September 2014
Quarterly Report

PM CAPITAL Global Companies Fund (formerly Absolute Performance Fund)

PM CAPITAL Asian Companies Fund (formerly Emerging Asia Fund)

PM CAPITAL Australian Companies Fund (formerly Australian Opportunities Fund)

PM CAPITAL Enhanced Yield Fund

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IMPORTANT INFORMATION

This Quarterly Report is issued by PM CAPITAL Limited (ABN 69 083 644 731, AFSL No. 230222) as responsible entity for the:
PM CAPITAL Global Companies Fund (ARSN 092 434 618),
PM CAPITAL Asian Companies Fund (ARSN 130 588 439),
PM CAPITAL Australian Companies Fund (ARSN 092 434 467), and
PM CAPITAL Enhanced Yield Fund (ARSN 099 581 558)
the 'Fund', or collectively the 'Funds' as the context requires.

The Quarterly Report contains summary information only to provide an insight into how and why we make our investment decisions. This information is subject to change without notice, and does not constitute advice or a recommendation (including on any specific security or other investment position mentioned herein).

The Quarterly Report does not take into account the objectives, financial situation or needs of any investor which should be considered before investing. Investors should consider a copy of the current Product Disclosure Statement ('PDS') which is available from us, and seek their own financial advice prior to making a decision to invest. The PDS explains how the Funds' Net Asset Value is calculated. Returns are calculated from exit price to exit price (inclusive of the reinvestment of distributions) for the period from inception to 30 September 2014 and represent the combined income and capital return. The investment objective is expressed after the deduction of fees and before taxation. The objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term. While we aim to achieve the objective, the objective and returns may not be achieved and are not guaranteed. Past performance is not a reliable guide to future performance and the capital and income of any investment may go down as well as up due to various factors, including market forces.

The Index for the Global Companies Fund is the MSCI All Country World Net Index in Australian dollars, net dividends reinvested. The Index for the Asian Companies Fund is the MSCI All Country Asia ex Japan Net Index in Australian dollars, net dividends reinvested. See www.msci.com for further information on the MSCI indices. The Index for the Australian Companies Fund is the S&P/ASX 200 Accumulation Index. See www.asx.com.au for further information. The Index for the Enhanced Yield Fund is RBA Cash Rate. See www.rba.gov.au for further information.

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Investment overview

Fund Description						
Fund	**Asset Class**	**Inception Date**	**Suggested Timeframe**	**Fund FUM**	**Total Return Since Inception[1]**	
Global Companies	Global Equities	28 October 1998	7 Years +	$222 million	**Fund 243.9%**	MSCI AC World Net (AUD) 55.0%
Asian Companies	Asian Equities (ex-Japan)	1 July 2008	7 Years +	$9 million	**Fund 195.3%**	MSCI AC Asia ex Japan Net (AUD) 48.9%
Australian Companies	Australian Equities	20 January 2000	7 Years +	$37 million	**Fund 353.8%**	S&P/ASX Accum. 200 216.1%
Enhanced Yield	Yield Securities	1 March 2002	2 Year +	$423 million	**Fund 124.2%**	RBA Cash Rate 80.3%

Quarterly video links:

Click the photo below for the September 2014 Quarterly Report Investment Overview video by Paul Moore. Paul discusses the current investment environment, the fall in the AUD and areas of the market where we are finding opportunities (5:35 mins).

Click the photo below for the September 2014 Yield Securities video by Jarod Dawson. Jarod discusses his recent worldwide tour on the Deutsche Bank conference, and the implications of his findings for our yield portfolio (5:32 mins).

[1.] The above returns are calculated from exit price to exit price from the inception date of each Fund up until 30 September 2014. Detailed performance figures for other periods can be found on pages 4, 5, 6, 7 for each Fund within this report.

