# QUARTERLY REPORT

## JUNE 2015

PM CAPITAL Global Companies Fund
ARSN 092 434 618, APIR Code PMC0100AU

PM CAPITAL Asian Companies Fund
ARSN 130 588 439, APIR Code PMC0002AU

PM CAPITAL Australian Companies Fund
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PM CAPITAL Enhanced Yield Fund
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# Investment Overview

The 2015 financial year was very rewarding for our global strategies, with a return[1] of 38.7% for the Global Companies Fund over the period. In comparison, for the same period the MSCI World Net Total Return Index (AUD) returned 24.6%, the S&P/ ASX 200 Accumulation Index returned 5.7%, and the RBA cash rate returned 2.4%.

Our basic framework for investment markets continued to hold true throughout the year, with:

1. The continued recovery in the American economy;
2. An acceptance that Europe too had turned the corner; and
3. A Chinese economy that was clearly losing momentum.

The reality of the slowing Chinese economy was reflected in commodity prices, with oil and iron prices, amongst others, collapsing approximately 50%. This was the dominant factor influencing the Australian dollar, which declined approximately 18%.

These trends very much supported our offshore investment thesis (that being a better breadth of opportunity and a better risk reward) with commodity stocks in Australia continuing to decline and the banks being relatively flat. In particular, the bank stocks highlighted the dangers of group think and how quickly market sentiment can change, declining approximately 20% from their April highs. In contrast, offshore banks were one of the stronger performing sectors for the quarter, resulting in a performance differential of around 40% between the offshore and onshore banks within a very short period of time. With our offshore domestic banking franchises being the single largest investment within our global portfolios, this was a major contributor to the strong returns over the financial year.

Looking ahead, we continue to believe that our basic framework will continue to hold true:

1. The US economy will continue to edge along. No doubt the markets will react to any increase in interest rates, if they ever eventuate, but I suspect this will be temporary;
2. Europe's recovery will gain momentum and acceptance and as we detailed post our trip to Greece last quarter, Greece itself will prove to be more of a speed bump than a chasm.

China is the interesting one and far more important than Greece. I have always held the simplistic view that where there is a boom, there is a bust and in China we have had one of the greatest economic booms we have ever seen. The markets, in my opinion, have always had a misguided trust that the Chinese totalitarian regime could simply manufacture a simple transition from an excessive period of old fashioned fixed capital investment to a modern society dominated by consumption and services. Anecdotes increasingly suggest otherwise, including horrific pollution, "ghost" cities, massive corruption, the flight of capital to offshore property markets and now the manipulation of the Chinese "A" share market.

In May, I travelled with Kevin Bertoli, Fund Manager for the Asian Companies Fund on a 2 week research trip to Asia, culminating in Beijing. The first part of the trip was to visit a number of casino operations across the region to assess the impact of the crackdown on Chinese corruption on these operations and assess if that had created an opportunity.

In respect of Beijing / China, our timing was fortuitous. The Chinese "A" share market was in a raging bull market - confirmation of my concern over the ability of the Chinese economy to exit its hyper fixed asset investment phase without a period of significant pain.

What was most remarkable was the broadly held view that the Chinese government could manufacture the outcome of the market with the purpose of creating higher stock prices to facilitate companies raising equity and thus paying down excessive debts. It was always going to end badly and it did, very quickly. This only re-enforces my view that China still faces a significant risk of a major bump along the road and until that happens it will be difficult for commodity prices and the Australian dollar, despite their significant falls, to be an opportunity as opposed to a risk. Thus we are maintaining our offshore currency exposures.

From a stock perspective, there is no doubt that valuations have now adjusted and there are sectors of the market such as property and infrastructure that are being distorted by the lowest borrowing rates that we have ever seen. Excluding these sectors, it still appears that owning a business is the preferable option for a genuine long term investor. One just has to be clear that 40% type returns are not the norm and that returns will now be driven by underlying earnings as opposed to valuation adjustments. When bonds and cash are generating very low single digit returns, high single digit returns from owning a business are very rewarding.

