile than the underlying businesses it represents. Thus, the key to being a successful investor requires both good business judgment and the ability to control your emotions, thereby avoiding the irrational behaviour of crowds or consensus thinking.

Who manages the investment?

The investment team is led by founder & CIO Paul Moore who has over 27 years experience in successfully managing investment funds. Ashley Pittard is the lead portfolio manager, who has over 15 years industry experience and is supported by a team of investment analysts.

Why the Absolute Performance Fund?

- The fund is global in geographical scope and its objective is to deliver returns through selective and concentrated long-term investments in undervalued businesses. Unit-holders that have been invested in the Absolute Performance Fund since inception, **have approximately 96% more capital than if they had invested in the index.**
- A high conviction fund, likely to significantly differ in characteristic from a benchmark focused fund. We do not believe in the "Noah's Ark" approach to investing i.e. buy two of everything in sight and end up with a zoo instead of a portfolio.
- A contrarian investment style with investments purchased on the merits of their risk/reward proposition and not based on popularity or index composition. It is important to note that the fund is not compelled to be fully invested at all times.
- The fund is managed from an Australian investors perspective with consideration for tax and currency outcomes.

Fund commentary for November 2012:

- There were no significant changes to our fund positions over the last month.
- US and European indices finished broadly flat while the Shanghai Index was down ~10%.
- UK banks were again the best performers (up between ~6 – 10%) as investor sentiment concerning regulatory environment continued to improve. On the contrary US banks (with the exception of Bank of America) were among the worst performers as investors sold off these stocks, which had very strong first 3 quarters, to lock in capital gains in anticipation of higher tax rates in 2012.
- Maxim and Linear Technologies had a good month rising ~5% and 6% respectively towards the end of the month as Semiconductor Industry Association data for October showed better than expected sales for the industry.
- Positive contributors included: Lloyds, Bank of America, RBS and Barclays. Negative contributors included: BBT, JPM, Microsoft and Jinro.

Fund details: ***Management fee**: 1.09%* ***Performance fee**: 20% of net excess above RBA Cash Rate*
***Buy / Sell spread**: 0.5% (round trip)* ***Minimum investment**: $20,000*

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Long equity exposure:

Financials BB&T Corp, ING Groep, Lloyds, Wells Fargo	45%
Technology Applied Materials, Maxim, Oracle	21%
Services Comcast, NASDAQ, Google, CME Group	12%
Global Brewing Heineken Holdings, Anheuser-Busch Inbev, SABMiller	9%
Property MGM Resorts	6%
Other Pfizer, Norfolk Southern Corp	6%
Total exposure	100%

The categories above may vary from GICS as PM CAPITAL Limited uses its own categorisations for analysis and other internal reporting purposes.

Invested position:

Long equity:	120%
Short equity:	-21%
Net equity exposure:	99%
Debt/hybrids:	20%
Cash:	-19%
Total exposure:	**100%**

Currency exposure:

USD	84%
GBP	11%
AUD	7%
EURO	6%
JPN	-10%
Other	-2%
Total exposure:	**100%**

How our investment philosophy may be differentiated from an institutional manager…

Extracts taken from "The New Money Masters" by John Train: Acorn Fund Report—Ralph Wanger

"Zebras have the same problem as institutional portfolio managers. First, both seek profits. For portfolio managers, above average performance; for zebras, fresh grass.

Secondly, both dislike risk. Portfolio managers can get fired; zebras can get eaten by lions.

Third, both move in herds. They look alike, think alike, and stick close together.

If you are a zebra and live in a herd, the key decision you have to make is where to stand in relation to the rest of the herd. When you think that conditions are safe, the outside of the herd is the best, for there the grass is fresh, while those in the middle see only grass which is half-eaten or trampled down. The aggressive zebras, on the outside of the heard eat much better.

On the other hand—or other hoof—there comes a time when lions approach. The outside zebras end up as lion lunch, and the skinny zebras in the middle of the pack may eat less but they are still alive."

A portfolio manager for an institution such as a bank trust department cannot afford to be an Outside Zebra. For him, the optimal strategy is simple: stay in the centre of the herd at all times. As long as he continues to buy the popular stocks…he cannot be faulted. To quote one portfolio manager. "It really doesn't matter a lot to me what happens to Johnson & Johnson as long as everyone has it and we can all go down together". But on the other hand, he cannot afford to try for large gains on unfamiliar stocks that would leave him open to criticism if the idea fails.

Needless to say, this Inside Zebra philosophy doesn't appeal to us as long-term investors. We have tried to be Outside Zebra's most of the time, and there are plenty of claw marks on us to prove it.

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