PM Capital

QUARTERLY REPORT
JUNE 2019

The 'Great Race' to zero

Negative rates, economic torpor, market highs. Long term opportunities in skewed markets.

p.3 Video insight

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
ARSN 092 434 467
APIR Code PMC0101AU

PM Capital Enhanced Yield Fund
ARSN 099 581 558
APIR Code: PMC0103AU
APIR Code: PMC4700AU (Class B)

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A note from the CIO

Paul Moore
CIO & Portfolio Manager of the
Global Companies Fund

Dear Investor,

Financial year 2019 witnessed a mini tech blow-off reminiscent of 2000, a pre-Christmas equities implosion on the back of record fund outflows, and a post-Christmas rally that has returned market indices to their highs.

Within all of this it has been about markets being "late cycle" - the latest industry slogan to encapsulate the current short term focus. It has resulted in record valuation disparities within market sectors and a large dispersion in investor outcomes. This can be frustrating for investors in the short term, but these trends are probably largely irrelevant in the context of the long term post-GFC journey. Globally, stocks have produced annualised returns of 12%+ over the last ten years - one of the strongest ten year periods in history.

Investing is all about accumulating capital over the longer term and there are many cross currents and inflection points in markets today. It is critical then that we take a decent step back and carefully assess the framework of the post-Trump environment. Overall, I would say that the beauty of record valuation disparities is that they typically translate to long term opportunity. Assessing those opportunities is priority number 1.

About the current framework.

The most important and fascinating issue in investment markets today is the "Great Race" to zero interest rates.

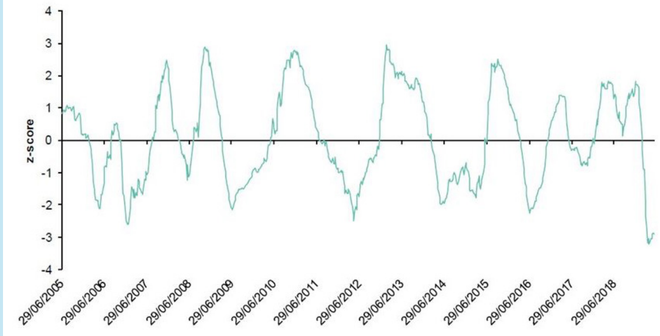
Record low government bond yields, record negative yielding debt, record short term bond fund inflows and the biggest investment crowd of all - bond investors. Investment 101 says the bigger the crowd, the bigger the risk.

It brings to mind the classic book - *Extraordinary Popular Delusions & the Madness of Crowds.* It was written back in 1841 but is just as relevant today. Who knows if we are witnessing one of the great manias of all time? Many would argue it is the 'new norm', but combined with the process-dominated passive and ETF investment world in which we now live, it is going to make for an interesting Wall Street cocktail over the next decade.

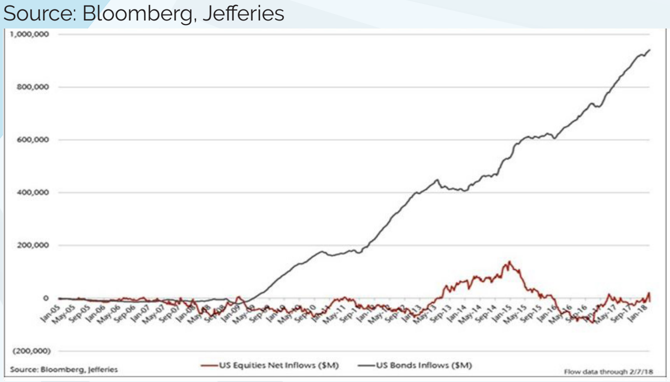
We will only know with the benefit of hindsight, but if low rates are the new norm, it creates a huge dilemma. Consider a net present value calculation of future cashflows with zero rates. If that is the case, then equities are extraordinarily cheap.

This great dilemma and the valuation dispersions driven by quantitative easing and process investing are highlighted by comparing Bank of America and Greece.

Global equity- Bond flows (26 week average) z-score
Source: EPFR, Bernstein research



Cumulative inflows to US FI and Equity Mutual Funds and ETFs (SM): 2005 - 2017
Source: Bloomberg, Jefferies



Global government bond yields racing to zero?
Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg, Global FInancial Data. Chart shows single average 10 year yield

A note from the CIO

Disparity of yields
Source: Factset, PM Capital

Bonds at 1% (Germany < 0, Greece 2.4%)
V
Equities at 6%+ (Bank Europe 14%, Visa 3%)

	Coupon	Growth
Japan	-0.2%	0
Germany	-0.3%	0
Ireland	0.2%	0
Italy	2.1%	0
Greece	2.4%	0
Visa	3.2%	10%+
McDonalds	4.0%	~5%?
Bank of America	13.7%	~5%

Bank of America June 2019			
Market value	$ 268 bn		
Buybacks Net	$ 30 bn	→	Total yield = 13.7%
Cash Dividends	$ 6.8 bn		

German bond yields are negative - investors are paying to give their money to others. Argue right or wrong, but Germany does have credibility when it comes to price stability and it has a significant trade surplus.