So the bottom line is that our core investments are still valid and continue to play out. Don't expect to see a lot of change, but there will always be individual stocks that offer an opportunity to add to or remove from the portfolio. For example, we have recently acquired positions in home building companies in both Ireland and California that are consistent with our long term theme of residential housing recovery within these markets.

For those who like to gain a further insight into our investments, we have provided links below to articles that appeared in the Financial Times and Forbes recently with respect to Howard Hughes and Anheuser- Busch InBev, two of our core investments over the last 5 years. Hopefully, they bring further colour to our investment philosophy and process which ultimately is far more important than the individual details of specific investments.

**Baby Buffett: Will Bill Ackman Resurrect The Ghost of Howard Hughes and Build a Corporate Empire?**
*This article appears in the May 25, 2015 issue of Forbes.*

**AB InBev's hard-nosed kings of beer**
Andrew Hill and Scheherazade Daneshkhu; *This article appears on The Financial Times website, ft.com/management.*

**Paul Moore,**
**Chief Investment Officer**

1. Past performance is not a reliable indicator of future performance. See page 8 for Important Information.

# Fund Overview

| Fund Description | | | | | | |
|---|---|---|---|---|---|---|
| **Fund** | **Asset Class** | **Inception Date** | **Suggested Time frame** | **Fund FUM** | **Total Return Since Inception**[1] | |
| **Global Companies** | Global Equities | 28 October 1998 | 7 Years + | $290 million | **Fund 333.7%** | MSCI AC World Net (AUD) 82.9% |
| **Asian Companies** | Asian Equities (ex Japan) | 1 July 2008 | 7 Years + | $15 million | **Fund 234.8%** | MSCI AC Asia ex Japan Net (AUD) 79.3% |
| **Australian Companies** | Global Equities | 20 January 2000 | 7 Years + | $35 million | **Fund 408.6%** | S&P/ASX Accum. 200 233.5% |
| **Enhanced Yield** | Yield Securities | 1 March 2002 | 2 Years + | $398 million | **Fund 128.7%** | RBA Cash Rate 83.3% |

1. Past performance is not a reliable indicator of future performance. See page 8 for Important Information. Detailed performance figures for other periods can be found on pages 3, 4, 6, 7 for each Fund within this report.

# Quarterly Market Overview Video

Click the above photo or visit our website for the June 2015 Quarterly Report Investment Overview video by Paul Moore (14:06 mins).

# 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** | **2.3833** | **3.4%** | **15.4%** | **38.7%** | **36.4%** | **18.3%** | **9.2%** | **333.7%** |
| MSCI AC World Net Total Return Index (AUD) | | | -0.3% | 9.3% | 24.6% | 25.8% | 15.3% | 3.7% | 82.9% |

| Portfolio's Invested Position | |
|---|---|
| Long Exposure | 111.5% |
| Short Exposure | -11.8% |
| **Net Equity Exposure** | **99.7%** |
| Debt Securities | 11.0% |
| Cash | -10.7% |
| **Total Exposure** | **100.0%** |

| Long Equity Composition (sector and stock examples) | |
|---|---|
| Banks - Lloyds Bank, Barclays, Bank of America | 36.2% |
| Services - Google Inc, CME Group Inc | 22.8% |
| Property - Realogy, Howard Hughes, MDC Holdings | 19.3% |
| Beverages - Heineken Holdings, Anheuser-Busch Inbev | 9.4% |
| Diversified Financials - ING Groep | 9.4% |
| Technology - Oracle | 3.9% |
| Other - PM Capital Asian Companies Fund Ltd | 10.5% |
| **Total Long Equity Exposure** | **111.5%** |

The 2015 financial year Fund performance was assisted by the fall in the Australian dollar (AUD) and the rapid share price appreciation across multiple European positions, including our Continental European regional banking positions, Beverage names, Real Estate Income Trusts (REITs) and our International stock exchange positions.

