PM Capital

QUARTERLY REPORT

SEPTEMBER 2022

Rates up, markets down

Where to from here?

p.1 Video insight

PM Capital Global Companies Fund
ARSN 092 434 618
APIR Code PMC0100AU

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

PM Capital Australian Companies Fund
ARSN 092 434 467
APIR Code PMC0101AU

CONTENTS

Quarterly video update

In this video Paul Moore, Chief Investment Officer and Portfolio Manager, discusses:

- Inflation, interest rates and the impact of European energy security issues arising from the Russia/ Ukraine war
- Market concern about downside risk and how this is starting to present a number of investment opportunities
- An update on our biggest investment theme in the portfolio

Access the video **here.**

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

"It is literally impossible to keep up with all that is apparently happening in financial markets today... in reality, it's very simple, rates up, markets down. All market movements today are being driven by interest rates."

Total returns since inception[1]

Fund		Benchmark	
PM Capital Global Companies Fund	676.9%	MSCI World Net Total Return Index (AUD)	241.1%
PM Capital Australian Companies Fund	903.3%	S&P / ASX 200 Accum. Index	434.3%
PM Capital Enhanced Yield Fund*	171.8%	RBA Cash Rate	98.3%

[1]Past performance is not a reliable indicator of future performance. See page 8 for Important Information. As at 30 September 2022.
*Enhanced Yield Fund (Performance Fee Option).

Global Companies Fund

PM Capital is delighted to have its global investment strategy named the winner of the International Equities – Alternative Strategies, 2021 Zenith Fund Award.^ We congratulate the nominees, and thank Zenith for their recognition of our rigorous discipline of focusing on genuine long term valuation anomalies.

Simple ideas, simple businesses

Building long term wealth by finding and exploiting investment anomalies around the world

Global Companies Fund[1]	Inception Date	Exit Price ($.cum)	3 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa
Fund performance	**10-1998**	**4.2693**	**-0.1%**	**-2.2%**	**10.9%**	**9.4%**	**8.9%**	**15.1%**	**9.0%**
MSCI World Net Total Return Index (AUD)			0.3%	-9.7%	6.2%	9.6%	9.3%	13.4%	5.3%

KEY POINTS

- Flutter Entertainment strengthens its position in the fast-growing North American sports betting market
- Shell reloads its buyback on the back of strong free cash flow generation
- The US dollar continues to strengthen due to higher interest rates and safe-haven flows

PERFORMANCE

Both the market and the portfolio were roughly flat during a quarter of contrasts with a strong July, flat August, followed by a weak September. The main contributors to performance over the quarter were our gaming and energy positions, while the main detractors were our positions in European homebuilders and The Howard Hughes Corporation.

PORTFOLIO ACTIVITY

Portfolio activity was minimal over the quarter with minor additions to our positions in The Star Entertainment Group and Northern Star Resources. We also trimmed our position in Shell plc.

OUTLOOK

Flutter Entertainment, the global online gaming and sports betting business, advanced 20% over the quarter. The half year results highlighted the strength of its position in the fast-growing North American sports betting and igaming market. Flutter's North American operations achieved EBITDA breakeven in the June 2022 quarter, making it the first major operator to achieve this milestone. The result was even more impressive considering Flutter continues to invest meaningfully into product and customer acquisition to grow market share. Flutter's FanDuel US business is the number one franchise in the US market and was the market leader in 13 of 15 states where it has a presence.

Regarding our energy portfolio positions which performed strongly over the quarter, Shell completed its $8.5bn buyback prior to the second quarter earnings release and will reload a further $6bn which is expected to be completed before its Q3 results. The CFO highlighted her view that prioritising buybacks when the shares are cheap will eventually lead to a significant dividend per share increase, which should support further stock price appreciation. The CEO highlighted the tight oil market with little spare capacity even absent a full recovery in 2019 type demand. Under investment has led to extremely low spare capacity and could be completely eroded if China relaxes its long running COVID-19 restrictions. On current oil & gas prices, Shell is trading on 5x earnings which remains remarkably cheap for a company operating in an incredibly tight global oil and gas market and returning the majority of its free cash flow to shareholders through dividends and buybacks.