What about Greece? Back in the 4th century BC, 13 Greek city-states borrowed from the Temple of Delos. According to records of the day, most of the borrowers never made good on the loans and the temple took an 80% loss on its principal. It could be argued that not much has changed. Greece has defaulted five times in modern history and spent half of the last 90 years in financial crisis. Bond investors are lending it money, at 2.4%, for the next ten years!

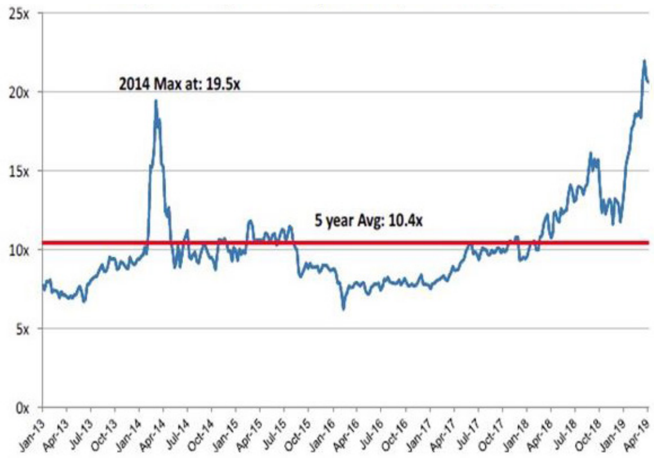
Greece is benefitting from the shortage of yield-producing securities. But if you are short of yield, then take a look at Bank of America. Domestic banking is a wonderful business if you do not do anything stupid. Pre-GFC, American banks, including Bank of America, did do stupid things. However, post-GFC, Bank of America's management has re-focused on its core banking business, dramatically de-risked the balance sheet and significantly increased its capital reserves. Its brand is excellent.

Over the next 12 months, Bank of America's effective yield - cash dividends and buybacks - is expected to be around 13+% on its current share price as at the time of writing. So - Bank of America at around 13% or Greece at 2.4%? I am going to pass on Greece and stick with Bank of America.

Another interesting observation - if bonds are signalling deflation, why did the classic inflation asset, gold, rally so hard in June? Maybe one reflects short term sentiment and the other long term sentiment. Maybe it highlights just how confused the market is on the direction of the global economy.

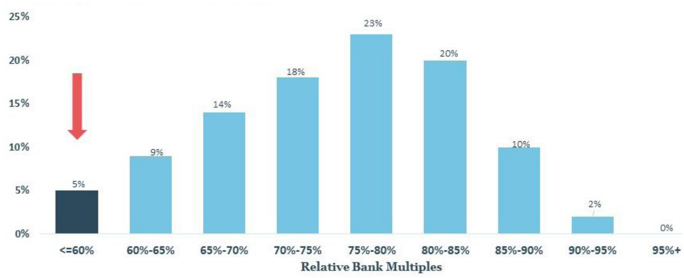
Record low yields have also driven record valuation dispersions within the equity market. The valuation of high growth and/or high safety businesses are turbo-charged by low interest rates. Investors have crowded in. The risk/ reward proposition is skinny at best. An interesting anecdote: one could sell Apple and Disney and use the cash to buy all of the companies in the German index! It simply highlights how stretched valuations are in both directions.

Average of the top 5 most expensive EV/Sales multiples in software
Source: Morgan Stanley Research, Thomson Reuters, Company data



Procter & Gamble - Five- Year NTM EV/EBITDA
Source: Company data, Credit Suisse estimates

Frequency of Bank P/Es relative to S&P500 P/Es (Since 1978) - Excluding Financial Crisis Years
Source: Factset, Bernstein Quant Team
Note: Excludes 2008-09 financial crisis years due to unreliable multiples



A note from the CIO

Valuation dispersion in practice
Source: Factset, PM Capital

	Annual EPS growth: 3-year compound	2019 PE
McDonald's	17%	26
Visa	22%	31
Bank of America	26%	10

Software companies, consumer brands, cosmetics, spirits and many other businesses have never been more expensive. On the other hand, Financials' business models and relative valuations are squeezed by ultra-low rates.

A final, general, point. It's amazing how often - if one has patience - the conventional wisdom proves to be wrong.

The next ten years will be very different to the last ten years. At some point in the future, I suspect we will look back and realise the magnitude of the abnormality presented by zero rates.

If such low bond rates are the "new norm" it would suggest that equities are not expensive, offering superior yield plus growth. But with markets back to their highs, I suspect it is more an environment where parts of the market are overvalued but parts are also undervalued - most likely in the so-called late cycle businesses. That is where our attention is focused.