During the financial year, the US Federal Reserve ended their quantitative easing program and indicated that they would be willing to raise interest rates when they perceive that the United States economy was growing at rates that they believed would create inflation, wage growth and unsustainable employment levels. In contrast, various international central banks started their quantitative easing programs and lowered their interest rates aggressively. We also witnessed the first country to ever sell a 10 year debt instrument with a yield below 0%, when Switzerland offered a ten year bond with a negative yield. The Federal Reserve hurdles to raise interest rates were not met during the year, but their intentions and the subsequent dichotomy of quantitative easing programs across the world created significant volatility in the global bond markets. This created knock on effects to the currency and equity markets. This market volatility benefited the Fund, firstly via our 93% invested position in the US dollar (USD) and secondly, as we increased the Funds net equity exposure throughout the year from 77% to almost 100%. During the month of October, we increased our net equity invested position by 27% as the S&P 500 experienced a peak to trough correction of approximately 10% intra month.

During the quarter, there were little notable changes to the portfolio, except for the reduction in our debt securities. The net equity exposure remained relatively stable at approximately 100%. During the period, the Fund started transitioning towards obtaining its exposure to Asia by investing in the PM CAPITAL Asian Companies Fund. The reduction in the debt component of our portfolio was a result of Restaurant Brands International redeeming and refinancing their existing senior secured first lien loans at significantly more favourable rates. We used this event to exit our position. We originally entered the loans in September 2014 when Burger King announced it was buying Tim Hortons for US $12.5 billion to create the world's third largest quick service restaurant company with leading positions in hamburgers, donuts and coffee. We were originally attracted to the deal due to the high absolute coupon of approximately 6%, strong management team (3G Capital), and the deal structure.

In any takeover situation, the management team is vital and must be assessed on their ability to create shareholder value from the transaction. 3G Capital, whose founders are one of the largest shareholders in Anheuser Busch Inbev, the world's leading brewer, and have helped consolidate the international beer market over the last decade, own 51% of Restaurants Brands International.

They bring a zero based budgeting cost control focus, wherein every expense must be newly justified every year, not just new ones, and the goal is to bring costs down lower than they were the previous year. 3G Capital have an ownership culture whereby every employee is incentivised to increase the value of the business over the longer term. It is thus no wonder they have partnered with Warren Buffett on numerous transactions and earnt his praise, "I'm not embarrassed to admit that Heinz is run better under (3G Managing Partner) Alex Behring and Bernardo Hees, than would be the case if I were in charge. We expect to partner with 3G in more activities". The deal structure was attractive as the loans stood at the top of the corporate structure and was effectively 100% value backed by the company's Real Estate assets. Warren Buffett's $3 billion preferred shares investment in the merged entity along with his warrants also gave us confidence as they ranked lower down the corporate structure. We believed that the merger would be successful and that the downside was very well protected, due to the significant buffer provided by the common equity, preferred share equity and the second lien notes along with the solid business characteristics. The business is effectively a royalty franchise model and following our analysis of their Real Estate assets, we believed that the business value was multiple times the value of the senior secured loan value. It thus has come as no surprise to us that the merger to date has been successful, that Warren Buffet has exercised his warrant rights to become a 5% common equity holder and that the first lien loans have been refinanced at more favourable rates.

As many long term investors in the Fund would be aware, we used the global financial crisis to take advantage of the dislocation in credit spreads, as we believed it was a once in a lifetime opportunity. The philosophy of buying assets at the top of the corporate structure with variable interest rate coupons, with a significant downside equity buffer, that trade at discounts to their intrinsic value, forms the bulk of our debt securities in the Fund. It would be remiss not to mention that we believe that these opportunities are fast disappearing as credit spreads tighten and interest rates decline. It is no wonder therefore that debt securities exposure in the Fund is currently less than 11%, down more than half from a year ago.

We continue to believe that volatility in markets may continue near term, thus entering a stage in the equity market that is best suited to selective stock picking instead of broader market exposure.