Global Companies Fund

Investment Performance[2]	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Global Companies Fund	**10/1998**	**$1.9097**	**11.2%**	**8.1%**	**18.3%**	**32.2%**	**12.9%**	**8.1%**	**243.9%**
MSCI World Net Index (AUD)			*5.5%*	*8.7%*	*19.9%*	*22.1%*	*11.1%*	*2.8%*	*55.0%*

Portfolio's Invested Position	
Long Equity Exposure	92.6%
Short Equity Exposure	-18.3%
Net Equity Exposure	**74.3%**
Debt Securities	22.9%
Cash	2.8%
Total Exposure	**100.0%**
Long Equity Composition	
Banks Lloyds Banking Group, Barclays PLC, Bank of America	33.0%
Property Realogy, Howard Hughes Corp, MDC Holdings	16.7%
Services Google Inc, CME Group Inc, Comcast	15.4%
Brewing Heineken Holdings, Anheuser-Busch Inbev NV	9.9%
Diversified financials ING Groep	7.5%
Technology Oracle	2.9%
Other Turquoise Hill Resources, Pfizer	7.2%
Total Long Equity Exposure	**92.6%**

The Fund had a strong quarter, returning 11.2%. The performance was assisted by the fall in the Australian dollar (AUD) and the rapid share price appreciation across multiple positions, including, Chicago Mercantile Exchange (CME) Group up 13%, Bank of America up 11%, ING Groep (ING) up 10% and Heineken Holdings up 9%.

The net equity position of the Fund fell from 77% to 74%. We exited our position in Brazilian stock exchange BM&F Bovespa following a near 25% rally within the quarter, and also sold our Chinese port holdings.

The AUD decreased 7.3% over the quarter versus the US dollar (USD). As quantitative easing (QE) comes to an end and interest rates in the US begin to normalise, we believe the AUD will continue to weaken, which is reflected in our currency position, with the Fund ~90% invested in USD. As commodity industries go into oversupply we expect further price weaknesses, which should further exacerbate the falls in the AUD. It is notable that over the last three months iron ore is down 16% and trading below US$80 a tonne.

Our European banking positions continued to contribute to positive performance due to strong earnings as bad loan provisions appear to have peaked and their capital ratios look adequate. We believe that post the successful IPO of ING's insurance business over the quarter, their remaining banking business would have 10% of its market capitalisation in excess capital which could be returned to shareholders if management desired. ING is trading below book value. At current conditions with a 100% payout ratio, the valuation would give a 10% dividend yield per annum. Thus, we believe the stock remains a compelling investment even though it has rallied significantly over the year. Our US financial positions also continued to rerate as the bond curve steepens, given the consensus that QE appears near an end. These factors along with continued economic recovery and growth, should result in increasing net interest margins for the retail banks.

Chicago Mercantile Exchange and the Intercontinental Exchange, two of our US exchange positions, rallied on expectations of higher interest rate trading volume and an uptick in volatility on the stock market. As interest rates have stayed near zero over the last five years, trading volumes were down on average 30% from 2007 levels. During the quarter the Fed continued to reduce bond purchases (QE) to $15 billion a month, down from its peak of $85 billion a month in late 2013. As the economy continues to improve, we are confident they will end bond purchases completely by the end of the year and begin raising short term interest rates in 2015. As interest rates increase we should see a subsequent uptick in trading volume and CME Group in particular should benefit meaningfully. Currently CME pays a 5% dividend yield.

The Fund saw further proposed consolidation in the global brewing industry this quarter with the second largest brewer SABMiller (South African/US brewer) approaching Heineken (the number three brewer globally) regarding a merger. Heineken declined the first round advance. Longer term there is no doubt in our minds that consolidation between the top three brewing businesses will take place, effectively putting an end to the decade long consolidation theme. When we initiated our first brewing position in December 2003 the top four beer players had ~23% market share, now the top four players control nearly 85%. The Fund has been richly rewarded with at least six takeovers during the decade.

As fewer and fewer global brewing players remain we have turned our attention to increasing our holdings in European spirit businesses, which near term have been derated as they have struggled to grow earnings. We believe the spirit industry is at or near an inflection point as destocking appears to be over in the US and China, and the businesses are leveraged to a stronger USD and improving domestic European economies.

Overall we continue to believe our Fund is well positioned for a normalisation in US interest rates and a further decline in the AUD. We will use any weakness in the overall markets to increase our invested position.

Ashley Pittard, Portfolio Manager

[2] Returns are calculated from exit price to exit price for the period as stated and represent the combined income and capital return for the Fund. For more details, the Product Disclosure Statement (PDS) provides an explanation of how returns are calculated.

