PM Capital

QUARTERLY REPORT

SEPTEMBER 2018

Racheting up

Markets in a world of rising rates

p.1 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)

CONTENTS

Quarterly video update

In this in-depth video update, Paul Moore, Chief Investment Officer and Portfolio Manager, Global Strategies, discusses:

- 'Late cycle' market conditions and why we may not be there just yet
- The impact of a 'mini-TMT' rush
- Where the long term opportunities lie in a volatile period

Access the video **here.**

"We know where the opportunities are, they are more in those value and cyclical types of companies that can see earnings growth."

Total returns since inception[1]

Fund		Benchmark	
PM Capital Global Companies Fund	447.9%	MSCI World Net Total Return Index (AUD)	160.4%
PM Capital Asian Companies Fund	307.3%	MSCI AC Asia ex Japan Net (AUD)	129.8%
PM Capital Australian Companies Fund	512.2%	S&P / ASX 200 Accum. Index	339.0%
PM Capital Enhanced Yield Fund*	157.6%	RBA Cash Rate	93.4%

[1]Past performance is not a reliable indicator of future performance. See page 15 for Important Information. As at 30 September 2018.
*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) or 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	$450.8m as at 30 September 2018
Global equities FUM	$1,133.3m as at 30 September 2018

Global Companies Fund

Paul Moore
Global Portfolio Manager

Fund performance (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**	**3.0108**	**-0.1%**	**2.7%**	**10.4%**	**8.7%**	**13.3%**	**20.3%**	**10.8%**	**8.9%**	**447.9%**
MSCI World Net Total Return index (AUD)			7.2%	13.2%	20.6%	12.4%	15.0%	17.3%	9.5%	4.9%	160.4%
Outperformance by the Fund			-7.3%	-10.5%	-10.2%	-3.7%	-1.7%	3.0%	1.3%	4.0%	287.5%

KEY POINTS

- Portfolio performance broadly flat for the quarter
- Blackstone's investor day illustrates the strength of its global franchise
- The US Dollar continues to rise against the Australian Dollar as the Federal Reserve raises rates

PERFORMANCE

Portfolio returns were broadly flat over the quarter. A strong performance by the alternative managers, Pfizer and the payment companies Visa and Mastercard assisted performance. The Australian Dollar continued on its downward trajectory against the US Dollar, also assisting portfolio performance.

These gains were offset by weakness in the US homebuilders, European banks and the Macau gaming companies.

Portfolio performance relative to the MSCI World Net Total Return index (AUD) reflects the concentration of the market's gains over the past 6 months. It is a little bit like the old economy/ new economy disparities in valuation that we witnessed at the turn of the century - the "TMT" mania. In 2018 a handful of stocks like Amazon, Apple, Google, Microsoft and Netflix have seen a significant increase in their valuation as investors worry if interest rate increases will see an end to the positive global economic cycle.

In contrast, the so called "late cycle" businesses have been de-rated to record dispersions versus their "growth" compatriots. This is despite earnings expectations continuing to be met. With Toll Brothers (US homebuilder), ING (European bank) and Bank of America selling at 6, 8 and 9.5 times forward 12 month earnings respectively, the risk of an earnings decline has been severely discounted and we suspect will unwind significantly at some point in the next 6 months.

We also suspect that the growth sector of the market has seen peak valuations and is vulnerable to de-rating, the beginnings of which may have been witnessed with the recent market adjustment.

PORTFOLIO ACTIVITY

We have completed our exit from European hotel positions, selling our holding in NH Hotels just after the end of the quarter. NH Hotels is a pan-European company owning and operating hotels throughout Spain, Italy, Germany and the Benelux countries. We entered the position in 2016 through buying its convertible bonds when the stock was trading well below its conversion price. The convertible bond paid us a 4% coupon per annum and in addition, due to the very strong performance of NH Hotels equity, the bond allowed us to convert into the NH stock substantially below its trading price.

