

# Monthly Update

31 OCTOBER 2020

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



## Fund commentary

- NAB makes a move on redeeming their income securities (ASX: NABHA)
- ANZ and Westpac USD subordinated bonds rally on NAB's announcement

Fund performance was solid in October with a number of the Fund's holdings performing well.

Early in the month NAB announced that it is calling a shareholder vote at its December AGM to allow it to redeem the NAB Income Securities (ASX code NABHA). The bonds rallied ~5% over the month. This is an investment that we have been holding on the view that ultimately it will no longer qualify as equity capital on NAB's balance sheet (under Basel III), and thus was a candidate for redemption at par (\$100).

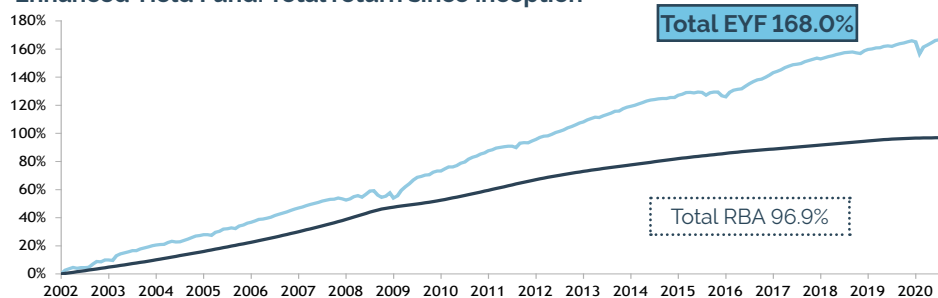
Assuming the vote is successful, we will have generated a

return of over 30% from this holding. This investment is a good case study on the sort of long term patient investing that we engage in as a firm, looking up and down a company's capital structure for the best value in global credit markets.

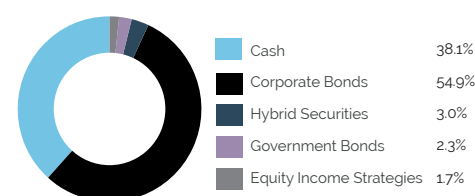
As a result of NAB's announcement, our holding in ANZ and Westpac's US Dollar floating rate subordinated debt also performed well (+~10%), as it too looks to be losing its favourable treatment on ANZ and Westpac's balance sheets. Given it is a floating rate investment, it also benefitted from rising US market interest rates.

Fund performance <sup>1</sup> (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>1</sup></b>	<b>02-2002</b>	<b>1.1187</b>	<b>0.42%</b>	<b>0.8%</b>	<b>2.6%</b>	<b>1.6%</b>	<b>2.2%</b>	<b>3.2%</b>	<b>3.2%</b>	<b>3.9%</b>	<b>5.4%</b>
RBA cash rate			0.02%	0.1%	0.1%	0.4%	11%	13%	16%	2.3%	3.7%
Excess			0.40%	0.7%	2.5%	1.2%	11%	19%	1.6%	16%	17%
<b>Enhanced Yield Fund (Class B units)<sup>2</sup></b>	<b>05-2017</b>	<b>1.1398</b>	<b>0.54%</b>	<b>0.9%</b>	<b>2.7%</b>	<b>1.8%</b>	<b>2.4%</b>				<b>2.7%</b>
RBA cash rate			0.02%	0.1%	0.1%	0.4%	11%				1.1%
Excess			0.52%	0.8%	2.6%	1.4%	13%				1.6%

## Enhanced Yield Fund: Total return since inception



## Actual exposure



Yield security maturity profile	
0-1 Year	49.5%
1-2 Years	15.5%
2-3 Years	6.6%
3-4 Years	7.3%
4 Years +	21.1%

Risk/return	
Standard deviation (1 year) <sup>^^</sup>	1.5%
Maximum drawdown	3.26%
Percentage of positive months	86.2%

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	37.2%
Europe	12.0%
North America	6.6%
United Kingdom	5.5%
Other	0.6%
Cash	38.1%

Duration <sup>^</sup>	
Interest rate	0.15
Average term to maturity	2.72

<sup>^^</sup>Average 1 yr standard deviation for the prior 3 years to October 2020

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

\$497.0 million

#### Strategy size

\$727.9 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

+/- 0.15%

#### 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%	18%	0.5%	0.6%	0.6%	0.2%	0.1%	0.4%	0.3%	0.3%	0.9%
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	-11%	-0.3%	15%	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

[www.pmcapital.com.au](http://www.pmcapital.com.au) T: +612 8243 0888 E: [pmcapital@pmcapital.com.au](mailto:pmcapital@pmcapital.com.au)

#### Representative contacts - Client Relationship Managers

**John Palmer** T: +61 447 471 042 E: [jpalm@pmcapital.com.au](mailto:jpalm@pmcapital.com.au)

**Nicholas Healey** T: +61 447 814 784 E: [nhealey@pmcapital.com.au](mailto:nhealey@pmcapital.com.au)