Asian Companies Fund

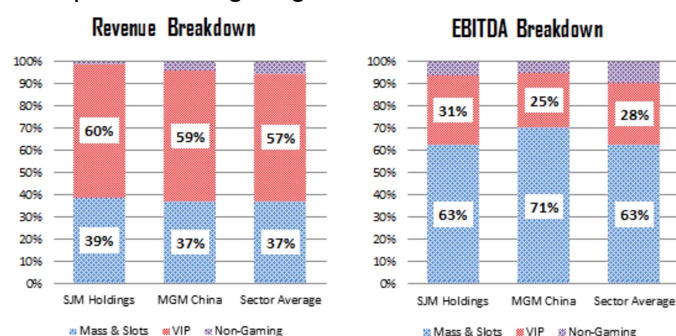
Investment Performance[2]	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Asian Companies Fund	**07/2008**	**$1.7127**	**7.4%**	**1.7%**	**11.9%**	**18.0%**	**10.8%**	**18.9%**	**195.3%**
MSCI AC Asia ex Japan Net Index (AUD)			*6.1%*	*11.7%*	*15.7%*	*14.8%*	*7.0%*	*6.6%*	*48.9%*

Portfolio's Invested Position	
Gaming Donaco International, SJM Holdings	20.7%
Internet Baidu, 51Job Inc., Zhaopin Ltd	14.0%
Consumer Carlsberg Malaysia, Guinness Anchor	11.8%
Commodities Turquoise Hill Resources, IRC Ltd	8.6%
Infrastructure Beijing Capital Int'l Airport	8.2%
Media Astro Malaysia Holdings	6.9%
Retail Sun Art Retail	1.5%
Other	2.3%
Cash	26.0%
Total Exposure	**100.0%**

The Australian dollar (AUD) depreciated 7.3% over the quarter. The Fund benefited meaningfully from this move given the decision to limit exposure to the AUD. Despite recent moves the currency exposure of the Fund remains largely unchanged.

Underlying equity holdings also contributed positively to performance. The top five contributors were Jobstreet Corp., Baidu, Turquoise Hill, Donaco International and Beijing Capital International Airport. Special mention must go to Jobstreet Corp. which advanced after Seek Ltd revised its consideration for the company's online operations from 1.73bn MYR to 1.89bn MYR. Subsequent to this announcement, we exited our holding on the view that further upside from the 'Jobstreet stub' was limited and tax consequences relating to the return of capital via special dividends at the completion of the deal was not favourable. Jobstreet has been a core holding in the portfolio since our initial purchase in 2009 over which time it has appreciated 187% excluding dividends. Coupled with the partial sell down of Baidu, the exposure to the online classifieds and search theme declined 5ppts over the period.

Conversely our holdings in the Macau gaming sector as well as 51Jobs were the largest detractors to performance. Macau is currently experiencing a period of weak monthly gaming revenues, specifically in the VIP space, where a clamp down on corruption throughout mainland China has triggered a slowdown in activity. This has led to 2014 and 2015 growth expectations being revised downwards. These revisions have seen the share prices of Macau's six leading casino operators fall an average of 35% this year. While Macau's monthly gaming revenues may remain weak in the immediate future, we believe the markets expectation for near term growth is reflective of the current environment and valuation and dividend yields are attractive. Underlying casino economics remain strong and while the VIP business dominates industry revenues, future growth in earnings will be supported by the growing contribution from mass market operations which now accounts for in excess of 60% of EBITDA. We continue to look through this short term volatility believing the sector remains an attractive place to deploy capital long term. We initiated a position in MGM China Holdings during the quarter, which increased our Macau exposure 4.5ppts to 8.0%. In total our exposure to the gaming sector now stands at 20.7%.



The heightened market volatility has led to increased activity in the portfolio, in addition to MGM China we also added China Yuchai International and LG Household & Healthcare to the portfolio. Each of these new holdings was detailed in our monthly commentary. With the aforementioned changes invested position increased to 74% by the end of September.

Regional markets present an interesting proposition for investors today. Investors have become increasingly cautious of China's growth outlook and the impact of this on regional economies. Economic data points and anecdotal evidence suggest that the risk factors in China are only building and it will be difficult for the government to manage the slowdown in the economy. This is a risk we have flagged consistently in our commentary over the last two to three years and is the reason why we have held minimal exposures to the financial and commodity sectors within our portfolio. The potential for tighter monetary policy in the US also presents the risk that liquidity could be drawn out of the region, given it has been a big beneficiary of excess capital.