The NH Hotels sell-down comes subsequent to the exit of our position in Hispania, which received a takeover offer from Alzette Investments (a vehicle owned by firms advised by affiliates of Blackstone).

During the quarter we added to our Macau gaming exposure. Given its reliance on mainland Chinese patronage, Macau has been at the epicentre of concerns around a slowing Chinese economy and trade fears. A further escalation in geopolitical tensions coupled with the impact of Typhoon Mangkhut in September impacted negatively. Our long term thesis for Macau has not changed and thus we used this weakness as an opportunity to increase our exposure.

OUTLOOK

Our alternative asset managers positions had a very strong quarter, led by Blackstone which rose 18%. We see Blackstone as an excellent business, with its significant free cash anchored by recurring revenue streams, rising margins and a 'capital-light' business model. It is a global franchise with a loyal customer base and strong brand. Blackstone held an investor day in September which illustrated its near and long

Global Companies Fund

term growth plans for the business. Its model allows for very strong funds under management growth and improving margins as it scales its various investment platforms. This is expected to drive a targeted 50% increase in management fees over the next two years.

We continue to hold our position in Blackstone due to our view that it can substantially grow its earnings and expand its multiple given an increasing percentage of its revenue coming from locked-in management fees. In addition, we are receiving a 6% dividend yield on the stock - the highest dividend yield among the largest 150 US companies. Blackstone continue to monitor its corporate structure and is impressed by the stock market performance of peers after they have converted from a partnership to a corporation.

Our US homebuilder holdings had a weak quarter due to lower than expected demand. The softening has been attributed to recent house price rises, combined with borrowers' reluctance to give up their current lower locked in mortgage rates for more expensive financing when buying a new house. However, the overall affordability index remains well below prior peaks and homebuilders continue to under-build relative to long run demand, suggesting this slowdown is temporary. There remains a large supply deficit, a strengthening job market and improving demographics as millennials move into prime buying age, creating sufficient tightness in the market for homebuilders to grow earnings over the next few years.

Pfizer rose strongly over the quarter, up over 21%, following an increase in pipeline news-flow. While senior management have been consistent in articulating the long term future growth prospects driven by the internal pipeline, the investment community has often overlooked this narrative given near-term patent expiries. The largest remaining patent expiry, Lyrica, occurs in 2019, after which the business should start to see a reacceleration in revenue growth.

Pfizer's pipeline prospects remain sound with the potential approval of 15 blockbuster drugs ($1 billion revenue plus), half of which are due for approval prior to 2020. In the interim, management remains cognisant of returning excess cash to shareholders through dividends and buybacks. However, Pfizer is now trading on 14 times earnings which is probably fair value and thus we have sold.

Our payment providers, Visa and Mastercard, also had a strong quarter as they reached a settlement on the class action lawsuit by retailers initiated in 2005. As per the terms of the settlement, Visa and Mastercard will pay a combined $6.2 billion, only a $900 million increase on the previously agreed settlement amount with all of the increase covered by existing litigation reserves. As a result, the impact to their earnings is neutral. The removal of this litigation overhang had a positive impact on market sentiment towards the stocks.

The continued upward trajectory of the US Dollar was also a positive contributor to the portfolio over the quarter. With the US Federal Reserve increasing rates and the Reserve Bank of Australia on hold, the interest rate differential between Australia and the US continues to widen, lending strength to the US Dollar.

Portfolio investments	Weighting
Post GFC Housing Recovery - US	11.1%
Post GFC Property Recovery - Europe	9.3%
Global Domestic Banking	32.3%
Service Monopolies	20.3%
Pharmaceuticals	3.1%
Gaming - Macau	5.7%
Alternative Investment Managers	16.6%
Other	4.2%
Long Equity Position	**102.6%**
Short Equity Position	-10.0%
Net Invested Equities	92.6%
Total holdings	36

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

Currency exposure*	
USD	67.2%
EUR	16.4%
AUD/NZD**	9.1%
GBP	5.2%
HKD	2.1%
Total exposure	100.0%

* Stated at effective value.

