PM Capital

QUARTERLY REPORT

DECEMBER 2018

The Santa slump

New opportunities to put capital to work

p.4 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

Dear Investor,

2018 was a year that started with optimism (on the back of Trump's tax cuts) but ended with extreme pessimism and an uncharacteristic December decline that has only been exceeded (on the New York Stock Exchange) in the early years of the Great Depression, back in 1931.

Perversely, in December 2018 the US economy added 312,000 new jobs and unemployment in most large economies is near record lows.

Now we all know that the market is a forward discounting mechanism and there are plenty of market risks that one could point to (as there always are): the so-called trade war, Brexit and an economic cycle that is long in duration. But the reality is to date, signs of economic stress have been muted. There have been no (touch wood) financial collapses of the magnitude of Lehman Brothers back in 2008 to trigger such recent aggressive price action. So what is going on?

> *"Non-farm payrolls surged by 312,000 in December. Economists surveyed by Dow Jones had been expecting payroll growth of just 176,000"*
>
> CNBC Jan 4, 2019

There is plenty of market commentary about all these issues and to be honest, there is too much market wisdom (much of it plagiarised) on the airways these days and it is often hard to discern the genuine opinions from the sales and marketing of financial institutions. There is much in keeping it simple.

> *"So now the market scares going forward are going to be about inflation (and interest rates) whereas in the past it was about the sustainability of the economy."*
>
> PM Capital Investor Forum, March 2018

2018 was all about rising rates and lower liquidity. With the benefit of hindsight, as soon as interest rates genuinely began to adjust (January 2018) to the post Trump environment, the equity market acted as though the economy was headed into an end of cycle recession with so called "late cycle" stocks (business models most exposed to your typical US Federal Reserve tightening-induced recession) selling off. It started with housing stocks, then worked its way through most sectors of the market and culminated in October, when the "rock stars" (Amazon, Netflix, Zillow and many others) sold off sharply. By mid- December, the market had seemingly capitulated, and I suspect it had a lot to do with the lack of liquidity in a trading environment that is often dominated by computer models.

> *"I suspect that passive ETFs are creating systematic risk in the industry by liquidity concentration that will actually cause the next big downturn in markets."*
>
> PM Capital Investor Forum, March 2018

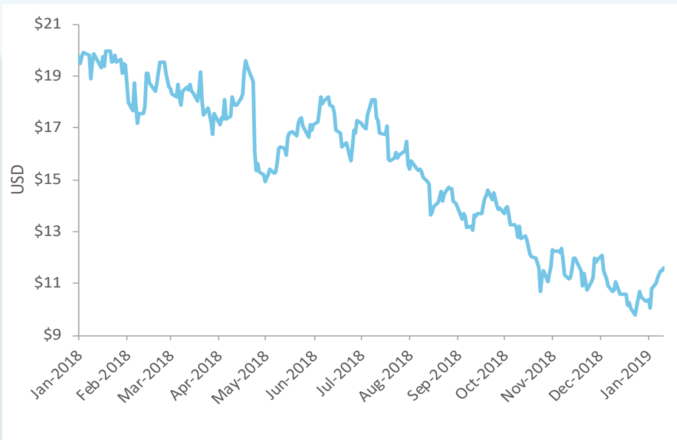
In fact, the December quarter reminded me a bit of the 1987 crash, when markets fell 22% in a single day (I still suspect the magnitude of that move was in large part due to quantitative portfolio insurance strategies of the day). The December quarter 2018, particularly the month of December, was like 1987 – but in slow motion. Every day the market down a few percent. Could this have been the impact of passive, exchange traded funds and computer model-driven trading?

> *"So markets have done really well, the risk with reward has changed and so it does warrant that you want to invest with a much more conservative framework going forward..."*
>
> PM Capital Investor Forum, March 2018.

Now part of what has occurred is rational, as rates have needed to normalise and, all things being equal, should lead to a de-rating in business valuations. The hard part is always how much is reasonable, and in that regard, I suspect the market has over-reacted. On Christmas eve, as we looked back at what had transpired, it would appear that Santa Claus was leaving coal in all investors' stockings. For true active investors though, he may have been leaving a gift.