Paul Moore - Chief Investment Officer

Quarterly video update

A video version of Paul Moore's commentary can be found on our website here.

Total returns since inception[1]

Fund	
PM Capital Global Companies Fund	451.0%
PM Capital Asian Companies Fund	290.5%
PM Capital Australian Companies Fund	515.7%
PM Capital Enhanced Yield Fund*	161.8%

Benchmark	
MSCI World Net Total Return Index (AUD)	171.9%
MSCI AC Asia ex Japan Net (AUD)	139.5%
S&P / ASX 200 Accum. Index	382.3%
RBA Cash Rate	95.5%

[1]Past performance is not a reliable indicator of future performance. See page 18 for Important Information. As at 30 June 2019.
*Enhanced Yield Fund (Performance Fee Option).

Global Companies Fund

- **The Global Companies Fund** aims to create long term wealth through a hand-picked, concentrated portfolio of 25-45 global companies trading at prices that we consider, after extensive research, to be trading at prices different to their intrinsic values and may provide attractive future returns.
- **The Fund's investment objective** is to provide long term capital growth and outperform the greater of the MSCI World Net Total Return Index (AUD) and RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Global equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 25-45 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	28 October 1998
Unit trust FUM	$439.3m as at 30 June 2019
Global equities FUM	$1,099m as at 30 June 2019

Global Companies Fund

Paul Moore
Global Portfolio Manager

Fund performance[1] (net of fees)	Inception Date	Exit Price ($)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
Global Companies Fund	**10-1998**	**3.0278**	**4.0%**	**15.6%**	**0.5%**	**15.6%**	**12.0%**	**18.2%**	**13.3%**	**8.6%**	**451.0%**
MSCI World Net Total Return index (AUD)			5.3%	17.4%	12.0%	14.0%	13.1%	16.8%	12.3%	5.0%	171.9%
Outperformance by the Fund			-1.3%	-1.8%	-11.5%	1.6%	-1.1%	1.4%	1.0%	3.6%	279.1%

KEY POINTS

- US banks pass the Federal Reserve stress tests leading to increased shareholder payouts
- Alternative asset manager conversion from partnerships to corporations increases awareness
- Howard Hughes considering its options

PERFORMANCE

The portfolio produced an attractive return over the quarter on the back of strong performances from the alternative asset managers, US banks, Visa and Mastercard.

PORTFOLIO ACTIVITY

We added to our copper exposure in May, taking advantage of the short term weakness in a range of copper names. We used a similar strategy to increase our position in Facebook when it temporarily weakened over the quarter on the back of regulatory concerns. We also continued to reduce our exposure to Intercontinental Exchange as our thesis continues to play out.

The Federal Reserve's 2019 Comprehensive Capital Analysis & Review (CCAR) test results were announced in June. The biggest upside versus expectations came from JP Morgan and Bank of America, which both substantially increased their buyback and dividend authorisations. JP Morgan will return US$40.5 billion which equates to ~11% of its market capitalisation and Bank of America will return US$36.8 billion, equating to ~13% of its market capitalisation. The CCAR results reinforce our thesis that the banks are well-capitalised and increasingly focused on shareholder returns – an approach that should lead to higher valuations.

The European Central Bank's (ECB) attitude to share buybacks is in complete contrast to the Fed. Back in the depths of the global financial crisis in 2009, the Fed quickly dealt with the fallout through the Troubled Asset Relief Program (TARP), removing a substantial proportion of toxic assets from bank balance sheets. The ECB failed to act as decisively which resulted in a banking system hobbled by prohibitive non-performing loan (NPL) balances. Over time, European bank NPL ratios have reduced materially but the ECB continues to limit most payout ratios to circa 50%, in stark contrast to the Fed, which is allowing payout ratios above 100%. We believe this is one of the primary drivers of the share price underperformance of the European banks compared to US banks. Given the capital build-up at the European banks since the crisis, we now believe we are close to the inflection point for the European banks to increase their payout ratios. This should lead to a re-rating over time.

Blackstone converted from a publicly traded partnership to a corporation on 1 July and Apollo is due to follow later this year. The conversion to C-corps will likely increase demand for the stocks as they enter various indices and be bought by passive mutual fund and ETF investors. All four of our alternative asset manager positions have now made the conversion to corporations.

One of our long term holdings, US real estate developer Howard Hughes Corporation, performed well on news the firm has hired an adviser to consider possible alternatives to try and close the significant gap between its share price and net asset value. This may include creating a spinoff or joint venture group, recapitalising, or selling the company entirely.

