Pirouette

Signs of a turnaround in valuation disparities

p.1 Video insight

PM Capital GLOBAL OPPORTUNITIES FUND LIMITED

PM Capital Global Opportunities Fund Limited
ACN 166 064 875 (ASX Code: PGF)

PM Capital ASIAN OPPORTUNITIES FUND LIMITED

PM Capital Asian Opportunities Fund Limited
ACN 168 666 171 (ASX Code: PAF)

CONTENTS

Video update 1
PM Capital Global Opportunities Fund 2
PM Capital Asian Opportunities Fund 5
Important information 8

Quarterly video update

In his video update, Paul Moore, Chief Investment Officer and Global Portfolio Manager, explains:

- Why valuation disparities in the market are showing signs of turning
- The pro-cyclical factors that can put investors at risk - if theyr'e not careful
- Why he's concentrating on consistency of process

Access the video **here.**

Access all market updates and insights **here.**

"…the whole system is basically leading to maximum crowding and that's why you're getting record [market] valuation dispersion. That means opportunity and risk is probably not where you think."

Listed Company Overview

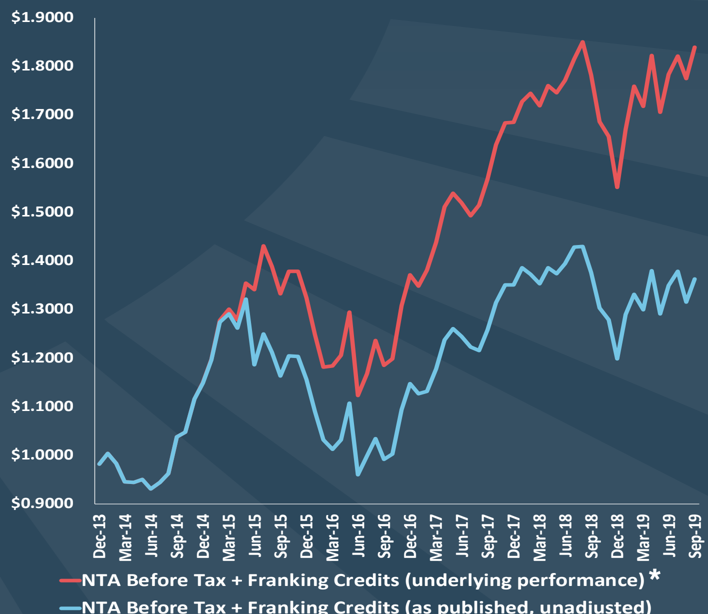
	PM Capital Global Opportunities Fund Limited	PM Capital Asian Opportunities Fund Limited
Asset Class	Global equities	Asian (ex-Japan) equities
Listing Date	11 December 2013	21 May 2014
Suggested Time Frame	Seven years plus	Seven years plus
Shares on Issue	352,985,243	56,892,865
Share Price[1]	$1.07	$0.80
Market Capitalisation	$ 377.7 million	$ 45.5 million
NTA before tax accruals (per share, ex-dividend)	$1.3342	$1.0004
Company Net Assets before tax accruals	$ 471.0 million	$56.9 million

See page 8 for Important Information. As at 30 September 2019.

PM Capital Global Opportunities Fund Limited

- **The Company** aims to create long term wealth through a concentrated portfolio of 25-45 global companies that we believe are trading at prices different to their intrinsic values.
- **The Company's investment objective** is to provide long-term capital growth over seven-year plus investment horizon through investment in a concentrated portfolio of undervalued global (including Australian) equities and other investment securities.

NTA performance since inception[2]



ASX Code	PGF
Category	Global equities (long/short)
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 25-45 stocks
Shares on issue	352,985,243
Suggested investment time	7 years +
Listing date	11 December 2013

* Excludes the impact of: Changes in ordinary share capital (i.e., option exercise, DRP); Dividends; and Tax paid. After all costs and expenses, including (but, not limited to): management fees; listing fees; registry costs; audit costs; and directors' fees.

PM Capital Global Opportunities Fund


Paul Moore
Global Portfolio Manager

Net Tangible Asset (NTA) backing per ordinary share (all figures are unaudited)[1]	June 2019	June 2019 (ex)	September 2019 (ex)	Change[4]	Perf. since inception p.a.[5]	Perf. since inception total[5]
NTA before tax accruals[2]	**$1.3179**	**$1.2979**	**$1.3342**	**+ 2.8%**	**+ 11.1%**	**+ 83.9%**
NTA after tax[3]	**$1.2533**	**$1.2333**	**$1.2633**	**+ 2.4%**		

1. Past performance is not a reliable indicator of future performance. 2. NTA before tax accrual does not include franking credits. Franking credits per share are $0.028. 3. Net Tangible Assets (NTA) refers to the net assets of the Company after the accruals for net current and deferred tax liabilities/ assets. 4. Change calculated on an ex-dividend basis. 5. Performance adjusted for capital flows associated with the payment of dividends, share issuance as a result of the dividend reinvestment plan, and including the value of franking credits.