COMMODITIES

Freeport-McMoran share price (USD)
Source: Bloomberg



A note from the CIO

Let us start with Freeport-McMoran Copper, one of the world's largest and lowest-cost copper producers. It is clearly economically sensitive and with the economy of China - the largest incremental consumer of copper - slowing down and the copper price falling, the stock price should also be going down. But by Christmas eve, the stock had declined 50% from its 1 January 2018 price. Having peaked in 2011 and with commodity cycles typically lasting 10 years, I am not sure that we are completely at the end of the down cycle, but also noting copper's importance in alternative energy infrastructure, I suspect that the value of this business longer term is now quite attractive. It is also a bit of a hedge on inflation.

US HOUSING

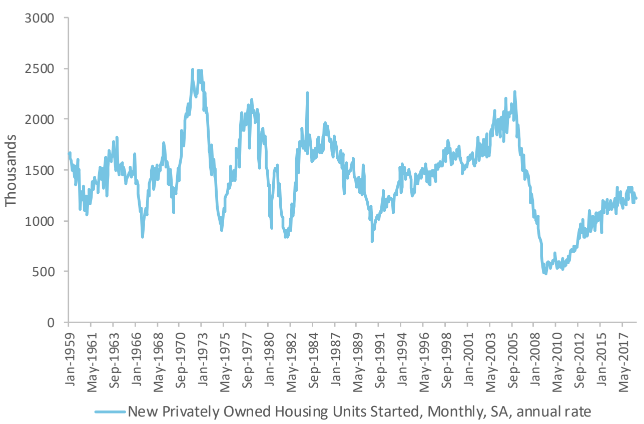
Housing is interesting and in this regard Lennar, one of the largest US home builders has also seen a significant re-rating:

	Stock Price (USD)	Last 12 months' earnings (USD)	P/E (trailing)
1/1/2018	$65	$3.38	19.2
24/12/2018	$38	$5.34	7.1

Earnings increased 60% and the stock is down 40%. Yes there are questions about house prices going forward, with interest rates higher and affordability more difficult, but inventory is low and annual new housing starts are very subdued relative to historic levels. With a 15% earnings yield on trailing earnings, the market may have overly discounted the stock.

US housing starts below long term averages:

US total housing starts, monthly
Source: US Bureau of the Census, St Louis Federal Reserve



BANKING

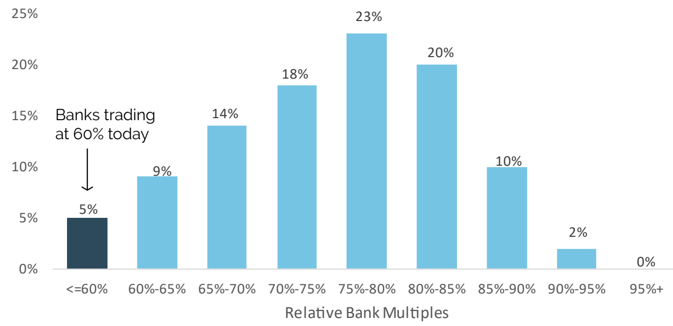
Bank of America is another example:

	Stock Price (USD)	Last 12 months' earnings (USD)	P/E (trailing)
1/1/2018	$30	$1.83	16.4
24/12/2018	$23	$2.54	9.0

Déjà vu - earnings are up 40% and the stock is down 20%. 2019 earnings estimates have changed little, while shareholders are receiving a dividend yield of 2.3% and a return of capital of approximately 7%, adding up to a near-10% return. Balance sheet risk has probably never been lower (leverage and credit risk) and bank valuations relative to the market have also rarely been lower. I am very comfortable owning this business at this price.

Banks rarely cheaper versus the broader market:

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



GAMING

Wynn Resorts International is the operator of some of the best casinos in the world, with 75% of its earnings derived from Macau.

