

# Monthly Update



Awarded the *Money* magazine Best of the Best Award 2020 for Best Income Fund – High Yield and Credit.

## Fund commentary

- Credit markets continue to benefit from broad-based stimulus
- Realising two years of returns in two months with BHP
- Transport monopolies set to take off again

Credit markets rallied further in June, as government and central bank stimulus works its way through the system, and the economy in general continues to open back up.

Our Seek Ltd holding rallied strongly over the month, as the company announced a tender offer for its senior bonds as part of a broader capital restructure. The bonds were trading at cash +~250bp before the announcement. The tender values the bonds at +~140bp – the lowest the spread has ever been and a meaningful gain.

Allied Irish Bank performed well on additional support from the European Central Bank, as well as the formation of a new and relatively favourable Irish government.

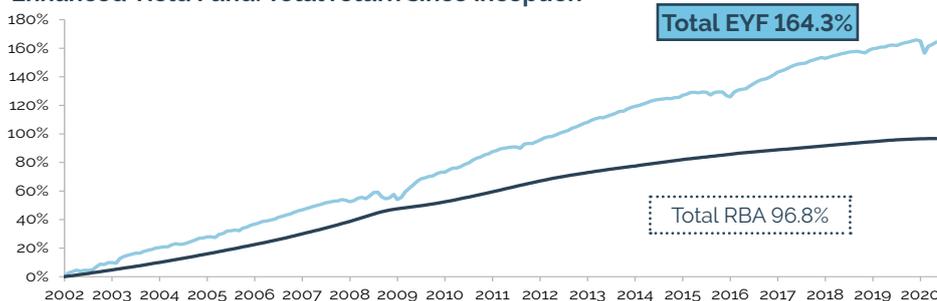
We sold our holding in BHP during the month. Having

purchased its bonds in the low +200bp range at the peak of the crisis, we sold our position at +~70bp – representing a ~6% absolute return in just over two months – not bad for an A-rated bond!

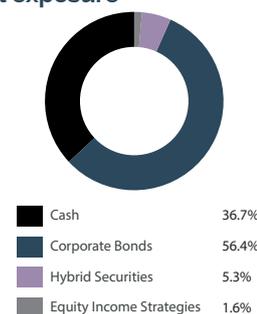
We have recently been building a position in Australasian airports and associated businesses. These are all effectively monopoly or duopoly businesses, and with the domestic travel industry slowly opening back up and a possible trans-Tasman travel bubble being effected over the next few months, we think these businesses will recover well longer term. We have been acquiring senior debt in these businesses at double to triple their pre-COVID-19 spreads, and expect them to contribute meaningfully to performance over the next few years.

| Fund performance <sup>a</sup><br>(net of fees)          | Inception Date | Exit Price (\$ cum) | 1 Month     | 3 Months    | 6 Months     | 1 Year      | 3 Years pa  | 5 Years pa  | 7 Years pa  | 10 Years pa | Since Inception pa |
|---|----------------|---------------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|-------------|--------------------|
| <b>Enhanced Yield Fund<sup>a</sup></b>                  | <b>02-2002</b> | <b>1.1097</b>       | <b>0.6%</b> | <b>3.0%</b> | <b>-0.3%</b> | <b>1.0%</b> | <b>2.2%</b> | <b>2.9%</b> | <b>3.3%</b> | <b>4.1%</b> | <b>5.4%</b>        |
| RBA cash rate   |                |                     | 0.0%        | 0.1%        | 0.2%         | 0.6%        | 1.2%        | 1.4%        | 1.7%        | 2.4%        | 3.8%               |
| Excess  |                |                     | 0.6%        | 2.9%        | -0.5%        | 0.4%        | 1.0%        | 1.5%        | 1.6%        | 1.7%        | 1.6%               |
| <b>Enhanced Yield Fund (Class B units)<sup>a*</sup></b> | <b>05-2017</b> | <b>1.1287</b>       | <b>0.6%</b> | <b>2.9%</b> | <b>-0.4%</b> | <b>1.1%</b> | <b>2.3%</b> |             |             |             | <b>2.5%</b>        |
| RBA cash rate   |                |                     | 0.0%        | 0.1%        | 0.2%         | 0.6%        | 1.2%        |             |             |             | 1.2%               |
| Excess  |                |                     | 0.6%        | 2.8%        | -0.6%        | 0.5%        | 1.1%        |             |             |             | 1.3%               |