Facebook (+16%) continues to focus on creating value beyond digital advertising where its strong duopoly position continues to garner regulatory concern. Instagram recently launched a Checkout feature on Instagram, currently in beta phase, with 23 brands including Adidas and MAC cosmetics. The initial results have been well received with Adidas highlighting the feature as one of two key drivers behind their double-

Global Companies Fund

digit e-commerce growth. This is an encouraging development for brands using Instagram as a means to leverage their ecommerce footprint while reducing the cost of customer acquisition.

The main focus for investors this quarter was the unveiling of Facebook's Libra, a digital currency and financial infrastructure supported by a consortium of founding members including Visa, MasterCard and PayPal. While still in a development phase, the creation of Libra has the potential to significantly reduce friction associated with the movement of money globally. Libra is intended to be cheaper, more flexible and accessible when compared to credit cards. This is particularly attractive for users that exist in developing markets where credit card penetration is significantly lower. While the opportunity is significant, we continue to monitor the significant execution and regulatory risks surrounding the product and Facebook as a whole.

Visa and Mastercard also had a strong quarter. The current valuation multiple is reasonably high at mid-20s x earnings. However, we believe this multiple is sustainable given the quality of the business models, competitive position and growth profiles.

Oracle reported a better than expected result in June with revenue growth accelerating and gross margin expanding. Oracle is executing its long-term roadmap well. It has already re-written its enterprise suite to be totally cloud native and it is in a good position to take market share as enterprises consider migrating their enterprise applications to the cloud. Further, Oracle is again leading the database industry – it is the leading Enterprise Applications vendor in North America, ahead of SAP and Salesforce (per IDC research). We are optimistic that Oracle has turned the corner and will grow steadily in the coming years.

The only significant detractors of performance over the quarter were the Irish banks and homebuilding companies. These stocks continue to be driven by short term sentiment around Brexit. While no one knows exactly how Brexit will be resolved, we believe these stocks are structurally mis-priced given their underlying fundamentals and free cash flow generation.

With regard to the currency, while commodity prices, especially iron ore, strengthened over the quarter, the negative spread between Australian and US interest rates remains at elevated levels which resulted in the continued weakness in the Australian Dollar versus the US Dollar.

OUTLOOK

Please see the CIO report for a detailed view on our global market outlook.

Portfolio investments	Weighting
Post GFC Housing Recovery - US	11.1%
Post GFC Property Recovery - Europe	6.0%
Global Domestic Banking	32.3%
Service Monopolies	18.9%
Gaming - Macau	7.1%
Alternative Investment Managers	18.4%
Materials	4.8%
Other	9.8%
Long Equity Position	**108.4%**
Short Equity Position	-20.0%
Net Invested Equities	88.4%
Total holdings	52

Current stock example
Howard Hughes Corporation
Cairn Homes
Bank of America
Alphabet
MGM China Holdings
KKR & Co L.P.
Freeport-McMoRan

Currency exposure*	
USD	54.4%
EUR	19.2%
AUD	18.6%
GBP	5.3%
HKD	2.5%
Total exposure	100.0%

* Stated at effective value.

Paul Moore - Chief Investment Officer and Global Portfolio Manager
John Whelan - Contributing author

Asian Companies Fund

- **The Asian Companies Fund** aims to create long term wealth through a concentrated portfolio of 15-35 hand-picked companies within Asia ex-Japan that we believe are trading at prices different to their intrinsic values.

- **The objective of the Fund** is to provide long term capital growth and outperform the greater of the MSCI All Country Asia (ex-Japan) Net Index (AUD) or RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Asian (ex-Japan)[2] equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-35 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	1 July 2008
Unit trust FUM	$26.4m as at 30 June 2019
Asian equities FUM	$87.6m as at 30 June 2019

Asian Companies Fund

Kevin Bertoli
Asian Portfolio Manager

Fund performance[1] (net of fees)	Inception Date	Exit Price ($, cum)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
Asian Companies Fund	**7/2008**	**1.6336**	**-1.9%**	**7.3%**	**-8.0%**	**7.9%**	**7.3%**	**11.7%**	**8.9%**	**13.2%**	**290.5%**
MSCI AC Asia ex Japan Net Total Return Index[2]			0.6%	11.1%	4.8%	13.7%	11.2%	12.9%	9.4%	8.3%	139.5%
Outperformance by the Fund			-2.5%	-3.8%	-12.8%	-5.8%	-3.9%	-1.2%	-0.5%	4.9%	151.0%

KEY POINTS

- Trade-related volatility hurts absolute and relative performance
- Copper and Asian casino holdings affected by short term economic fears
- Banking positions sold to make way for new opportunities

PERFORMANCE

30 June marks the end of a difficult year for the portfolio. After some respite in Q1 of CY2019, the US/ China trade tensions abruptly took centre stage again in May as negotiations between the two countries broke down. The severity of declines in that month matched those of October 2018 as the debate shifted from a broad focus of general tariff increases, to restrictions and outright bans on individual companies (Huawei & Hikvision most notably).