KEY POINTS

- Growth versus value rotation to provide opportunities
- Alternative asset managers playing out as expected
- Cash is king for out of favour and lowly-valued homebuilders

PERFORMANCE

The portfolio's performance was robust over the quarter. Positive contributors included the alternative asset managers, US homebuilders and the weakening of the Australian Dollar versus the US Dollar.

PORTFOLIO ACTIVITY

Our original thesis on the alternative asset managers holdings – KKR, Blackstone, Ares, Apollo and Fortress - centred on the quality and growth of their earnings streams. We had the opportunity to invest in a number of the managers in late 2015 as their stock prices declined significantly on the back of performance fees peaking. We viewed this decline as transitory and were able to buy the managers at significant discounts to their intrinsic value.

Fast forward to today and the alternative asset managers have benefited greatly from the tailwind of significant fund inflows, performance fees in an upcycle and the conversion from a partnership structure to a corporate structure that is facilitating more widespread ownership and index inclusion.

While we believe they are quality, well run businesses, valuations have risen, prompting us to trim positions in a number of the managers. There is no rush here, this investment theme is playing out as expected and the inclusion in various indices over the next 6-12 months will continue to be a tailwind for the sector.

We have been adding to our exposure in European homebuilders as concerns around Brexit, trade and lower interest rates have caused these stocks to fall significantly. The thesis revolves around the large (and growing) under-supply of new homes, evidenced by rents well above previous peaks and house prices remaining well below previous highs despite a favourable employment and demographic backdrop.

Typically, US home builders sell on a 10-12x P/E under normal conditions. Irish builder Cairn Homes has committed to return over 50% of its market capitalisation back to shareholders in the form of dividends and buybacks over the next three years. Despite this, post its capital return, it is on 6x earnings.

Also:

• Cairn is sitting on a ten-year land bank bought near the bottom of the market in 2015 with no requirement to buy land for around five years, meaning its equity free cash-flow yield will be in the mid to high teens.

• The Irish market is supported by regulators imposing mortgage caps which restrict mortgages to 3.5x incomes. This limitation and the growing under supply of new homes should protect the downside in any adverse scenario.

While we believe the original thesis behind our investment in Cairn Homes has been playing out as expected, the chart illustrates how short term concerns and changing sentiment can affect a stock price and how we can take advantage of short term bouts of over-enthusiasm and pessimism.

PM Capital Global Opportunities Fund

Cairn Homes - CRN

During July we exited our holding in Intercontinental Exchange. Held since 2014 and still an excellent business, we believe the stock price now trades at a fair-to-full multiple when considered against the firm's market position and growth opportunities.

OUTLOOK

With the overall market at or close to highs, we believe it is likely to struggle to make significant progress. Rather, there is likely to be further signs of market rotation, with the high valuation stocks likely to deflate and the low valuation stocks likely to reflate. Our current portfolio is well positioned in such an environment. This environment is creating exciting future opportunities for investors, with the continuing rotation producing opportunities offering excellent risk reward adjusted returns. Our recent research trips have helped confirm that we are on the right track in identifying new opportunities for the portfolio – see my recent Insights videos on the website.

Portfolio investments	Weighting^^
Post GFC Housing Recovery - US	10.8%
Post GFC Property Recovery - Europe	8.2%
Global Domestic Banking	32.4%
Service Monopolies	15.5%
Gaming - Macau	7.7%
Alternative Investment Managers	17.2%
Materials	4.6%
Other	9.8%
Long Equities Position	**106.2%**
Short Equities Position	-15.6%
Net Invested Equities	90.6%
Total holdings	50

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

Currency exposure*	
USD	56.3%
AUD	20.9%
EUR	15.3%
GBP	5.1%
HKD	2.4%
Total exposure	100.0%