Our European homebuilders fell in price over the quarter as concerns around a European recession gathered pace. While certain global housing markets show clear signs of a material slowdown, we believe our exposure to Spanish and Irish housing markets offer better protection against a global slowdown. Growing economies, a supply / demand imbalance and house prices currently below 2007 highs indicate substantially more downside protection compared to the "hotter" housing markets. While short term margins may be squeezed on high build cost inflation, the main driver of profitability is the volume of units delivered, which we believe will do better than the market expects due to a substantial lack of supply and growing government demand for social and affordable housing.

Our position in the Howard Hughes Corporation also detracted from performance as the stock price fell just over 18%. Higher interest rates have led to higher discount rates on its land development business and higher cap rates on its operating commercial property assets. While the market has traded the stock down in line with more generic US property companies, we believe Howard Hughes possesses some very unique and valuable assets which offer investors the ability to invest in several attractive themes in real estate, including demographic shifts to markets like Las Vegas, Phoenix and Texas which we believe is under-appreciated by the market. In September we visited Howard Hughes' master planned community in Summerlin, Las Vegas. Summerlin is a unique long-term asset and benefits from the relatively low cost of living which draws domestic migrants to the city (notably from California). Longer term, land supply faces obstacles as a handful of conservation areas border the city, including the Red Rock Canyon National Conservation Area which Summerlin backs on to. Summerlin was a hive of construction activity at the time of our visit and Howards Hughes is benefiting from higher volumes of lot sales, and higher prices.

Now to touch on the Australian dollar, which was down over 6% versus the US dollar in the quarter. While the Australian dollar has been weak, it is really a US dollar story (with the US dollar rising against all of the major global currencies). The current strength of the US dollar has been driven by its safe haven status on the back of the twin sell-off in the global bond and stock markets, along with the Fed being the most aggressive at raising interest rates compared to its central bank peers. Regarding our positioning, we continue to increase our Australian dollar exposure as we believe the RBA will be forced to follow the Fed's lead in addition to our constructive view on commodity prices and their positive impact on the Australian economy.

Portfolio investments	Weighting
Domestic Banking - Europe	20%
Industrial commodities	16%
Domestic Banking - USA	14%
Energy	13%
Gaming	11%
Quality Industrial Franchises	10%
Alternative Investment Managers	7%
Housing Ireland & Spain	6%
Other	6%
Long Equity Position	**104%**
Direct Short Position	-7%
Index Short Position	-5%
Net invested equities	92%

Current stock example	
ING Groep	
Freeport-McMoRan Copper	
Bank of America	
Shell	
Wynn Resorts	
Siemens	
Apollo Global Management	
Cairn Homes	
SPX	
Total holdings	44

Currency exposure*	100%
AUD	80%
GBP	9%
USD	7%
CAD	2%
Other	2%

* Stated at effective value.

The Fund aims to create long term wealth through a hand-picked, concentrated portfolio of generally 25-45 global companies trading at prices we consider, after extensive research, 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 **Minimum investment:** $20,000 **Suggested investment time:** 7 years+

Paul Moore - Chief Investment Officer **Kevin Bertoli -** Co-Portfolio Manager **John Whelan** - Co-Portfolio Manager

Australian Companies Fund

Applying global insights to profit from anomalies in the Australian market

Fund performance[1] (net of fees)	Inception Date	Exit Price ($, cum)	3 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa
Fund performance	**01-2000**	**3.0298**	**2.2%**	**5.2%**	**15.5%**	**10.6%**	**10.9%**	**12.1%**	**10.7%**
S&P/ASX 200 Accumulation Index			**0.4%**	**-7.7%**	**2.7%**	**6.8%**	**8.0%**	**8.4%**	**7.7%**

KEY POINTS

- Fund performance was underpinned by positive contributions from commodity and financial holdings. OZ Minerals was a standout receiving a non-binding takeover proposal from BHP leading to material outperformance over the wider commodities universe.
- The Fund remains well placed to take advantage of the recent drawdowns experienced across the domestic market with net equity position of only 69%.