** Represents net exposure to AUD and NZD. Actual NZD exposure is -5.1%

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 September 2018
Asian equities FUM	$90.1m as at 30 September 2018

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**	**1.7038**	**-4.1%**	**-4.3%**	**0.6%**	**9.0%**	**9.1%**	**12.4%**	**13.2%**	**14.7%**	**307.3%**
MSCI AC Asia ex Japan Net Total Return Index[2]			0.5%	-1.3%	10.0%	12.2%	12.2%	12.9%	9.4%	8.5%	129.8%
Outperformance by the Fund			-4.6%	-3.0%	-9.4%	-3.2%	-3.1%	-0.5%	3.8%	6.2%	177.5%

KEY POINTS

- Concerns over Chinese economic growth provoke volatility across the region
- Macau casinos particularly impacted, but smaller holdings provide some support
- Longer term outlook remains positive on the funds underlying holdings

PERFORMANCE

The Fund was unable to avoid the negative impacts of escalating trade tensions between China and the United States and the subsequent anxiety regarding Chinese economic growth during the quarter. Three positions had a material impact on performance, those being MGM China, Wynn Resorts and Turquoise Hill Resources.

Performance was supported by positions in Kunlun Energy and Cambodian casino operator Nagacorp, as well as the Australian Dollar's 2% decline against the US Dollar.

MGM China and Wynn Resorts declined 32% and 24% respectively over the period. Residents from Mainland China accounted for 68% of the 32.6 million visitors to Macau in 2017, hence the gaming sector has been at the epicentre of concerns surrounding a slowing Chinese economy and escalating trade fears.

The selloff witnessed in Macau gaming stocks in recent months has been in anticipation of a slowdown in activity rather than any visible signs that demand has radically altered course. Since peaking in May 2019, earnings expectations as at 30 September for MGM China and Wynn Resorts have declined 15% and 11% respectively, while their share prices have fallen 47% and 37%.

The reaction, while severe, is in some ways understandable given the events of 2014/ 15 are still relatively fresh in the minds of most investors. It also shows how lofty expectations had become in the short term, something we alluded to after our March trip to Macau. In hindsight, selling all our Macau positions in January, rather than just Las Vegas Sands and Wynn Macau would have been the correct move.

Notwithstanding the current climate in China we remain constructive on Macau and our long term investment thesis has not changed materially. While year-over-year trends have slowed, this was to be expected given the recovery observed over the last two years. The operators we talk to suggest mass market demand remains robust, painting a different picture to what is being suggested in today's share prices. VIP activity, however, has shown signs of slowing from the lofty heights experienced in the latter part of 2017 and initial stages of this year. While VIP gets most of the headlines in Macau, it is the mass market that is far more important. Mass market visitation will continue to be driven by the ongoing improvements in market accessibility (infrastructure, hotel room capacity, regulation), allowing the growing middle class across the region to access Macau.

Mongolian copper producer Turquoise Hill Resources declined 25% also due to Chinese growth concerns. Base metals broadly came under pressure over the quarter and copper was particularly impacted given the importance of Chinese demand. While the copper price point-to-point only declined 5%, at one stage it was down 14%. While the copper price has recovered somewhat, Turquoise remains at its lows. We remain positive on copper longer term given the mismatch we see in demand and supply, while the marginal returns below $3/lb copper will limit the commissioning of major green field supply. Given the significant selloff in copper names globally we are actively looking for ways to increase our exposure in the space.

Despite the significant macroeconomic headwinds witnessed over the quarter there were a number of portfolio positions that contributed positively to performance. Natural gas infrastructure company Kunlun Energy and Cambodian casino operator Nagacorp were particularly noteworthy, rising 33% and 15%

Asian Companies Fund

respectively. Both companies advanced on solid interim results that comfortably came in ahead of expectations. Kunlun Energy continues to benefit from Chinese government policy that supports the adoption of natural gas over coal as preferred energy source within China. In the first nine months of the year natural gas demand has grown in excess of 20% with strong residential demand and coal to gas conversions supporting strong consumption. Nagacorp on the other hand saw a material uplift in underlying earnings, circa 100% year-over-year, thanks to the opening of its second casino in Phnom Penh late last year.