Ashley Pittard, *Global Portfolio Manager*

2. Past performance is not a reliable indicator of future performance. See page 8 for Important Information.

# 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** | **1.9406** | **2.1%** | **9.0%** | **21.7%** | **23.1%** | **11.6%** | **18.9%** | **234.8%** |
| MSCI AC Asia ex Japan Net Total Return Index (AUD) | | | -0.1% | 12.3% | 27.5% | 20.6% | 9.5% | 8.7% | 79.3% |

| Long Equity Composition (sector and stock examples) | |
|---|---|
| Consumer - Carlsberg Malaysia, Guinness Anchor | 15.1% |
| Internet - Baidu, 51Job Inc., Zhaopin Ltd | 14.0% |
| Gaming - Donaco International, MGM China | 12.0% |
| Infrastructure - Sinopec Kantons Holdings | 5.8% |
| Healthcare - Mindray Medical | 4.3% |
| Commodities - Turquoise Hill Resources | 4.1% |
| Financials - HSBC | 3.4% |
| Other | 3.5% |
| Cash | 37.8% |
| **Total Exposure** | **100.0%** |

The performance of the underlying portfolio was driven by several stock specific events during the period, particularly those of Turquoise Hill Resources, Beijing Capital International Airport (BCIA) and Donaco International.

Turquoise Hill advanced after signing the 'Oyu Tolgoi Underground Mine Development and Financing Plan' with Rio Tinto and the Government of Mongolia. This agreement addresses the key outstanding shareholder issues which have postponed the development of the underground mine since 2013. While there are still several hurdles yet to overcome (i.e. project financing) before development can recommence, this is definitely a step in the right direction.

BCIA performed solidly, after recording better than expected traffic growth year to date. Traffic growth has been driven by international flights which bodes well for underlying earnings, given tariffs on these routes are double that of domestic flights. Management subsequently revised their guidance for international traffic growth for 2015 upwards to high single digits for the full year. A shifting in BCIA's traffic mix towards international routes is still in the early stages and should act as tailwind for revenue growth over the next few years. This along with the likelihood of higher dividends and potential tariff increases will increasingly garner the attention of investors so we remain comfortable with our holding in the company.

Donaco completed the acquisition of the Star Vegas casino in Poipet on July 1 2015. The pending completion drove the company's strong quarterly performance. We visited the property in May taking the three hour commute from Bangkok airport. After visiting all of the casinos, it is clear Star Vegas is the best quality asset in Poipet. Despite operating for 15 years, the property has been well maintained and requires minimal investment unlike some of its peers. There is also ample vacant floor space where capacity can be added, if and when demand dictates. Poipet is a relatively mature casino market, targeting mass market day trippers from Thailand. It is hard to see how the wider market will significantly increase patronage without a meaningful investment back into some of the other properties. That being said, there is scope to grow visitation when border crossing hours are eventually extended to 24 hours and Star Vegas should be the biggest beneficiary. The completion of Star Vegas acquisition has been an significant overhang for Donaco's share price over the past six months, now that the transaction has been completed. The market should refocus on the underlying operations and earnings growth potential which we believe will lead to a valuation rerating overtime.

Growing concern over China's growth outlook, the uncertain outlook for Greece and the expectation of monetary tightening in the US lead to the continued appreciation of the US Dollar (and by proxy the pegged HK Dollar). This was again a positive contributor to Fund performance. The declines in most free floating Asian currencies, including the Australian Dollar, over the past year highlights the importance of managing underlying equity positions and currency exposures separately.

The primary detractors to performance again included our Macau gaming holdings, which continued to be impacted by lacklustre gaming revenues and continued policy uncertainty, particularly regarding the upcoming total smoking ban. Monthly gaming revenues declined 34% during the quarter despite flat visitation. With hotel room supply increasing by 50% over the next 2 years, the industry must grow visitation and per visit spend to offset the impending increase in operating costs.