Despite these headwinds Asia ex Japan is a very large universe and there continues to be significant opportunities for investors across the region. It is important to highlight that Asia is much more than just China and opportunity exists far beyond this market for investors. It has always been our view that the best approach to building a portfolio is a bottom up concentrated approach, that identifies the best idea rather than a benchmarked portfolio and this is even more important in today's environment. We will continue to use the current market volatility to increase our invested position and in particular are focusing on non-Chinese fixed asset investment driven and/or defensive growth exposure.

Kevin Bertoli, Portfolio Manager

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Australian Companies Fund

Investment Performance[2]	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Australian Companies Fund	**01/2000**	**$1.5841**	**2.1%**	**3.7%**	**3.6%**	**18.2%**	**9.6%**	**10.8%**	**353.8%**
S&P / ASX Accumulation 200 Index			*-0.6%*	*0.3%*	*5.9%*	*14.8%*	*6.8%*	*8.1%*	*216.1%*

Portfolio's Invested Position	
Long Exposure	62.0%
Short Exposure	0.0%
Net Equity Exposure	**62.0%**
Debt Securities	21.8%
Cash	16.2%
Total Exposure	**100.0%**
Long Equity Composition	
Property Asia Pacific Data Centre, Devine	22.9%
Media PMP Limited	9.2%
Insurance QBE Insurance	7.9%
Banks ANZ, NAB	7.7%
Consumer JB Hi-Fi	5.8%
Other NEXTDC, Donaco International	8.5%
Total Long Equity Exposure	**62.0%**

Returns for this quarter benefitted from the average net invested position of the Fund being below 75%. Over the last 18 months we have been reducing our net invested position with a view that the fundamentals in the Australian market did not support the valuations seen across a number of the sectors. The overall market was weak as investors factored in a poor earnings reporting season and fears of a prolonged slowdown in China.

Our property related stocks have been key drivers of positive performance, notably Lend Lease and Devine. We sold our position in Lend Lease late in the quarter post the positive share price move. Devine had a strong quarter rising 7.1% after Devine management announced they would look to manage the sale of Leighton's ~60% position in Devine and also seek to find an acquirer for the entire business. We invested in Devine with a view that the market was undervaluing its land banks and the discount the stock was trading to its NTA reflected an overly pessimistic view of the long term value of these assets. This potential M&A has resulted in an upward revaluation of the stock and pushed the share price closer to NTA.

Other stocks in the portfolio which bucked the negative trend in the market and provided positive returns were QBE, Qube Logistics and Donaco International.

JB-Hi Fi continued to perform poorly over the quarter, falling 14.9% as the market downgraded the valuation for the stock and as a result JB Hi-Fi is now trading at a discount to all other retailers, where it was previously trading at a premium. The driver of negative sentiment in relation to the stock appears to be the view that weaker FY15 sales guidance provided by management indicates potential structural challenges in the business. We hold the view that the weakness in sales over the last quarter reflects a nervous consumer, particularly on the back of a tougher than expected budget and merely presents a cyclical risk. We believe that the new JB Home business line will provide revenue growth opportunities and solid margins. We believe that JB Hi-Fi continues to be a well-run retailer with potential for growth, which is not reflected in its current valuation.

We exited our position in Qube Logistics over the quarter after the stock rose 11.8%. Qube Logistics has a first class management team and highly profitable infrastructure assets, which is a rare combination. The business has potential to reshape the logistics infrastructure landscape in Australia. However, at current valuation investors are not pricing in potential execution missteps, which are likely in their multi-year plan. This was the key reason we exited our position over the quarter.

QBE outperformed the market and contributed positively to performance. Over the last 12 months, QBE has provided a challenge to the Funds' returns as management downgraded earnings expectations due to issues in their North American business. Over the last 12 months, the new CEO of the business has increased transparency and rebased the revenue and earnings for the business. During this transition phase the stock underperformed the market. We believe that following the capital raising in August, the business may have turned a corner. The broader market reaction to the capital raising has been positive and investors seem to view the capital levels for the business as adequate and that management has appropriately rebased earnings. We expect that apart from improvement in their operational results, QBE will also benefit from the fall in the AUD over September and benefit from potential rate rises in the US over FY15.

Going into the December quarter we hold the view that although the market has corrected, valuations still remain high and that we need to remain patient. Having a net invested position of 62% at quarter end, we think we are well positioned to take advantage of further dislocation in the valuation of quality businesses.

