

Monthly Update

31 MAY 2020

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



Fund commentary

- New investments at considerable yield premiums to pre-COVID-19 levels
- Visa spend pays off handsomely

May was a month of further consolidation for credit markets, as many global economies (to varying degrees) made plans to open up schools, businesses and ultimately borders.

With considerable volatility in markets still, we took advantage of numerous opportunities to deploy the Fund's capital at attractive yields.

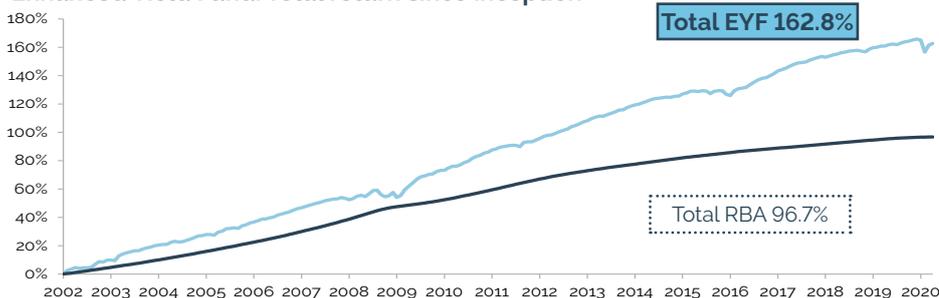
We initiated a position in Air Services Corp (ASC). Rated AAA, ASC is the government department responsible for running Australia's civil air traffic control operations. ASC is vitally important and has received considerable funding to ensure that aircraft can navigate safely once regular flight programs return. The investment yields cash + ~125bp – around double ASC's pre COVID-19 spread.

We also initiated a position in ANZ Bank's US Dollar subordinated bonds. At a yield of cash + ~280bp, we view these bonds as being attractive in absolute terms. As well as trading at a considerable yield premium to the equivalent Australian Dollar bond, they are trading at a margin of ~4 times ANZ's senior debt. Typically, major bank subordinated debt trades at a margin of ~2 times senior debt - making the current pricing very attractive.

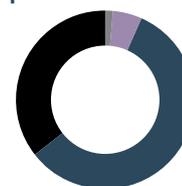
Finally, we sold our holding in Visa late in the month. Like a number of highly rated corporates, Visa has benefitted considerably from the US Federal Reserve's aggressive bond buying program. So much so, we generated an ~8% absolute yield from this investment in just over two months – not bad for a AA-rated bond!

Fund performance ¹ (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
Enhanced Yield Fund*	02-2002	1.1030	0.54%	-0.9%	-0.6%	0.7%	2.1%	2.8%	3.2%	4.1%	5.4%
RBA cash rate			0.02%	0.1%	0.3%	0.7%	1.3%	1.5%	1.8%	2.5%	3.8%
Excess			0.52%	-1.0%	-0.9%	0.0%	0.8%	1.3%	1.4%	1.6%	1.6%
Enhanced Yield Fund (Class B units)**	05-2017	1.1222	0.52%	-0.9%	-0.6%	0.9%	2.3%				2.3%
RBA cash rate			0.02%	0.1%	0.3%	0.7%	1.3%				1.2%
Excess			0.50%	-1.0%	-0.9%	0.2%	1.0%				1.1%

Enhanced Yield Fund: Total return since inception



Actual exposure



Cash	35.4%
Corporate Bonds	57.8%
Hybrid Securities	5.2%
Equity Income Strategies	1.6%

Yield security maturity profile	
0-1 Year	44.1%
1-2 Years	24.3%
2-3 Years	4.1%
3-4 Years	10.5%
4 Years +	17.0%

Portfolio investments	Current stock example
Domestic Banking	ANZ
Commodities	BHP
Global Services	Visa
Global Property	Lar Espana
Domestic Infrastructure	Sydney Airport
Domestic Services	Seek
Global Banking	Wells Fargo

Regional allocation		100%
Australia		37.8%
Europe		11.3%
North America		6.6%
United Kingdom		5.7%
Asia		2.7%
Other		0.5%
Cash		35.4%

Risk/return	
Standard deviation (1 year) ^{^^}	3.98%
Maximum drawdown	3.26%
Percentage of positive months	85.8%

[^]These are estimates and should be used as a guide only.

Duration [^]	
Interest rate	0.14
Average term to maturity	2.88

^{^^}Average 1 yr pre COVID-19 standard deviation for the prior 3 years to January 2020 is 0.78%

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

\$505.9 million

Strategy size

\$750.3 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 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%								-1.0%
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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