The benign performance of the ASX 200 (0.4%) disguises what was a dynamic period for equity markets with the healthy gains achieved in July all but offset in September as the index retested it's CY-2022 lows. Persistent inflation coupled with increasingly forceful rhetoric from central banks acted as a predominant headwind for equity markets in quarter end. Central banks around the globe continue to reinforce their desire to aggressively fight inflation which has promoted a rapid rise in bond yields.

Commodities again provided a strong foundation to performance with OZ Minerals, along with our metallurgical coal positions and newly added Northern Star Resources, providing positive attribution.

OZ Minerals was a clear standout after receiving an unsolicited, conditional and non-binding proposal from BHP to acquire all shares in the company for a cash consideration of $25 per share in August. The BHP offer represented a premium of 41% to OZ Minerals 30-day VWAP but a 16% discount to its 52-week high. The transaction highlights the strong appetite for copper exposure amongst major mining companies – note Rio Tinto's takeover offer for Turquoise Hill Resources – and would have clear operational synergies, both with respect to the South Australian copper assets as well as the undeveloped West Musgrave Nickel project. Subsequent to the announcement, the Fund liquidated its remaining holding at a premium to the BHP offer with the decision based around valuation, with levels back to where we initially reduced our position in November 2021.

Our metallurgical coal holdings, Coronado Resources and Stanmore Resources, continue to capitalize on elevated coal prices, with both announcing strong results during the period. Record coal prices continue to drive windfall cashflows at both companies which has enhanced shareholder returns at Coronado and supported a rapid deleveraging at Stanmore. Furthermore, Stanmore announced acquisition of the remaining 20% interest in its BHP Mitsui & Co (BMC) from Japanese trading house Mitsui. The transaction was completed in the first week of October at a final price of US$270m, which is materially below the equivalent price the company paid for its initial 80% stake. The acquisition boosts Stanmore production capabilities by a further two million tonnes, which at spot coal prices should generate close US$200m of pre-tax operating income annually, an extremely attractive acquisition multiple.

Westpac, National Australia Bank and ANZ all advanced as interest rate assumptions continue to move higher. In July the Fund participated in ANZ's capital raising which was announced in conjunction with the acquisition of Suncorp Bank. We view the downside in the Australian banks as relatively well protected at current levels and expect them to achieve mid-single digit earnings growth overtime and pay us healthy fully franked dividends.

Offsetting the performances outlined above were Star Entertainment, Frontier Digital Ventures and Lark Distillery.

In September the New South Wales Independent Casino Commission released the final report in connection with Adam Bell SC's review of The Star Sydney which found Star Entertainment presently unsuitable to operate a casino within the state. Furthermore, in early October a review of the company's Queensland casinos undertaken by Robert Gotterson KC was published with the Queensland's Attorney General requesting the states casino regulator draft a show cause notice around ongoing suitability. Given the failures disclosed during both reviews the finding of unsuitability is not surprising and is reflected in the company's share price which has fallen 45% from its October 2021 high. Star is a recent addition to the portfolio, added in the March quarter, with the overhang caused by governance missteps providing an attractive entry point. With Star working to remedy areas deemed deficient, including undergoing a complete board and senior management overhaul, we believe a cancelling of licenses remains an unlikely and highly disruptive outcome. We also view there to be value in the company's property assets in the unlikely event licenses are lost.

Frontier Digital Ventures and Lark Distillery also experienced declines during the quarter. While there were no material announcements made by either company to justify the decline in the period, both are ex-ASX 300 companies with lower liquidity hence share prices moves can be magnified during periods of heightened volatility. Frontier Digital Ventures released an encouraging interim result to June with growth continuing across its core markets despite the tougher macroeconomic environment. The business is also achieving cash flow breakeven and a positive EBITDA at the portfolio level. The result underscored the progress the company has made in its pursuit of their 'Classified 2.0 Strategy' which aims to embed the business at the centre of property and automotive transactions. Given its growth status and emerging markets exposure Frontier's share price has corrected meaningfully over the past year, we believe the current valuation at just 3.5x Frontier's share of portfolio revenues on a trailing basis heavily discounts the highly profitable and long-term growth outlook of the business.