	Stock Price (USD)	Last 12 months' earnings (USD)	P/E (trailing)
1/1/2018	$170	$5.34	31.8
24/12/2018	$92	$6.84	13.5

Again, earnings are +30%, its stock price down near 50% and the de-rating of the business near 60%. Now you may ask, when China and the USA are engaged in a "trade war", why you would want to own a business that is so heavily exposed to China, particularly when its licence is due for renewal in a few years' time? The answer is that social stability in Macau is very important to the Chinese and operators such as Wynn are critical in dealing with what could otherwise be a very corrupt jurisdiction. Along with that, significant infrastructure has been invested in Macau to support long term growth in visitation. Casinos are strong businesses when well run and at a free cash flow yield of 10%, its valuation is compelling.

A note from the CIO

Wynn has traded close to levels last hit during the Chinese growth crisis:

Wynn Resorts share price (USD)
Source: Bloomberg

TECHNOLOGY

Oracle is a bit of a different story and the market is undecided long term. The stock is actually flat for the year and earnings are up a little - no real re-rating or de-rating. It is seen and priced as a mature business on a P/E of 15 times current earnings. However, it has returned 10% of its share price in dividends and buybacks to shareholders over the past 12 months. It is a cash machine and that by itself justifies its share price. If earnings start to grow, as we expect, the stock will move in line with those earnings plus some, as it will no doubt be re-rated.

ALTERNATIVE MANAGERS

Finally, Apollo Global Management. This is probably the business that I would most like to own outright, at current prices. We always knew the market would trade this stock in line with short term movements in equities, and in particular, credit markets, as its business is managing private equity and credit funds on behalf of its clients and it earns substantial performance fees on its managed assets which are marked to market every quarter. With credit markets adjusting over the quarter, this is exactly what happened and the stock sold off from $US36 to $US24, a decline of 33%. In contrast, funds under management grew 15% over 2018, adding up to a 50% de-rating in market value per dollar managed.

Why do we want to own a business with a volatile earnings stream when the risk/ reward in credit markets was skinny? There are a number of reasons:

- It is a fee business and thus all earnings are free to distribute to shareholders
- The business is structured as a trust, thus minimising tax leakage
- It is run by some of the sharpest minds on Wall Street
- Alignment. Insiders own 50% of the business
- Growth. Funds under management have grown at a compound rate of 13% per annum over the past 5 years
- Valuation. Excluding any performance fees, which can be significant, earnings which are fully distributed to shareholders is generating a 7% yield. Note that fee-related earnings of $2 per share have been compounding at 15% per annum and businesses that grow 15% p.a. typically trade at P/Es of 20+. Apollo at $24 is priced at a P/E of 12, plus you get a balance sheet of $6.60 and all future performance fees. Apollo is probably trading on a trend single digit P/E. (Interesting valuation comparisons include T. Rowe Price Group, a well respected but low growth traditional equities manager selling on 14x next year's earnings, or Unilever, operating in very competitive markets, who I think will struggle to grow at mid-single digits and sells on 20x 2018 earnings).

We have been buying the highlighted businesses over the latter half of the quarter. There are many interesting opportunities to look at now, across many sectors of the market. I would also highlight that December saw record outflows from mutual funds, typically a great contrary indicator.

Record equity outflows past 6 weeks
Source: BofA Merrill Lynch Global Investment Strategy, Datastream, MSCI

Now this is not like 2009 where both valuation and the economy were deeply depressed, so one should still keep some dry powder in reserve, but valuations are very interesting and should be exploited.

As a footnote, I would also remind investors of how irrelevant current events can be and the long term rewards that come from being focused in how one deploys their capital. The reality is that one only needs a few good investments in their lifetime to produce attractive returns and they do tend to come around every ten or so years.

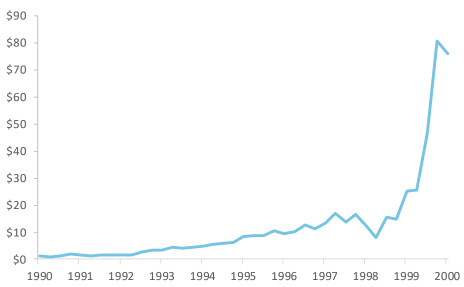
In the nineties, the internet emerged and companies such as Analog Devices increased 30 times in value. In the noughties, it was the emergence of China and commodity companies exploded. The most recent decade has seen the emergence of the global disruptors - Amazon, Google, Netflix, Tesla and

A note from the CIO

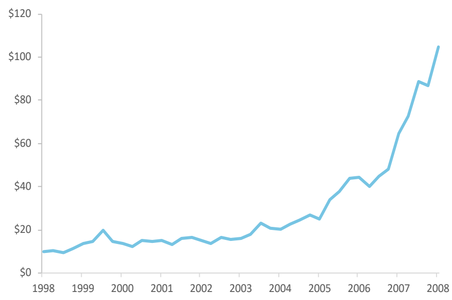
others (see charts below).