PORTFOLIO ACTIVITY

Several portfolio adjustments made during the period saw the net invested position rise. We added to existing investments in Macau while positions in Kunlun Energy, Singapore Exchange and Carlsberg Malaysia were all reduced.

One new investment was also initiated during September, that of AAC Technologies. Readers of our commentary may recognise the name as a portfolio holding between 2013 and 2015. Hong Kong listed, AAC is a market leader in the design and manufacturing of a broad range of miniaturised components including speakers, receivers, microphones and haptics used in portable consumer electronics products.

AAC's share price has fallen in excess of 50% in the past year on concerns around slowing smartphone demand, particularly from Apple its largest client, as well as new competition in some of its product categories. We expect AAC to benefit from increased penetration of higher end componentry in smartphones and other consumer electronics products. AAC continues to be at the leading edge of innovation in its categories, protecting it from market share loss and driving average selling prices over time.

OUTLOOK

Despite the recent volatility witnessed in regional equity markets we remain comfortable with the long term investment proposition for our underlying holdings. We continue to generate our ideas and allocate capital based on bottom up research, at the company level or sector level, rather than top down macro insights. While concerns around economic growth have risen in the short term, we remain comfortable with the longer term growth outlook for our areas of investment.

Portfolio investments	Weighting
Consumer - Breweries	8.3%
Consumer - Other	10.6%
Online Classifieds & Ecommerce	18.2%
Financials	17.3%
Gaming - Macau	10.7%
Gaming - Other	4.7%
Capital Goods & Commodities	10.0%
Oil & Gas Infrastructure	8.6%
Other	6.2%
Long Equity Position	**94.6%**
Net invested position	94.6%

Current stock example
Heineken Malaysia
Dali Food Group
Baidu
DBS Group
MGM China Holdings Ltd
NagaCorp
Turquoise Hill Resources
Sinopec Kantons

Currency exposure*	
USD	38.3%
HKD	34.5%
AUD	20.2%
INR	3.1%
Other	3.9%
Total exposure	100.0%

Kevin Bertoli - Asian 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 or 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	$37.0m as at 30 September 2018
Australian equities FUM	$37.0m as at 30 September 2018

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**	**1.9349**	**1.4%**	**3.9%**	**0.8%**	**7.9%**	**6.8%**	**12.1%**	**9.1%**	**10.2%**	**512.2%**
S&P / ASX 200 Accumulation Index			1.5%	10.1%	14.0%	12.1%	8.2%	11.3%	7.7%	8.2%	339.0%
Outperformance by the Fund			-0.1%	-6.2%	-13.2%	-4.2%	-1.4%	0.8%	1.4%	2.0%	173.2%

KEY POINTS

- Earnings reports give confidence in holdings' business models
- Position established in Nufarm
- Conservative approach to our overall positioning

PERFORMANCE

The Fund returned 1.4% in the quarter, with earnings releases the key drivers of performance. Compositionally we were pleased with almost all the stocks in the Fund reporting earnings either better than or in line with expectations. The overall portfolio performance was achieved with a net cash weighting of 28% as we took a conservative approach to our overall positioning.

Of note, Brambles' new management team released its first full year of results and demonstrated that the operational and organisational changes it has put in place are beginning to gain traction. We initiated a position in Brambles in early 2018 with the view that it remains a high-quality business that was seeing a temporary decline in earnings due to poor management decision making. This had resulted in a misallocation of capital to acquire low quality businesses, a poor organisational structure and a lack of focus on margins and cash generation. Our take was that the new management team appointed at the start of FY18 had a credible plan to address these areas of concern and return the business to a positive organic earnings growth trajectory.

The FY18 results showed Brambles' cash generation was enough to cover its declared dividend without increasing net debt. We believe there is still more hard work to do, particularly in relation to improving its margins and return on invested capital in the US business. However, the progress made thus far gives us comfort that the business trajectory has inflected.