Fund performance has been pleasing, particularly considering the sizable cash position which we have held. Given our flexible mandate, we are not forced to maintain a fully invested position and can allow our cash balance to build when opportunities are more limited. This has held us in good stead over the past year. The Fund's healthy cash position puts us in a strong position to take advantage of the recent drawdown witnessed across most sectors in the Australian market. We remain highly selective when it comes to initiating new holdings, waiting for specific instances where we feel the market is genuinely mispricing an opportunity. We only need to identify a handful of opportunities and the portfolio composition can change meaningfully.

Portfolio investments	Weighting
Banking	22%
Commodities - Energy	18%
Commodities - Industrial Metals	8%
Gaming	5%
Alternative Investment Managers	4%
Consumer	4%
Online Classifieds & Internet	4%
Other	5%
Long Equities Position	**70%**
Short Equities Position	-1%
Net Invested Equities	69%
Corporate Debt & Bonds	22%
Net Invested	91%
Total holdings	19

Current stock example
ANZ
Woodside Energy
BHP
The Star Entertainment
Apollo Global Management
Lark Distillery
Frontier Digital Ventures

Currency exposure*	100%
AUD	101%
USD	-1%

*Stated at effective value.

The 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 investment 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 **Minimum investment:** $20,000 **Suggested investment time:** 7 years+

Paul Moore - Chief Investment Officer **Kevin Bertoli** - Co-Portfolio Manager **John Whelan** - Co-Portfolio Manager

Enhanced Yield Fund

Regular income, low volatility

Fund performance (net of fees)[1]	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
Enhanced Yield Fund*	**02-2002**	**1.1009**	**0.63%**	**-0.76%**	**-1.2%**	**1.1%**	**1.7%**	**2.6%**	**3.0%**	**5.0%**
RBA cash rate			0.47%	0.57%	0.6%	0.4%	0.8%	1.1%	1.5%	3.4%
Excess			**0.16%**	**-1.33%**	**-1.8%**	**0.7%**	**0.9%**	**1.5%**	**1.5%**	**1.6%**
Enhanced Yield Fund (Class B units)**	**05-2017**	**1.1272**	**0.56%**	**-0.90%**	**-1.4%**	**1.3%**	**1.9%**			**2.1%**
RBA cash rate			0.47%	0.57%	0.6%	0.4%	0.8%			0.9%
Excess			**0.09%**	**-1.47%**	**-2.0%**	**0.9%**	**1.1%**			**1.2%**

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

KEY POINTS

- RBA and US Federal Reserve step on the gas with aggressive interest rate increases
- Invested position increases as we take advantage of significant yield anomalies
- Yield to maturity increases to almost 5%^

PERFORMANCE

The volatility witnessed in interest rate markets in the first half of the calendar year continued throughout the September quarter as investors attempted to negotiate significant swings in both interest rate and corporate bond markets.

Bond yields ended the quarter notably higher as both the US Federal Reserve (Fed) and the Reserve Bank of Australia (RBA) increased official interest rates aggressively in an attempt to slow their overheating economies and get inflation under control. (RBA increased from 0.85% to 2.60% and the Fed from 1.75% to 3.25% at their upper limit)

US 10 year bond yields increased by ~0.80% to ~3.8% (representing a further fall in capital value of over 5%) and Australian 10 year bond yields increased by ~0.25% to ~3.90% - an additional fall in capital value of ~2%. The yield on the Australian 90 day bank bill also increased sharply from ~1.85% to ~3.05%, which materially increased the running yield on our substantial holdings of floating rate securities.

In light of the above significant falls in global bond values, we are pleased to have generated a return of +0.63% for the quarter.

PORTFOLIO ACTIVITY

During the quarter, expectations for the RBA cash rate reached a high of almost 4.5% by the middle of 2023. The likelihood of this being realised seemed very low to us, given the substantial pressure that this would put on household budgets – particularly mortgage interest rates which typically track at around 2-3% above the prevailing RBA cash rate. A 4.5% RBA cash rate would imply mortgage rates of approximately 6.5% to 7.5% which we believe would do material damage to the domestic economy.