Baidu was the largest detractor of portfolio performance after providing weak Q2 guidance. Management described seeing a soft advertising environment across both search and news feed businesses as well as video streaming service iQiyi. Other negative contributors included the portfolio's copper and gaming holdings, which retraced their year to date gains as investors positioned for a slowing Chinese economy in the event of a draconic outcome to the ongoing trade dispute.

Noteworthy during the quarter were the reports in the local press that two of our gaming holdings, Wynn Resorts and Melco Entertainment, were in discussions with Crown Resorts and James Packer. When news of a potential transaction between Wynn and Crown was announced we were initially left scratching our heads - we have viewed Wynn's culture of organic development as a key strength and differentiator over its peers. However, it does point to the importance of the region in the eyes of global gaming operators.

Wynn's CEO Matt Maddox made reference to regional M&A during Wynn's first quarter conference call, saying that Asia will continue to grow faster than the west and if there are opportunities there that fit with its profile, will be accretive and capture long-term growth then Wynn will look at them.

It has now been confirmed that Melco Entertainment will acquire a 19.99% stake in Crown from James Packer. We see the acquisition as neutral for Melco in its current form with dividends from the investment covering interest costs. While Melco has shown interest in taking control of Crown long term, a full takeover of minorities is not likely to be imminent. Management's priority remains bidding for one of the licenses in Japan, which will require a substantial investment.

Positive contributors to performance included Donaco International and Frontier Digital Ventures.

Donaco reacted positively to the appointment of Paul Arbuckle as new CEO. Paul, who has over 30 years' industry experience, including senior roles at Star Entertainment in Australia and Genting in Singapore, will be based on the ground in Poipet, Cambodia. Donaco will also hold an extraordinary meeting in late July to remove Joey and Benjamin Lim, the previous controlling shareholders, from the board. As stated in our most recent monthly comments, we intend to support the resolutions to remove both individuals. We believe this would leave the board and new CEO unencumbered to move the business forward.

ASEAN property and automotive classifieds company Frontier Digital Ventures (FDV) also contributed to performance positively. FDV's 4C filing and market update in April continued to show the underlying portfolio of classified businesses making solid progress.

PORTFOLIO ACTIVITY

Given the considerable volatility seen during the quarter, several portfolio changes were made as new opportunities presented themselves. Positions were initiated in Freeport McMoRan, the owner of the Grasberg copper and gold mine in Indonesia, and Travelsky, the leading provider of information technology

Asian Companies Fund

solutions to the Chinese aviation and travel industries.

We also continued building out positions in Indian rating agencies CRISIL and CARE Ratings. Following the close of the quarter we also added positions in Vietnam Dairy Products and China Merchant Ports.

These new holdings account for approximately 14% of the portfolio. To accommodate these positions we reduced our banking exposure, exiting HSBC and selling down positions in KB Financial, Shinhan Bank and DBS Group. The likelihood of rate cuts in the region has clearly increased. While share prices have corrected from their 2018 highs, rate cuts will put pressure on bank net interest margins and return on equity in the near term. A handful of market anecdotes I have observed also suggest that despite the relatively low interest rate environment in Asia, risks within the loan books of banks have increased as the economy slows.

Most notably, Hong Kong-based lender Bank of East Asia (not owned) announced a profit warning with management expecting a material decrease in profits for the first half after provisioning for legacy loans in China due to "worsening market conditions that have materially impacted the commercial property sector". Developments such as this have given us pause and led to a more cautious positioning in financials.

We also exited Malaysian cement company Lafarge, which received a takeover offer during the period, Baidu and AAC Technologies. In the case of the latter two holdings our investment theses have not played out according to our expectations. While Baidu's result was disappointing our primary concern remains its investment into businesses where they do not have market leadership. Recent investments into their news feed product are reminiscent of the failed O2O strategy of 2-3 years ago. In our opinion this highlights a lack of capital allocation discipline and a desire to compete as a member of 'BAT' (Baidu, Alibaba and Tencent) for the mantle of China's leading internet company - rather than profitability.

OUTLOOK

Over the past three months we witnessed a clear disconnect between equity markets in the region and US indices. We have identified new opportunities to deploy capital and rotate positions. Looking forward, in a reverse of what we saw in mid-2018, lower interest rates in the near term should be positive for Emerging Markets. However, trade negotiations remain the primary sticking point for investors and without a resolution we expect volatility will continue.

We are also cognisant of a second half slowdown. Increasingly we have seen commentary from companies suggesting many have pulled forward orders as a measure to protect themselves from the implementation of tariffs (Best Buy and Huawei are two prominent examples) and this could result in softness if demand weakens.