The Fund reinitiated a position in iProperty Group in May. Readers of our commentary will be familiar with iProperty which was a core holding of the Fund between Apr-2011 and Mar-2014. The company's online real estate portals continue to command market leading positions in Malaysian, Hong Kong and Indonesia and we believe the business is at the inflection point in terms of monetising their developer business. This should drive profitability from the current breakeven point. Despite the addition of iProperty Group, the invested position of the Fund declined as we held off investing new capital coming into the Fund. Given the market volatility, there will likely be the opportunity to invest this in the coming months. We also took advantage of the strong moves in the Hong Kong market in April to exit several small positions and trim some of our core holdings.

Paul Moore and I recently returned from a trip to Asia, which included Vietnam, Cambodia, Macau and China. During the trip we met among many others the management teams of 9 of the current 22 portfolio holdings including all of the companies with Chinese exposure. While it is clear the Chinese economy continued to slow in the first half of this year we came away from our meetings comfortable with the outlook and value proposition for these holdings. We have consistently outlined our cautious view on China and these concerns has increasingly come to the markets attention in recent months. Given our concerns the Fund has had no exposure to the Chinese A-Share market, although we continue to hold a favourable view on select Chinese businesses that are listed in Hong Kong. The recent activities of the Chinese Government in trying to support the equity markets and the volatility it has created again reinforces our philosophy of focusing our research on underlying companies and building a portfolio of select businesses that meet our strict criteria. This approach allows us to look through the market noise and ensures we are not reactive in our decision making.

Kevin Bertoli, *Asian Portfolio Manager*

2. Past performance is not a reliable indicator of future performance. See page 8 for Important Information.

# 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** | **1.7678** | **-1.0%** | **10.3%** | **13.9%** | **19.1%** | **13.8%** | **11.1%** | **408.6%** |
| S&P / ASX Accumulation 200 Index | | | -6.5% | 3.1% | 5.7% | 15.1% | 9.7% | 8.1% | 233.5% |

| Portfolio's Invested Position | |
|---|---|
| Long Exposure | 100.0% |
| Short Exposure | 0.0% |
| **Net Equity Exposure** | **100.0%** |
| Debt Securities | 17.5% |
| Cash | -17.5% |
| **Total Exposure** | **100.0%** |

| Long Equity Composition (sector and stock examples) | |
|---|---|
| Banks - ANZ, NAB, Lloyds, Bank of Ireland | 36.8% |
| Property - Asia Pacific Data Centre | 19.9% |
| Media - PMP Limited | 10.8% |
| Gaming - Donaco International, SJM Holdings | 9.2% |
| Technology - NEXTDC | 7.4% |
| Insurance - QBE Insurance | 6.8% |
| Consumer - JB Hi-Fi | 3.8% |
| Other - Intercontinental Exchange Inc | 5.3% |
| **Total Long Equity Exposure** | **100.0%** |

The key drivers of the Fund performance in the last quarter have been the realisation of our investment thesis in relation to domestic banks, commodity stocks and our bearish view on earnings outlook for industrial companies.

During the course of the last financial year, we commented several times that we saw more downside than upside risk in the Australian market. In particular we highlighted that the domestic banks were trading at approximately 20 – 50% valuation premiums to international banks and that commodity stocks were expensive, given our view that commodity prices would remain under pressure, due to a deceleration in China. As a result of our negative view on these two sectors which account for more than 50% of the S&P/ASX200 index, we maintained a significant cash position (averaging between 25 – 35%) during the first quarter of this year. In comparison to returns achievable through investing in cash, we believed that investors in this Fund would be better served with having an allocation in international stocks versus holding a similar sized cash position in the Fund. As a result from October 2014, we extended the mandate of this Fund to allow up to 20% exposure to international stocks. Initially we focussed on international banks (Bank of Ireland, Lloyds, Bank of America and ING) which we saw as offering a better risk reward profile than the domestic banks. As a result of these international investments, we increased the net equity position of the Fund from ~70% in June-14 to 95% at the start of this quarter.