Thus, during the quarter, we were happy to opportunistically add to the Fund's short dated fixed interest rate exposure, predominately with attractively priced corporate bonds, issued by companies that we believe can withstand just about anything the economy throws at them over the next couple of years.

At the end of this commentary is a snapshot of some of the investments that we made during the quarter.

OUTLOOK

Interest rate markets are currently factoring in a peak in the RBA cash rate of just under 4% in 2023 which, as we have stated previously, we still think is unlikely to be reached given the already dramatic impact that higher interest rates, and thus higher mortgage rates are having on property prices. Additionally, higher inflation in general is further reducing household disposable incomes – in some cases significantly.

There is no doubt in our minds that the RBA has so far been successful in terms of slowing down the economy, and thus a period of fewer and smaller rate increases near term seems appropriate to allow them to assess just how successful they have been.

^ before fees

We are encouraged by the significant number of attractive fixed rate risk/return opportunities that we believe we have taken advantage of. Additionally, from a credit market perspective, we think it prudent to have been primarily focusing our attention on businesses that we believe can handle a softer economic environment if it were to eventuate near to medium term.

With a current yield to maturity of just under 5%^, we look forward to reporting on the outcomes of the significant investments that we have made recently in future reports.

PM Capital Ltd is a co-investor in the Enhanced Yield Fund.

Recent investments in the Fund

Issuer	Tenor	Yield	Capital	Business
Woolworths	~1.5 yrs	~4.25%	Senior bond	Defensive, predominately non-discretionary spending
South Australia Power Network	~2 yrs	~4.25%	Senior bond	Defensive, prized utility with govt contracts
McDonalds	~1.5 yrs	~4%	Senior FRN	Defensive, predominately non-discretionary
Transurban Queensland	~1 yr	~4.25%	Senior bond	Defensive - highly prized toll roads
Major Banks (CBA, WBC, ANZ)	~2 yrs	4%+	Senior bond	Quality domestic retail bank

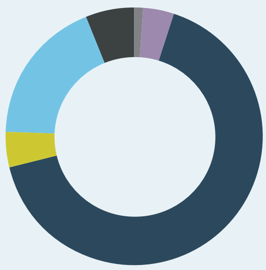
Regional allocation	
Australia	63.5%
North America	14.3%
Europe	9.3%
United Kingdom	5.7%
Other	1.2%
Cash/Cash Equivalents	6.0%

Duration^^	
Interest rate	0.78
Average term to maturity	2.40

Yield security maturity profile	
0-1 Year	33.2%
1-2 Years	26.2%
2-3 Years	7.4%
3-4 Years	16.3%
4 Years +	16.9%

Portfolio Investments^^	Spreads
Cash**	0.5%
Core Corporate Bonds	2.4%
Hybrid securities	3.9%

Actual exposure (see investor not above)^



* Senior investment grade securities with maturities of 12 months or less.

^^ These numbers are indicative and provided as a guide only.
**Cash spread includes short dated bonds <12 months.

The 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 Fund's investment objective 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 **Minimum investment:** $20,000 **Suggested investment time:** 2 years+

Jarod Dawson - Global Yield Portfolio Manager

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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 Enhanced Yield Fund
ARSN 099 581 558

PM Capital Australian Companies Fund
ARSN 092 434 467

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') and Target Market Determination which are 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 September 2022 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. See www.msci.com for further information on the MSCI index. 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.

^The Zenith Fund Awards were issued on 15 October 2021 by Zenith Investment Partners (ABN 27 130 132 672, AFSL 226872) and are determined using proprietary methodologies. The Fund Awards are solely statements of opinion and do not represent recommendations to purchase, hold or sell any securities or make any other investment decisions. To the extent that the Fund Awards constitutes advice, it is General Advice for Wholesale clients only without taking into consideration the objectives, financial situation or needs of any specific person. Investors should seek their own independent financial advice before making any investment decision and should consider the appropriateness of any advice. Investors should obtain a copy of and consider any relevant PDS or offer document before making any investment decisions. Past performance is not an indication of future performance. Fund Awards are current for 12 months from the date awarded and are subject to change at any time. Fund Awards for previous years are referenced for historical purposes only.

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