Portfolio investments	Weighting
Online Classifieds & Ecommerce	19.0%
Financials	16.1%
Consumer - Breweries	6.5%
Consumer - Other	9.5%
Gaming	14.6%
Materials (Copper)	9.3%
Oil & Gas Infrastructure	8.4%
Other	5.7%
Long Equity Position	**89.1%**
Net invested position	89.1%

Total Holdings	26

Current stock example
iCar Asia
DBS Group
Heineken Malaysia
Dali Food Group
MGM China Holdings
Freeport-McMoRan
Sinopec Kantons

Currency exposure*	
AUD	33.2%
HKD	28.6%
USD	27.3%
INR	6.1%
Other	4.8%
Total exposure	100.0%

* Stated at effective value.

Kevin Bertoli - Asian Equities Portfolio Manager

Australian Companies Fund

- **The Australian Companies Fund** aims to create long term wealth through a hand-picked portfolio of 15-25 predominantly Australian companies that we believe are trading at prices different to their intrinsic values.
- **The Fund's objective** is to provide long term capital growth and outperform the greater of the S&P/ASX 200 Accumulation Index and the RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Australian equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-25 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	20 January 2000
Unit trust FUM	$27.2m as at 30 June 2019
Australian equities FUM	$27.2m as at 30 June 2019

Australian Companies Fund

Uday Cheruvu
Australian Portfolio Manager

Fund performance[1] (net of fees)	Inception Date	Exit Price ($, cum)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
Australian Companies Fund	**1/2000**	**1.9457**	**5.1%**	**14.5%**	**2.0%**	**8.5%**	**6.6%**	**10.7%**	**11.1%**	**9.8%**	**515.7%**
S&P / ASX 200 Accumulation Index			8.0%	19.7%	11.5%	12.9%	8.9%	11.9%	10.0%	8.4%	382.3%
Outperformance by the Fund			-2.9%	-5.2%	-9.5%	-4.4%	-2.3%	-1.2%	1.1%	1.4%	133.4%

KEY POINTS

- Domestic market near all-time high despite weakening economic activity
- EML Payments investment thesis starting to play out
- Latam Autos raises capital for growth

PERFORMANCE

An unexpected federal election result and rising iron price more than offset declining economic activity in Australia and resulted in the broader market rising.

Banks were the biggest contributors to the overall market performance. Investors rushed back into the sector after the threat of changes to the tax treatment of franking credits disappeared with the Labor Party's federal election loss. The surprise election result also led to the Consumer Discretionary sector rising 5.4% in anticipation of promised income tax cuts.

Healthcare and other defensive stocks were the next biggest contributors to performance as the RBA cut the domestic cash rate to combat weakening economic activity. Data released over the quarter showed a decline in consumer and business sentiments, business capital expenditure and job creation. While the commodities sector is being assisted by the rising iron ore price, the ex-commodities economy was seeing enough headwinds to force the RBA's hand.

The Fund returned 5.1% in the quarter. Its biggest position, EML Payments, was also the best performer, up 67%. Latam Autos was the biggest detractor from performance as management undertook a large capital raising to fund further business expansion.

PORTFOLIO ACTIVITY

EML's share price reacted positively to news it had signed with Bet365's new US wagering business to exclusively provide reloadable debit cards. EML also signed with Smart Group in Australia to provide reloadable card services for its salary packaging customers. The contract with Smart Group is expected to increase EBITDA by 10 – 20% when fully operational.

We believe the upside through the Bet365 contract could be significantly higher than currently expected, as Bet365 is likely to be one of the key gaming operators in the newly opened US sports betting market. With a growing number of US states passing legislation to allow sports betting, the size of the market is expected to grow substantially and at this stage EML appears to be the only provider of reloadable card services - a big driver of online sports betting activity in Australia. A similar experience in the US could mean that EML's earnings from the US can significantly dwarf the company's current earnings.

Latam Autos announced a $7 million rights issue and placement in order to increase the cash on its balance sheet. This is the second capital raising the company has done in the past 12 months so the announcement sparked a significant share price decline (-56%). We participated in the rights issue and we are looking to convert the convertible debt we hold in the company at the rights issue price.

Latam's underlying fundamentals remain sound, with its website traffic 1.6 times more than the closest peer in Mexico and 22.5 times its closest peer in Ecuador. However, Latam's business is not of a scale to be cashflow generative yet. The funds from the capital raising will allow it to continue to invest in growing market share and reach into the second and third tier Mexican cities. As a result, we believe the business will continue to improve and that the current valuation does not reflect the large upside potential of the markets in which Latam operates. We believe the mismanagement of the capital raisings has been a key driver of the share price underperformance. As a result we are pleased that the company is adding more seasoned investors to its board.

We reduced our position in Brambles over the quarter as

Australian Companies Fund

the strong performance over the last 12 months (+48%) has pushed the valuation of the company closer to its fair value. Much of this share price move has come from a rerating of the business rather than earnings growth as the market has become more comfortable with the turnaround strategy put in place by the management team and the reduction in the headwinds faced by the business in FY18. We think the full benefit of the reduction of headwinds such as higher lumber prices, trucking rates and energy costs in the US will pass through to the bottom line in the next two to three years.