Both our bearish view on domestic banks and our positive view on international banks played out during the last quarter. The domestic major banks saw a 15 – 20% fall in share prices from their peaks in late April. As a result of this correction, the S&P/ASX200 Financial Sector Index (ex-property) fell by 9.8% over the last quarter. The impact of this correction on the Fund was mitigated to some extent, as we had reduced our exposure in domestic banks from 25% to 17% by lowering our positions in Westpac, NAB and Macquarie when their valuations peaked in April (prior to the correction). In contrast, the international banks we invested in were up on average +2.5% and contributed positively to performance of the Fund over the last quarter. In our view, the correction in bank stocks has made the relative valuation of domestic banks more appealing. However, we continue to see better earnings momentum for international banks relative to domestic banks over the near to medium term.

Fund performance also benefitted from having no exposure to commodity stocks and consumer staples during the quarter. We held the view over the year that the domestic economy would go through a period of turbulence as the slowdown in China would translate to lower commodity prices and lower growth in the domestic economy. This thesis played out over the quarter as consumer staples stocks (S&P/ASX 200 Cons Staples Index fell 9.7%) and commodity stocks (S&P/ASX 200 Materials Index fell 3.4%) both saw negative returns over the quarter.

Apart from the previously mentioned themes, the performance of Donaco and PMP added significantly to performance during the quarter. PMP has been a stock we have held for a number of years over which the company has gone through transition due to industry issues. It appears the worst is over for the company and the stock rose 20% after management announced that they will move to a net cash position and potentially begin returning capital shareholders via dividends over the next 12 months. Although the printing industry will remain a challenging industry to operate in, we believe the valuation of PMP at 3 – 4x forward EV/EBITDA means that running the business for cash flow still provides an attractive return to shareholders.

Donaco rose 15% over the last quarter after management provided a trading update and also gave a firm date for the closing of their Cambodian casino acquisition. With the acquisition closed on 1 July 2015, Donaco's business will be less geared to Chinese tourists as 75% of its earnings will come from the Cambodian assets. Even after this 15% share price increase over the last quarter, we continue to believe that the market is not fully pricing in the earnings power of the merged entity. We believe that the normalised earnings power of the business is $0.10+, which means that the stock is only trading on ~8x normalised PE vs our valuation of ~10 – 11x forward PE.

Looking outward, the correction in the Australian market during the last quarter has made valuations more interesting. In particular, the improvement in relative valuation of the Australian banks has meant that we have increased our position in the domestic majors. At the same time, we have maintained our exposure to international banks, which we believe will continue to see strong performance over the medium term. We remain cautious about investing in commodity stocks, given our bearish views on commodity prices. However, we see pockets of value returning to the market and look to direct our research focus on sectors outside of financials and commodities.

Uday Cheruvu, *Australian 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** | **1.1216** | **0.4%** | **1.4%** | **2.6%** | **4.7%** | **5.3%** | **6.4%** | **128.7%** |
| RBA Cash Rate | | | 0.5% | 1.1% | 2.4% | 2.7% | 3.5% | 4.6% | 83.3% |

| Yield Security Maturity Profile | |
|---|---|
| 0-1 year | 51.6% |
| 1-2 years | 13.3% |
| 2-3 years | 2.6% |
| 3-4 years | 3.0% |
| 4 years + | 29.5% |

| Duration | |
|---|---|
| Interest Rate | 0.15 Years* |
| Average Term to Maturity | 2.88 Years* |

| Regional Allocation | |
|---|---|
| Australia | 78.2% |
| UK | 10.2% |
| Europe | 5.9% |
| US | 3.8% |
| Asia | 1.9% |

| | | Av Yield | Av Spread to RBA |
|---|---|---|---|
| Cash | 43.9% | 2.62%* | 0.62%* |
| Corporate Bonds | 37.2% | 4.67%* | 2.67%* |
| Fixed | 0% | | |
| Floating | 100% | | |
| Hybrids | 15.9% | 5.07%* | 3.07%* |
| Fixed | 0% | | |
| Floating | 100% | | |
| Equity Income Strategies | 3.0% | | |
| **Total Exposure** | **100.0%** | | |

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

At the end of the 30 June 2014 report, we commented that it would be more challenging to find genuine new investment opportunities this year than it was in the previous couple of years, and this has proven to be right. With credit spreads broadly wider over the year, and in some sectors markedly, we are pleased to have outperformed the RBA cash rate on a net basis.