What will emerge over the next ten years is what is now important. It is a conundrum, but these opportunities can be very hard to find, but at the same time have typically been staring you in the face the whole time!

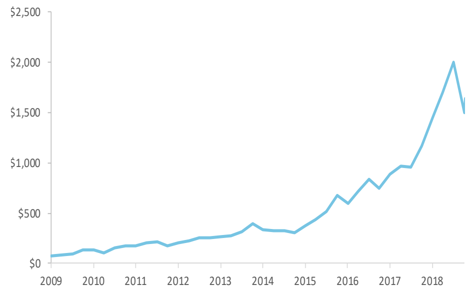
The '90s - the internet
Analog Devices share price (USD)
Source: Bloomberg



The '00s - commodities
Rio Tinto share price (USD)
Source: Bloomberg



Rise of the global disruptors
Amazon share price (USD)
Source: Bloomberg



Paul Moore - Chief Investment Officer

Quarterly video update

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

- Reviews how investors 'capitulated' during the quarter
- Discusses why the losses may have been an over-reaction
- Names some stocks - in as diverse industries as commodities and gaming – that he finds attractive now given the market action

Access the video here.

Total returns since inception[1]

Fund		Benchmark	
PM Capital Global Companies Fund	376.8%	MSCI World Net Total Return Index (AUD)	131.7%
PM Capital Asian Companies Fund	264.1%	MSCI AC Asia ex Japan Net (AUD)	115.7%
PM Capital Australian Companies Fund	437.9%	S&P / ASX 200 Accum. Index	302.8%
PM Capital Enhanced Yield Fund*	156.8%	RBA Cash Rate	94.1%

[1]Past performance is not a reliable indicator of future performance. See page 18 for Important Information. As at 31 December 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) 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	$394.6m as at 31 December 2018
Global equities FUM	$1,001.6m as at 31 December 2018

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**	**2.6200**	**-13.0%**	**-13.0%**	**-9.2%**	**4.1%**	**7.7%**	**17.9%**	**12.8%**	**8.1%**	**376.8%**
MSCI World Net Total Return index (AUD)			-11.0%	-4.6%	1.4%	7.5%	9.7%	15.1%	9.6%	4.3%	131.7%
Outperformance by the Fund			-2.0%	-8.4%	-10.6%	-3.4%	-2.0%	2.8%	3.2%	3.8%	245.1%

KEY POINTS

- The market de-rates, sending the majority of stocks lower
- Thesis on CME and Pfizer plays out and we realise our investments

PERFORMANCE

Portfolio returns were negative over the quarter as we witnessed a return of elevated volatility in global markets due to systemic issues. Continuing trade tensions between the US and China contributed, as did Europe-centric political issues including ongoing Brexit negotiations and the Italian budget.

Our alternative manager positions, KKR & Co, Ares Management Corporation, Apollo Global Management and Blackstone Group, weakened in the midst of the lower general market and the significant increase in volatility. We believe spikes in volatility provide great opportunities for the alternative managers to take advantage of market dislocations given the record amount of capital they currently hold. The locked-up nature of their capital is a significant competitive advantage during these periods. Ares completed its conversion from a partnership to a corporation. We believe Ares remains undervalued based on its high contribution of fee-related earnings and very strong growth outlook.

Our European banking and property holdings also fell. The weaker economic and interest rate outlook in the Eurozone led the market to doubt the banks' potential earning growth, while uncertainty around Brexit remains an additional factor weighing on our holdings.

The Australian Dollar continued to fall versus the US Dollar over the quarter, assisting portfolio performance.