## Enhanced Yield Fund: Total return since inception



## Actual exposure



| Yield security maturity profile |       |
|---------------------------------|-------|
| 0-1 Year                        | 45.1% |
| 1-2 Years                       | 21.5% |
| 2-3 Years                       | 2.6%  |
| 3-4 Years                       | 9.8%  |
| 4 Years +                       | 21.0% |

| Risk/return                               |       |
|---|-------|
| Standard deviation (1 year) <sup>^^</sup> | 4.00% |
| Maximum drawdown                          | 3.26% |
| Percentage of positive months             | 85.9% |

| Portfolio investments      | Current stock example |
|----------------------------|-----------------------|
| Domestic Banking           | ANZ                   |
| Global Industrial Services | SPIE                  |
| Global Property            | Lar Espana            |
| Global Retail              | Tesco                 |
| Domestic Infrastructure    | Sydney Airport        |
| Domestic Services          | Seek                  |
| Global Banking             | Wells Fargo           |

<sup>^</sup>These are estimates and should be used as a guide only.

| Regional allocation | 100%  |
|---------------------|-------|
| Australia           | 35.5% |
| Europe              | 11.5% |
| North America       | 8.0%  |
| United Kingdom      | 5.6%  |
| Asia                | 2.7%  |
| Cash                | 36.7% |

| Duration <sup>^</sup>    |      |
|--------------------------|------|
| Interest rate            | 0.11 |
| Average term to maturity | 2.99 |

<sup>^^</sup>Average 1 yr standard deviation for the prior 3 years to June 2020 is 1.1%

PM Capital Limited, founded in 1998, is a globally-focussed fund manager that invests money on behalf of private clients, the clients of financial advisers and institutions. PM Capital's goal is to build long term wealth by investing in global markets with patience and conviction.

#### Investment philosophy

We aim to build long term wealth together with our co-investors by finding and exploiting investment anomalies around the world. Using a focused, patient and considered approach to finding simple investment ideas produces the best environment for creating that long term wealth.

Our experience has shown us that while the market is largely efficient, it can, and regularly does, misprice a small proportion of companies. This mispricing can arise as a result of any number of reasons, but is most often associated with disruptive or cyclical change, new information which is misunderstood by the market as having a permanent impact when it is in fact transitory, or just because they are operating in a sector out of favour with investors.

Our unique process is based on scanning the world for those companies (hence the radar in our logo), discovering the associated valuation anomalies and extracting value from them. We buy good businesses at a good price; businesses that we believe are being valued differently to their long term intrinsic value, but will return to their correct value over time.

#### Who manages the investment?

Jarod Dawson has been the Portfolio Manager since 2004. Assisted by John Whelan and David Murray, together they have over 40 years' combined industry experience. They are supported by the broader investment team, with Paul Moore as CIO who has over 34 years' experience in successfully managing investment funds.

#### Why the Enhanced Yield Fund?

**Dependable:** A minimum 20% cash position helps the Fund to preserve capital and achieve its return objectives with low volatility. The Fund's process is effective and repeatable, based on a compelling philosophy. This Fund has been producing attractive returns for co-investors for more than 17 years, and is one of the longest running yield funds of its kind in Australia.

**Careful:** We have an authentic investment process where our exposure to industry sectors, geographic regions or market capitalisation is determined solely by our conviction in individual risk/reward opportunities that we identify. All holdings within the Fund have been intensively researched by our investment team. No conviction = no investment.

**Co-investment:** Our co-investors receive access to a unique subset of opportunities which they would otherwise find difficult to replicate. PM Capital has a meaningful investment in the Fund - we invest for and with you.

### Key Fund Details

#### Fund category

Fixed income

#### Investment style

Fundamental, bottom-up-research intensive approach

#### Inception date

1 March 2002

#### Fund size

\$505.3 million

#### Strategy size

\$748.5 million

#### Minimum direct investment

\$20,000

#### Recommended investment time

Two years plus

#### Fees (p.a.)

\*Performance Fee Option:  
Management fee: 0.55%.

Performance fee: 25% of net excess above RBA Cash Rate (subject to a high watermark).

\*\*Management Fee Option - Class B units:  
Management Fee: 0.79%.

#### Buy / sell spread

+/- 0.2%

#### Investor profile

The Fund may be appropriate for investors seeking capital preservation and potential return in excess of the Reserve Bank of Australia's (RBA) cash rate with a low degree of volatility.

### Important Notice

This Report is issued by PM Capital Limited ABN 69 083 644 731 AFSL 230222 as responsible entity for the PM Capital Enhanced Yield Fund (ARSN 099 581 558, the 'Fund'). It contains summary information only to provide an insight into how we make our investment decisions. This information does not constitute advice or a recommendation, and is subject to change without notice. It 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 Product Disclosure Statement which available from us, and seek their own financial advice prior to investing. The PDS explains how the Fund's Net Asset Value is calculated. 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. The investment objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term.

1. Returns are calculated from exit price to exit price assuming the reinvestment of distributions for the period as stated and represent the combined income and capital return. The Index is RBA Cash Rate. See [www.rba.gov.au](http://www.rba.gov.au) for further information.