Those that have been following the portfolio closely will know that, much like our equity Funds, we have been focussing our attention on offshore markets in our search for new ideas, as numerous sectors are trading at significant yield premiums to where to the same sectors trade locally.

Along with a number of new positions detailed in previous reports, we added two new positions in the June quarter:

### 1.25% position in CBA EUR Sub Debt at ~$A Bills +260bp

CBA issued a subordinated bond at $A Bills +260bp in EUR. We found this interesting in light of the fact that the equivalent $A security at the time of purchase was trading at ~Bills +170. The $A notes have subsequently been re-priced somewhat into the low +200's, but the EUR bonds are still well wide of the local securities and we believe they represent good value.

### 1.25% position in Spirit Pub Company Senior Secured debt at ~$A Bills + 200bp

Spirit Pub Company is one of the best managed pub companies in the UK and owns some of London's best pubs. It was recently the subject of a takeover approach by Greene King which we expect to be successful. Post the agreement being finalised, we expect this bond to be bought back and refinanced within the next few years, and thus would expect the return on this investment to be significantly higher than the above spread suggests.

We also used the price volatility witnessed on the back of the ongoing speculation around when the US will start raising interest rates, as well as the theatre surrounding whether or not Greece will exit the EU to add to a number of existing positions:

| Lar Espana | EUR | Snr secured debt | Bills + 365bp | ~1.00% |
|---|---|---|---|---|
| Woolworths | AUD | Sub debt | Bills + 200bp | ~0.50% |
| Crown | AUD | Sub debt | Bills + 385bp | ~0.50% |
| Tabcorp | AUD | Sub debt | Bills + 240bp | ~0.25% |

We sold most of our Bunnings Senior Secured debt at ~Bills +160 bp after purchasing it less than 2 years ago at ~$A Bills +210bp.

One of the notable market underperformers late in the year were the more recently issued A$ listed hybrid securities by Australian major banks. Those that closely follow the portfolio will know that we have been actively avoiding these securities due to their unfavourable terms and pricing, focusing our attention on some of the banks shorter dated foreign issued securities – particularly in USD. Spreads on the more recently issued $A hybrids have widened significantly from the low 300's to the low to mid 400's – in some cases, wiping out most of their running yield over the last 12 months. Our foreign securities however have held up well.

### Outlook

The uncertainty surrounding the markets response when the Fed starts to raise rates, as well as the outcome for Greece, will likely see volatility remain elevated near term. As previously communicated by Paul Moore upon returning from Greece, one of the biggest risks near term is the potential for the Greek Government to do something irrational.

With the Funds significant cash balance, we expect this volatility to create further opportunities to invest capital at attractive levels, and thus we will be vigilant in looking for opportunities.

In the interim, the average spread on the credit securities of the Fund is now around +180-200bp - so this, along with any potential new investments that we identify, will put the Fund in a strong position to continue to achieve its objective of generating cash +1%-2% over the medium to longer term.

We continue to hold almost no interest rate duration in the portfolio, on the longer term view that global interest rates are likely to rise materially in the coming years, as growth continues to normalise in response to the considerable stimulus that has been injected by the major economies since the GFC.

Jarod Dawson, *Yield Portfolio Manager*

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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.

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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 June 2015 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 World Net Total Return Index in Australian dollars, net dividends reinvested. The Index for the Asian Companies Fund is the MSCI AC Asia ex Japan 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 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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