LatAm Autos (LAA) rose 40% in a quarter that showed that the business was on track to become cashflow positive by the end of 2018. LAA's results showed a 72% increase in revenues in its key market of Mexico, where it continued to maintain its number one position in the online auto portal sector. This growth was driven primarily by increased penetration of its new Motorfy feature that sells third party auto loans and insurance products to LAA customers. By cross-selling these products LAA has significantly boosted its revenues and operating margins. The success of these products and its market leading position has opened the way for LAA to be appointed the exclusive e-commerce platform partner of GM Ecuador, where GM boasts 41% market share. These positive developments in the business also allowed the company to conduct an $8 million capital raising via a private placement to institutional investors, strengthening the balance sheet and improving flexibility.

While the overall results from our holdings met expectations, the underlying key operating metrics also provided comfort that the long term trajectory of these businesses are sound – important in what has been and is likely to continue to be a volatile equity market environment.

PORTFOLIO ACTIVITY

During the quarter we reduced our position in PMP. We have held this position for a number of years with the view that consolidation in the print industry was beginning to create an environment where PMP, post its merger with the number two player in IPMG, would be able to exercise pricing power and improve the profitability of its business. The reality has been very different, with PMP management being unable to achieve pricing improvements (in fact pricing has worsened post-merger). This has eroded our investment thesis completely and as a result, we have been reducing our PMP position.

During the quarter we built a new position in Nufarm, a manufacturer of generic herbicides, pesticides and insecticides in Australia, Europe and the Americas. We invested following its $300 million capital raising in September that was prompted by management's desire to reduce balance sheet debt in a period when historic drought conditions in Australia and the US have created a build-up of working capital in the business. In addition, litigation in international courts against glyphosate manufacturing companies, of which Nufarm is one, has also created negative sentiment towards the stock.

We believe the earnings pressure Nufarm is seeing from drought conditions is temporary and that the stock price correction of 35% during the past 12 months already factors in a large proportion of any loss of earnings from glyphosate-related negative regulatory events. As a result, we believe the risk/ reward proposition for this company represents an anomaly when compared to the rest of the domestic market.

OUTLOOK

Equity markets globally remain under pressure as a tightening Fed cycle, higher oil prices and global trade tensions appear to be becoming a drag on economic activity. Australian activity appears to be holding up, with consumer confidence and business confidence remaining in positive territory. The key metrics we focus on, namely business capex and retail spending, also remain mildly positive to date. As a result, domestic equities have been stronger than many offshore markets. Having said that, the Australian market stands out as being more expensive than its peers, with the S&P/ASX200 Industrials index trading close to 20x forward PE, close to its multi-year high. As a result, we still remain cautious in deploying the 25% net cash position of the fund. We expect to remain patient and be conservative with how we invest in the current environment.

Portfolio investments	Weighting
Domestic Banks	14.6%
International Banks	14.0%
Non Bank Financials	14.2%
Internet	8.6%
Industrials	6.9%
Technology	6.7%
Property	5.8%
Resources	0.0%
Other	1.6%
Long Equity Position	**72.4%**
Short Equity Position	-0.9%
Net Invested Equities	71.5%
Total holdings	20

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

Currency exposure*	
AUD	83.7%
EUR	8.6%
USD	7.7%
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 debt, 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	$534.6m as at 30 September 2018
Fixed Income FUM	$833.1m as at 30 September 2018

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**	**1.1240**	**0.1%**	**0.6%**	**1.5%**	**3.2%**	**4.3%**	**3.7%**	**4.5%**	**4.9%**	**5.9%**	**157.6%**
RBA cash rate			0.1%	0.4%	0.8%	1.5%	1.6%	1.9%	2.4%	2.9%	4.1%	93.4%
Excess			0.0%	0.2%	0.7%	1.7%	2.7%	1.8%	2.1%	2.0%	1.8%	64.2%
Enhanced Yield Fund (Class B units)**	**05-2017**	**1.1406**	**0.1%**	**0.7%**	**1.6%**	**3.5%**					**3.7%**	**5.0%**
RBA cash rate			0.1%	0.4%	0.8%	1.5%					1.5%	2.0%
Excess			0.0%	0.3%	0.8%	2.0%					2.2%	3.0%

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

KEY POINTS

- US yields ratcheting up – long term duration can be a killer!
- A new investment in the portfolio, and the return of an old one

PERFORMANCE

Performance was 0.6% for the quarter, and 3.2% over one year, compared with the RBA cash rate at 1.5%.