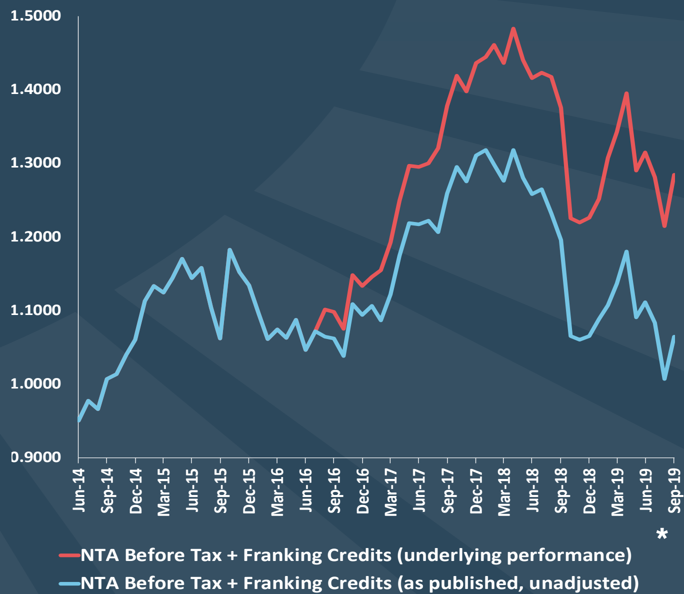
* Stated as effective exposure.

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

PM Capital Asian Opportunities Fund Limited

- **The Company** aims to create long term wealth through a concentrated portfolio of typically 15-35 Asian centric companies that we believe are trading at prices different to their intrinsic values.
- **The objective of the Company** is to provide longterm capital growth over a seven-year plus investment horizon through investment in a concentrated portfolio of predominantly undervalued listed Asian equities and other investment securities in the Asian Region (ex-Japan).

NTA performance since inception[2]



ASX code	PAF
Category	Asian (ex-Japan)[6] equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-35 stocks
Shares on issue	56,892,865
Suggested investment time	7 years +
Listing date	21 May 2014

*Excludes the impact of: Changes in ordinary share capital (i.e., option exercise, DRP); Dividends; and Tax paid. After all costs and expenses, including (but, not limited to): management fees; listing fees; registry costs; audit costs; and directors' fees.

PM Capital Asian Opportunities Fund

Kevin Bertoli
Asian Portfolio Manager

Net Tangible Asset (NTA) backing per ordinary share (all figures are unaudited)[1]	June 2019	June 2019 (ex)	September 2019 (ex)	Change[4]	Perf. since inception p.a.[5]	Perf. since inception total[5]
NTA before tax accruals[2]	**1.0427**	**1.0325**	**1.0004**	**- 3.1%**	**4.8%**	**28.5%**
NTA after tax[3]	**1.0763**	**1.0613**	**1.0392**	**- 2.1%**		

1. Past performance is not a reliable indicator of future performance. 2. NTA before tax accrual does not include franking credits. Franking credits per share are $0.058. 3. Net Tangible Assets (NTA) refers to the net assets of the Company after the accruals for net current and deferred tax liabilities/ assets. 4. Change calculated on an ex-dividend basis. 5. Performance adjusted for capital flows associated with the payment of dividends, share issuance as a result of the dividend reinvestment plan, and including the value of franking credits.

KEY POINTS

- Trade and Hong Kong fluster investors
- Individual stocks both help and hinder
- Taking a more cautious approach into the last quarter

PERFORMANCE

The US/ China trade dispute continued as the primary factor driving overall investor sentiment and the subsequent direction of equity markets globally during the quarter. The stop/ start nature of negotiations has driven significant month to month volatility and put considerable pressure on regional markets during periods of heightened conflict between the two countries (particularly in August).

With the backdrop of the US/ China trade dispute, economic activity deteriorated globally, prompting progressively more accommodative interest rate policies. The world's five largest economies all released weaker than expected economic data during the quarter.

While the trade headlines and rising economic growth concerns impacted portfolio performance, most notably positions perceived to be sensitive to the broader macroeconomic environment i.e. Macau gaming and copper, a handful of stock-specific events had the biggest impact on portfolios returns.

PORTFOLIO ACTIVITY

Positively impacting performance was iCar Asia, the portfolio's largest position, which benefited from a series of positive announcements. Management provided an encouraging update during the full year results roadshow in early September, highlighting positive operating trends. Most notably, revenue growth recovered in the December half after underlying operations were impacted by elections in both Indonesia and Thailand earlier in the year. At the close of the quarter it also announced the acquisition of Carmudi, Indonesia's second-largest dedicated online automotive classifieds business.