#### Enhanced Yield Fund\*: Monthly Return Series Since Inception

|      | JAN   | FEB   | MAR   | APR   | MAY  | JUN   | JUL   | AUG   | SEP   | OCT   | NOV   | DEC   | CYTD  |
|------|-------|-------|-------|-------|------|-------|-------|-------|-------|-------|-------|-------|-------|
| 2020 | 0.2%  | -0.3% | -3.2% | 1.8%  | 0.5% | 0.6%  |       |       |       |       |       |       | -0.4% |
| 2019 | 0.7%  | 0.4%  | 0.2%  | 0.3%  | 0.1% | 0.4%  | 0.2%  | -0.1% | 0.4%  | 0.3%  | 0.2%  | 0.3%  | 3.4%  |
| 2018 | 0.3%  | -0.2% | 0.3%  | 0.4%  | 0.2% | 0.3%  | 0.2%  | 0.3%  | 0.1%  | 0.1%  | -0.2% | -0.2% | 1.6%  |
| 2017 | 0.7%  | 0.7%  | 0.4%  | 0.4%  | 0.6% | 0.5%  | 0.4%  | 0.2%  | 0.2%  | 0.5%  | 0.3%  | 0.3%  | 5.3%  |
| 2016 | -1.1% | -0.3% | 1.5%  | 0.6%  | 0.3% | 0.2%  | 0.8%  | 0.7%  | 0.7%  | 0.5%  | 0.2%  | 0.6%  | 4.7%  |
| 2015 | 0.0%  | 0.7%  | 0.3%  | 0.5%  | 0.1% | -0.2% | 0.3%  | -0.1% | -0.8% | 0.8%  | 0.2%  | 0.0%  | 1.7%  |
| 2014 | 0.5%  | 0.3%  | 0.3%  | 0.5%  | 0.4% | 0.5%  | 0.3%  | 0.2%  | 0.2%  | 0.1%  | 0.0%  | 0.3%  | 3.7%  |
| 2013 | 0.7%  | 0.4%  | 0.7%  | 0.5%  | 0.5% | -0.1% | 0.6%  | 0.4%  | 0.5%  | 0.6%  | 0.1%  | 0.7%  | 5.6%  |
| 2012 | 0.7%  | 0.6%  | 0.7%  | 0.4%  | 0.1% | 0.5%  | 0.7%  | 0.5%  | 0.5%  | 0.7%  | 0.4%  | 0.6%  | 6.6%  |
| 2011 | 0.4%  | 0.8%  | 0.4%  | 0.6%  | 0.3% | 0.2%  | 0.1%  | 0.0%  | -0.5% | 1.6%  | 0.2%  | 0.0%  | 4.3%  |
| 2010 | 0.5%  | 0.0%  | 0.9%  | 0.8%  | 0.0% | 0.6%  | 0.9%  | 0.5%  | 1.1%  | 0.7%  | 0.5%  | 0.8%  | 7.5%  |
| 2009 | 1.5%  | -2.3% | 1.0%  | 2.5%  | 1.5% | 1.4%  | 1.6%  | 1.1%  | 0.3%  | 0.6%  | 0.2%  | 1.0%  | 11.0% |
| 2008 | -0.4% | -0.6% | 0.6%  | 1.0%  | 0.5% | -0.7% | 1.3%  | 1.4%  | 0.2%  | -1.9% | -1.0% | 0.5%  | 0.8%  |
| 2007 | 0.6%  | 0.5%  | 0.5%  | 0.6%  | 0.6% | 0.4%  | 0.5%  | 0.6%  | 0.4%  | 0.4%  | 0.1%  | 0.6%  | 6.0%  |
| 2006 | 1.0%  | 0.4%  | 0.6%  | 0.8%  | 0.2% | 0.5%  | 0.5%  | 0.9%  | 0.5%  | 0.6%  | 0.6%  | 0.8%  | 7.8%  |
| 2005 | 0.3%  | 0.6%  | -0.1% | -0.4% | 1.7% | 0.5%  | 1.3%  | 0.2%  | 0.4%  | -0.3% | 1.3%  | 0.6%  | 6.2%  |
| 2004 | 0.8%  | 0.4%  | 0.3%  | 0.1%  | 1.1% | 0.7%  | -0.4% | 0.2%  | 0.7%  | 0.8%  | 0.9%  | 0.8%  | 6.5%  |
| 2003 | 1.2%  | 0.0%  | -0.4% | 3.1%  | 1.2% | 0.7%  | 0.6%  | 0.7%  | 0.0%  | 1.1%  | 0.6%  | 0.6%  | 9.4%  |
| 2002 |       |       | 2.6%  | 0.9%  | 1.0% | -0.5% | 0.4%  | 0.0%  | 0.2%  | 2.2%  | 1.7%  | -0.2% | 8.3%  |

#### Further Information

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