Uday Cheruvu, Portfolio Manager

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Enhanced Yield Fund

Investment Performance[2]	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Enhanced Yield Fund	**03/2002**	**$1.1128**	**0.7%**	**2.1%**	**4.7%**	**5.8%**	**5.8%**	**6.6%**	**124.2%**
RBA Cash Rate			*0.6%*	*1.3%*	*2.5%*	*3.2%*	*3.7%*	*4.8%*	*80.3%*

	%	Avg. Yield (gross)	Avg. Spread to RBA (gross)
Cash	**54.2%**	3.1%*	0.6%*
Corporate Debt	**28.8%**	4.6%*	2.1%*
Fixed Floating	0% 28.8%		
Hybrids	**14.6%**	5.0%*	2.5%*
Fixed Floating	0% 14.6%		
Equity Income Strategies	**2.4%**		
Total Exposure	**100.0%**		

Maturity	
0-1 year	66.5%
1-2 years	5.2%
2-3 years	10.8%
3-4 years	3.2%
4 years +	14.3%

Regional	
Australia	86.8%
UK/Europe	12.2%
US	1.0%

Duration	
Interest rate	0.15 Years*
Average term to maturity	1.95 Years*

* These numbers are an estimate and should be used as a guide only.

Credit markets took somewhat of a breather over the September quarter, after having performed very well over the previous 12 months. The Fund returned 0.7% over the quarter v the RBA cash rate return of 0.6%, which we are reasonably happy with given the weakness in markets towards the end of the quarter.

There were no material additions to the portfolio over the quarter. There was however a pleasing announcement from Lloyds bank in the UK that they were calling their $A 2017 subordinated note, which we have a 2% position in, resulting in a ~6.5% uplift in the capital value of the notes.

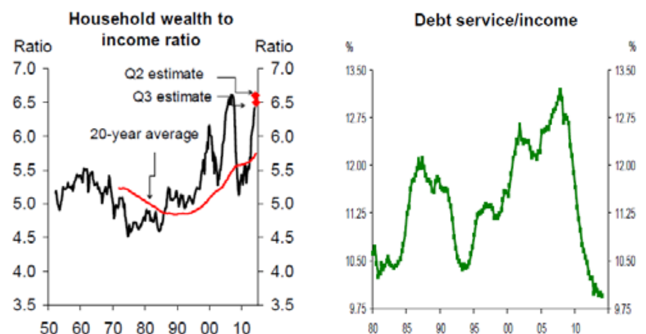
This was partly offset however by Tesco's announcement that they had recognised an error in the way they had accounted for certain types of revenue in their income statement – resulting in a GBP250m reduction in earnings for the year, on top of a previously announced earnings downgrade. Spreads on Tesco's various secured and unsecured debt securities were negatively impacted by around 30-50bp on the news. We are happy to hold our Tesco Property Senior Secured debt position as we think the market under recognises the value of the property assets against which it is secured, the level of mis-pricing compared to Tesco unsecured debt, and residual post GFC nervousness with regard to investing in the asset backed space generally.

During the quarter I attended a conference hosted by Deutsche Bank, travelling to Hong Kong, Tokyo, New York, Washington DC, Frankfurt and London where we were given access to senior figures within major central banks and Government treasury departments, the IMF, as well as the major rating agencies, political and strategic think-tanks, the corporate sector and market analysts.

US

I will start with some comments based on our meetings in the US. As has been well communicated by Governor Janet Yellen, the Fed is very concerned about raising rates prematurely, and undoing all their hard work over the past few years. When we spoke to them, they went into some detail around these concerns, particularly around the composition of the fall in the unemployment rate. Their main worry is that the falling labor market participation rate is making too much of a contribution to the fall in the unemployment rate (i.e. as people drop out of the workforce, the unemployment rate naturally decreases, all things being equal) and thus, their concern is that the labor market might not be as strong as the data suggests. They also highlighted key concerns with regard to lagging business investment and the impact that higher rates might have on that and future hiring intentions.

The message from business and the market in general was more positive though, suggesting that competition for labor is indeed intensifying, particularly in some of the service sectors, which account for the bulk of US employment. Higher wages are already starting to come through in some areas, suggesting that the labor market is strengthening notably. Additionally, when you consider that household wealth to income ratios are close to all time highs, and debt servicing to income levels are at all time lows (charts below), it is not hard to see that the framework is there for markedly higher growth and potentially higher inflation over the longer term.