Industry consolidation strengthens iCar Asia's market leading position and builds scale in the business, both in the new and used car businesses. Carmudi has also developed a network of five physical car sales centres (called Carsentros) which act as transaction platforms for car dealers and car financing businesses. This is a complementary product for iCar Asia and the financing business should integrate well within their iCar platform. Despite the strong performance we continue to believe iCar Asia remains undervalued and as the business transitions to profitability in the next year there is further share price upside potential.

Conversely, Turquoise Hill Resources negatively impacted performance after providing a disappointing development update to the market in July. Management outlined a material delay to commercial production to underground mining operations at Oyu Tolgoi of between 16-30 months and cost overruns of US$1.2 billion - US$1.9 billion. While the delay to first production was broadly in line with expectations, the cost overruns were materially above market expectations. The extent of the cost overruns has increased the probability of a rights issue within the next 12 months, something we are now factoring into our base case.

I travelled to Mongolia during the quarter and visited the Oyu Tolgoi mine site and met with the management of both Turquoise Hill Resources and Oyu Tolgoi LLC (along with other stakeholders in the project). Importantly, management confirmed that project delays and cost overruns were largely the result of delays to the completion of Shaft 2 and not geotechnical issues. Management reiterated that there were no long term issues with mining the ore body. Shaft 2 is integral to

PM Capital Asian Opportunities Fund

the development timeline of the underground mine, which was originally planned for completion in mid-2018 but is only now at the stage of commissioning. It increases access underground and allows the rate of lateral development to accelerate.

The next six months are critical for the company with a new funding package required and negotiations with the government to be finalised. However, Turquoise Hill Resources looks exceeding cheap compared with its peer group.

OUTLOOK

It is clear the ongoing trade negotiations remain the primary sticking point for investors. As we have highlighted in past commentary, reforming trade relationships and issues such as IP protection are long term structural issues which clearly need addressing. By their nature, however, they are very difficult to find common ground on. There is not going to be a quick fix and without a clear resolution we expect volatility will continue and risks to growth rise.

Of increasing concern has been the escalating protests in Hong Kong. During the quarter I spent time in the city and while signs of conflict were not obvious, major precincts such as Central, Causeway Bay and Tsim Sha Tsui were very quiet in comparison to my past visits. What was clear from the meetings I had was the extent to which the underlying economy is suffering and the pressure which businesses, particularly those leveraged to tourism, are under. A significant portion of Hong Kong's economy is dependent on tourism and over two thirds of visitors come from the mainland. I suspect this disruption will act as a significant headwind to corporates over the next 12 months at least and be much worse than expected.

Unfortunately, Hong Kong's current problems have developed over several decades and there are no easy solutions to the current situation. The portfolio has very limited exposure to businesses operating directly in the Hong Kong economy.

It is difficult to predict how these events will unfold in the short term, hence our more cautious approach – the portfolio's cash position rose during the quarter. Several smaller positions, most notably Hite Jinro and Samsung Electronics in Korea were exited. While we have observed meaningful drawdowns across regional equity markets this year and valuations have become more attractive, the current environment prompts us to remain patient in the short term.

Portfolio investments	Weighting
Online Classifieds & Ecommerce	21.0%
Consumer - Breweries	3.8%
Consumer - Other	13.7%
Gaming	14.8%
Infrastructure - Oil & Gas	11.1%
Infrastructure - Other	3.0%
Financials	8.2%
Materials (Copper)	6.7%
Other	2.9%
Long Equities Position	**85.2%**
Short Equities Position	-1.3%
Net Invested Equities	**83.9%**

Current stock examples	
iCar Asia	
Heineken Malaysia	
Dali Food Group	
MGM China Holdings Ltd	
Sinopec Kantons	
China Merchants Holdings International	
Shinhan Financial	
Freeport-McMoRan Copper	
Total Holdings	26

Currency exposure*	
USD	65.0%
AUD	28.7%
HKD	1.0%
INR	4.9%
Other	0.4%
Total exposure	100.0%

* Stated as Effective Exposure.

Kevin Bertoli - Asian Portfolio Manager

Important information

This Quarterly Report is issued by PM Capital Limited (ABN 69 083 644 731, AFSL No. 230222) as investment manager for the:

PM CAPITAL Global Opportunities Fund Limited
ACN 166 064 875 (ASX Code: PGF)

PM CAPITAL Asian Opportunities Fund Limited
ACN 168 666 171 (ASX Code: PAF)

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The Index for the PM Capital Global Opportunities Fund Limited is the MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. The Index for the PM Capital Asian Opportunities Fund Limited 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.

See the company announcements platform at www.asx.com.au, and www.pmcapital.com.au, for further information.

1. As at close of market trading Friday 30th September 2019.

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

6. 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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