During the quarter we also reduced our positions in domestic banks and Centuria Industrial REIT, while increasing our positions in iCar (via the conversion of options issued in the 2018 capital raising), Latam and OohMedia.

OUTLOOK

If investors are confused by the strong performance of the market despite the obvious economic headwinds, they have a right to be. We do not believe this is the market looking through current economic weakness and indicating that better times are on the horizon. Rather, we believe a unique confluence of events led to the strong performance of the domestic market. We do not expect this to continue.

We remain cautious about the state of the domestic economy and see more downside rather than upside risk in the near term. We contrast this with the fact that the domestic index is trading at near its highs and valuations across a range of sectors are in their top quartile. This makes us reluctant to increase our net invested position. A majority of domestic companies will be reporting their annual results in the upcoming September quarter. We expect earnings expectations to be subsequently re-set and potentially provide more investment opportunities.

Portfolio investments	Weighting
Domestic Banks	17.2%
International Banks	14.6%
Non Bank Financials	14.2%
Internet	15.4%
Industrials	10.0%
Technology	5.6%
Property	4.5%
Other	1.8%
Long Equity Position	**83.3%**
Short Equity Position	-2.4%
Net Invested Equities	80.9%
Total holdings	26

Current stock example
ANZ
Bank of America
EML
iCar
Brambles
NextDC
Centuria Industrial

Currency exposure*	
AUD	82.3%
EUR	9.6%
USD	8.1%
Total exposure	100.0%

*Stated at effective value.

Uday Cheruvu - Australian Equities Portfolio Manager

Enhanced Yield Fund

- **The Enhanced Yield Fund** aims to create long term wealth through identifying and profiting from market anomalies predominately in corporate bond and hybrid security markets around the world. Originally developed to invest the portion of PM Capital's own money which would otherwise sit in cash, the Fund was opened to co-investors as we realised our problem – how to produce regular income and attractive returns with low volatility – was shared by many other investors.

- **The objective of the Fund** is to provide investors a return in excess of the Reserve Bank of Australia's (RBA) cash rate. The Fund aims to outperform the RBA cash rate with a low degree of volatility and minimal risk of capital loss.

Fund category	Fixed Income
Investment style	Fundamental, bottom-up research intensive approach
Investor profile	The Fund may be suitable for investors who seek a steady source of income, with a low degree of volatility, and an emphasis on capital preservation

Minimum investment	$20,000
Suggested investment time	2 years +
Inception date	1 March 2002
Unit trust FUM	$551.6m as at 30 June 2019
Fixed Income FUM	$824.7m as at 30 June 2019

Enhanced Yield Fund

Jarod Dawson
Global Yield Portfolio Manager

Fund performance (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	Total Return
Enhanced Yield Fund*	**02-2002**	**1.1216**	**0.4%**	**0.7%**	**2.0%**	**2.3%**	**4.2%**	**3.3%**	**4.0%**	**4.8%**	**5.7%**	**161.8%**
RBA cash rate			0.1%	0.4%	0.7%	1.5%	1.5%	1.8%	2.1%	2.8%	3.9%	95.5%
Excess			0.3%	0.3%	1.3%	0.8%	2.7%	1.5%	1.9%	2.0%	1.8%	66.3%
Enhanced Yield Fund (Class B units)**	**05-2017**	**1.1382**	**0.4%**	**0.7%**	**2.0%**	**2.3%**					**3.2%**	**6.7%**
RBA cash rate			0.1%	0.4%	0.7%	1.5%					1.5%	3.1%
Excess			0.3%	0.3%	1.3%	0.8%					1.7%	3.6%

*Enhanced Yield Fund (Performance Fee Option). **Enhanced Yield Fund - Class B units (Management Fee Option).

KEY POINTS

- Property investors almost borrowing for free as the RBA cuts hard.
- Tesco more appetising to Moody's – and investors.
- Focus on individual stock picking a must from here.

PERFORMANCE

Performance for the quarter was 0.7% versus the RBA cash rate return of 0.4%.

Credit market performance continues to diverge between sectors globally, which is to say that different parts of the market are moving at different speeds. Generally though, credit was fairly well supported during the quarter, buoyed by the broad easing bias being adopted by many of the major central banks around the world.

Domestically, the Reserve Bank of Australia (RBA) reduced interest rates from 1.50% to another all-time low of 1.00% (including the 0.25% cut on 2 July). It cited concerns about the lack of inflation in the economy, as well as a degree of excess capacity in the labour market and lingering concerns about global growth. The return of the Liberal/ National federal government appears to have already boosted confidence levels, and gone about calming the nerves of some investors worried about higher tax rates and the loss of certain negative gearing and franking credit entitlements.