In terms of drawing a conclusion on the US, my main concern here is that most signs are pointing towards a longer term resurgence of US growth, however the Fed's nervousness with regard to raising official rates (off almost a zero base) has

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created excessive bearishness particularly among bond investors, and at some point this will come home to roost – most likely in the form of sharply higher US bond yields and at worst a more disorderly increase in official rates – the exact scenario that the Fed is trying to avoid.

Longer term, the growth environment should be a good one for asset markets in general, however the short to medium term implications for asset prices and the volatility that would accompany a forcing of the Feds hand (if they wait too long to raise rates) could well see asset prices at materially lower levels than they are today, and may well create a significant investment opportunity before we head off on the next leg of positive market returns.

Europe

Europe is a tough one. There is a real dichotomy between countries such as Ireland and Spain that suffered through major structural change post the European crisis, but now appear to be on more sustainable long term growth paths, and countries like France and Italy that resisted structural change, and are now fighting to stay out of recession.

Whilst we pay minimal attention to rating agency views, one cannot help but notice an interesting misalignment (being artificially driven by ECB policy) where we have BBB rated countries like Spain and Italy with 10yr bond yields in the low 2% range, below that of the US which is rated AA+. When looking at it from a pure risk standpoint, it is hard not to form the view that yields in these countries are too low.

The ECB recently announced their Targeted Longer Term Refinancing Operation (TLTRO). That is, where they will lend directly to European banks at levels potentially 1%-2% below their current unsecured funding costs. When we spoke to the ECB it was clear that their intention, apart from providing general support to the European banking system, is to encourage banks to increase lending to consumers and corporates to stimulate growth. Time will tell as to whether this actually occurs, or whether the banks just use the cheap funding to buy assets themselves. The other impact of the TLTRO should be to encourage debt investors into riskier assets, and thus provide some general support for markets longer term.

One thing that did seem clear to us was that the ECB seems happy to see the Euro go lower, as they flush the banking system with liquidity. For export oriented countries like Germany for example, this will likely prove an important long term positive. The bottom line though is that a number of the structural issues that have plagued the EU such as high debt/GDP levels and large budget deficits are still present in certain countries, and thus the EU is still a very mixed bag. Consequently, we think any debt investments made in the region should be selective in nature and should centre around strategies supported by quality hard assets. As the ECB keeps rates artificially low, it is likely that hard asset plays will be big beneficiaries.

China

One of the key overriding themes here was the view that Chinese policy is becoming increasingly short term, and more reactionary than ever. Policy needs to better reflect China's long term goals of building a consumption driven economy, greater liberalisation of trade and markets, and greater self-sustainability.

Interestingly, several people that we spoke to commented that the crackdown on corruption was very real this time, and that there is a desire from policy makers to effect genuine change.

China has made some important advances in terms of becoming more self-sustainable also, both from a resources perspective and also a trade perspective. For example, I wasn't aware that ~25% of all Chinese trade is now settled in Renminbi (by-passing the need to settle in USD). The Chinese are also starting to offer credit terms to foreign clients in local currency. Both of these developments are reducing the reliance of China on the US.

China's banking system still presents numerous risks however, and with some suggesting that over 50% of all new loans are being written through the shadow banking system, it is hard to gauge the true risks in the sector. Furthermore, numerous speakers highlighted increasing concerns with regard to general under-reporting of property exposures on bank balance sheets, thus potentially magnifying the effect of any future correction in property prices.

It seems clear that the Chinese financial sector still needs a significant overhaul before the broader investment community will be able to get comfortable with its inherent risks.

Outlook

I think there is a good chance that we will see higher US bond yields over the next 6-12 months, as the market potentially starts to react less to deliberately bearish Fed sentiment, and more towards the performance of the real economy. Hence, I wouldn't rule out a decent short term correction in asset prices from current levels and certainly more attractive levels to draw down on our ~50% cash balance.

With regard to Europe, we will continue to be very selective with our investments, and will likely focus on hard asset plays, as the region continues to work through its structural issues.

China is a region that we will continue to monitor, with any investments likely to be more reflective of "new China" sectors like internet and gaming, and less so within areas like the financial sector. The short term nature of Chinese policy makes me wonder whether we won't at some point see something less reflective of the soft-landing environment that the Chinese are striving for.

To sum up, I am increasingly confident that we will get an opportunity over the near to medium term to make some significant investments in the Fund at more attractive spreads than we are seeing today, and that having kept plenty of cash on hand to date will prove very valuable.

Jarod Dawson, Portfolio Manager

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