The Fund comfortably outperformed the RBA cash rate over the quarter, despite elevated levels of noise and market volatility, as the UK attempts to negotiate a Brexit deal with the EU, and the US Government increases its use of protectionist trade policies – particularly with China.

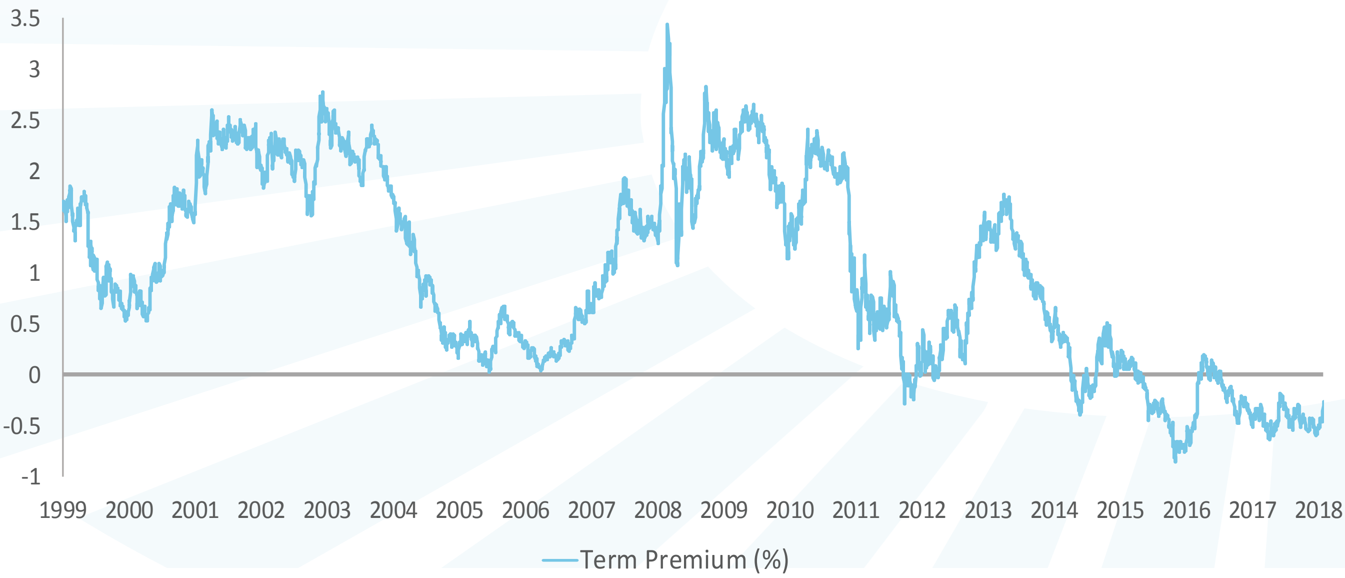
Also of note, 10 year US treasury bonds broke materially above 3% recently, reflecting in part what we have been saying of late – i.e. that US growth looks sound, inflation is starting to materialise and the negative term premium on US bonds is also starting to normalise. That said, with the US Federal Reserve's own data suggesting that the term premium (the additional yield received for locking your capital away for 10 years) is still negative (per chart A), we think a normalisation of this element alone could see US 10 year yields rise by 0.50%-1.00% longer term.

PORTFOLIO ACTIVITY

Our holding in NAB's Income Securities performed well during the quarter, as the market focuses further on their likely loss of Tier 1 capital status in 2021 - thus becoming a candidate for redemption, with the added backdrop that they will likely become franked (increasing their yield) if not redeemed.