Thinking longer term, we cannot help but wonder if these most recent RBA rate cuts will just end up feeding into asset bubbles, within an economy already exhibiting sound employment (albeit not where the RBA would like), a weak Australian Dollar and increasingly accommodative fiscal policy – all of which are likely to be stimulatory longer term. Some lenders are now offering mortgage rates below 3%, and for those able to take advantage of negative gearing you can get your net interest rate down even lower!

PORTFOLIO ACTIVITY

The main contributor to performance over the quarter was UK grocer Tesco which returned over 8%. Dominant ratings agency Moody's upgraded Tesco's senior debt rating to Investment Grade (BBB-) in June, in recognition of the commendable job it has done over the past few years repositioning its business and significantly improving its balance sheet. The upgrade will likely put Tesco on the radar of mainstream fixed income investors, as it ultimately makes its way into a number of bond indices. Thus, while it has already been a strong performer for the Fund, we think it can appreciate further.

Our European bank holdings (Allied Irish Bank, Caixa Bank) also performed well, as European regulators continue to put pressure on their banks to improve capital levels as well as the quality of their loan books, resulting in stronger balance sheets and additional credit support for bond holders.

The Fund's holdings in Irish construction companies (Cairn, Glenveagh) detracted from performance on negative Brexit-related sentiment towards the Irish economy. As the UK stumbles towards a Brexit solution with a new British Prime Minister to be chosen towards the end of July, there will not be a lot of time to strike a deal with the EU prior to the October Brexit deadline. That said, we think the optics of this issue may well end up being worse than the reality. So instead of getting caught up in the noise, we are focussing on the fundamentals of the individual businesses that we and our co-investors own - which are comfortably delivering on their objectives - in a property market where there is considerable undersupply. We are confident these fundamentals will be recognised by the market longer term.

At the end of May we started building a position in the senior debt of prolific US landowner Howard Hughes Corporation (HHC) at Bills + ~360bp (~4.85% yield). We have been following this business for many years and have always been attracted

Enhanced Yield Fund

to its valuable land assets, its quality portfolio of commercial property from which it generates significant operating income, and its strong management team.

During June HHC announced that, to further maximise its hard asset value, it is considering individual asset sales, possible joint ventures and even an outright sale of the business. The value of our investment rallied over 3% on the announcement.

OUTLOOK

It is clear that central banks are broadly in easing mode which is generally positive for most risk assets. That said, some sectors are now starting to get to levels that we think cease to represent value.

As genuine stock pickers in a market where divergence between sectors has rarely been more evident, we are in a strong position (with our considerable cash balance) to take advantage of new opportunities as they arise.

In sectors where valuations have gone too far, we will be looking to divest with a view to rotating that capital into more genuine anomalies.

We have been saying for a while that we actually think the underlying long term fundamentals within the US, European and even Australian economies are pretty sound. In our opinion, central banks seem to be taking increasingly short term views with regard to policy setting, potentially at the expense of long term outcomes. Thus, we think the current easing of global policy may add more fuel to some already high performing asset classes than is necessary. From here, we believe investors will need to be very specific in terms of how they allocate capital, and that a broad allocation to one asset class or another will likely not get the job done. Strong emphasis will need to placed not just on which sectors we invest in, but the select few companies within those sectors that are worthy of your and our hard earned capital.

Portfolio Investments	Weighting**	Average yield	Average spread to RBA
Cash	**41.9%**	**1.73%***	**0.48%***
Corporate bonds	**48.0%**	**3.89%***	**2.64%***
Fixed	0.0%*		
Floating	100.0%*		
Hybrids	**8.3%**	**3.35%***	**2.30%***
Fixed	0.0%*		
Floating	100.0%*		
Equity income strategies	**1.8%**		
Total exposure	100.0%		

* These numbers are estimated and provided as a guide only

** Fixed / Floating proportions are determined after the effect of interest rate swaps.

Duration	
Interest rate*	0.14
Average term to maturity*	2.68

Regional allocation	
Australia	31.0%
Europe	14.8%
United Kingdom	7.4%
North America	4.9%
Cash	41.9%

Yield security maturity profile	
0-1 Year	56.3%
1-2 Years	8.2%
2-3 Years	14.0%
3-4 Years	1.8%
4 Years +	19.7%

Jarod Dawson - Global Yield Portfolio Manager

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PM Capital

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

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 June 2019 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.

1. Past performance is not a reliable indicator of future performance.

2. The Asian region (ex-Japan) includes Hong Kong, China, Taiwan, Korea, Indonesia, India, Sri Lanka, Malaysia, Philippines, Thailand, Vietnam, Pakistan and Singapore, but excludes Japan. The Fund may also obtain exposure to companies listed on other global exchanges where the predominant business of those companies is conducted in the Asian region (ex-Japan).

PM Capital