The Fund's senior secured debt in Spanish commercial property company NH Hotels also performed well, as shareholders approved the company's acquisition by Thai hotel group Minor. The bonds have rallied on the expectation that they could now be bought back early at a premium to par.

Figure A: Term Premium – US 10 year Government Bonds
Source: Bloomberg



Our holding in Allied Irish Bank subordinated debt was stronger, as improvements in the performance of its loan book, stronger Irish property prices and a relaxation of lending restrictions all feed positively into its business.

Spanish commercial property company Aedas was weaker as industry wide volume delays (largely related to government bureaucracy) and evidence of build cost inflation saw development timelines being pushed back. We believe Aedas has a good management team and longer term is in a strong position to capitalise on higher Spanish house prices.

Over the quarter we made a number of new investments, and also added to some existing positions.

We initiated a position in the listed debt securities of Qube Holdings during the quarter at a yield of Bills + ~280bp (~4.75% yield). QUBE is a vertically integrated Australian infrastructure services business, providing stevedoring, rail and trucking services. It is also building a new Sydney based facility that will provide logistics and warehousing services all within the one relationship. We believe this will be a highly desirable offering to clients in what is a fragmented market for these services. The Qube business was founded by and is still managed by senior executives from the original Patrick stevedoring business, whom we hold in high regard. Indeed, Qube now part owns the Patrick stevedoring assets.

The Fund also re-initiated a 1.5% position across ANZ and Westpac's USD floating rate subordinated debt at a running yield of Bills + ~200bp (~4% yield). We sold our previous position last year, generating a significant (~50%) return. Recent market activity in UK bank subordinated debt has seen these securities and many others fall materially in value for reasons that we think are less relevant to the Australian banks. Given the large price fall, and that the US Dollar floating rate coupon provides good exposure to rising US interest rates, they caught our attention once again.

We increased a number of existing positions during the quarter, adding 1% to our senior secured debt in UK pub company Enterprise Inns at Bills + ~400bp (~6% yield), as well as 1.25% in Australian data centre owner and operator NEXTDC's senior debt at Bills + ~375bp (~5.75% yield).

OUTLOOK

As we have noted previously, official US rates are significantly below their pre-GFC long term average, and Europe still sits at 0%. This is against a backdrop of sound economic performance in both regions. Markets, through their pricing of long term bond yields, are increasingly recognising the anomaly here. To provide some context, generic US 10 year yields rose by 0.37%* from 31 August to 5 October. This may seem trivial, but it represents a loss of over 3% - in just over a month. Hence our reluctance to have any interest rate exposure in the Fund, given our long term view that rates should go significantly higher.

In terms of credit markets, we think higher interest rates will eventuate as a response to stronger global growth, which in turn is reflective of a solid corporate environment. That said, we think investors will need to be considerably more discerning in terms of stock selection over the next couple of years and would be wise to keep some capital up their sleeve to take advantage of pockets of near term volatility - markets rarely move in a straight line. We certainly are.

Duration	
Interest rate*	0.14
Average term to maturity*	2.53

Regional allocation	
Australia	34.2
Europe	10.4%
North America	9.0%
United Kingdom	8.1%
New Zealand	1.8%
Cash	36.5%

Portfolio Investments	Weighting**	Average yield	Average spread to RBA
Cash	**36.5%**	**2.16%***	**0.66%***
Corporate bonds	**54.2%**	**3.92%***	**2.42%***
Fixed	0.0%*		
Floating	100.0%*		
Hybrids	**7.9%**	**4.46%***	**2.96%***
Fixed	0.0%*		
Floating	100.0%*		
Equity income strategies	**1.4%**		
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.

Yield security maturity profile	
0-1 Year	43.3%
1-2 Years	20.5%
2-3 Years	9.5%
3-4 Years	12.5%
4 Years +	14.2%

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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	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 31 December 2017 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 Company 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).

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