PORTFOLIO ACTIVITY

During the quarter we sold our position in CME Group, with the stock trading close to its highs. The current environment is excellent for the company. The business has a strong franchise that will benefit from both cyclical and structural trends in volumes and volatility, coupled with top tier management who return close to 100% of earnings to shareholders. However, it is trading at 25 times 2019 earnings so we believe these factors are already priced in. We also sold half our position in Intercontinental Exchange (ICE) during the quarter.

We also exited our position in Pfizer. We built our initial position in Pfizer in 2011 amid a cyclical downturn in the pharmaceutical industry linked to a series of patent expirations for major blockbuster drugs. Given the long duration required to realise a return on R&D, management proceeded to release capital by selling non-core assets and repatriating offshore cash to the US. This allowed us to wait patiently for the drug pipeline to be replenished while still receiving a return on our capital through dividends and buybacks. In 2018 the evolution of the investment case played out, with Pfizer re-rated from 11x to 14x forward earnings as the market started recognizing future earnings growth driven by prior R&D investment. We took the opportunity to exit our position with the view that there were better opportunities to redeploy our capital.

"There are many opportunities at the moment and we are looking at a cross section of new ideas"

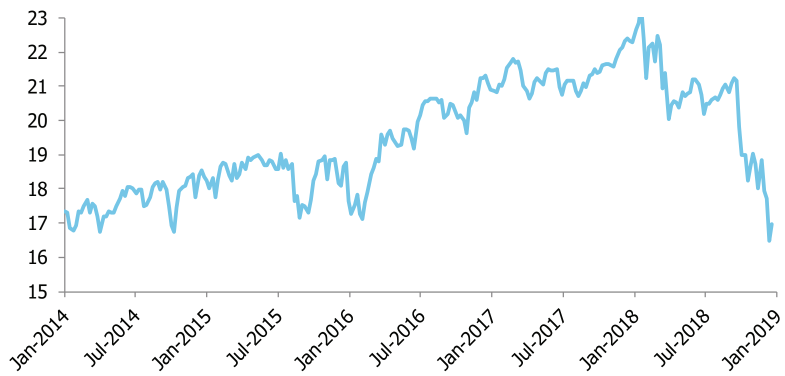
The selling of CME, ICE and Pfizer over the quarter reduced our net invested position.

Global Companies Fund

OUTLOOK

Although US economic activity continues to run at a strong rate, trailing US P/E ratios have retreated from just above 23 times to below 17 times earnings:

Figure A: Trailing Price Earnings Ratio (P/E) - S&P500 Index
Source: Bloomberg



As we have mentioned previously there is no doubt we have transitioned from the post-GFC environment to the post-Trump environment, meaning tightening liquidity, higher interest rates and a subsequent de-rating of market valuations.

While a large proportion of the market has materially de-rated, we see no apparent signs of a recession in the near term. There are many opportunities at the moment and we are looking at a cross section of new ideas, along with selling some of our positions that have provided attractive returns and are now trading close to their highs.

Portfolio investments	Weighting
Post GFC Housing Recovery - US	11.2%
Post GFC Property Recovery - Europe	7.0%
Global Domestic Banking	33.3%
Service Monopolies	16.3%
Gaming - Macau	6.6%
Alternative Investment Managers	15.7%
Other	8.9%
Long Equity Position	**99.0%**
Short Equity Position	-12.4%
Net Invested Equities	86.6%

Total holdings	46

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

Currency exposure*	
USD	64.9%
EUR	17.2%
AUD/NZD**	10.0%
GBP	5.3%
HKD	2.6%
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	$24.0m as at 31 December 2018
Asian equities FUM	$82.8m as at 31 December 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**	**1.5231**	**-10.6%**	**-14.2%**	**-14.4%**	**3.1%**	**4.1%**	**10.8%**	**10.6%**	**13.1%**	**264.1%**
MSCI AC Asia ex Japan Net Total Return Index[2]			-6.1%	-5.6%	-4.9%	9.8%	9.1%	12.2%	10.0%	7.6%	115.7%
Outperformance by the Fund			-4.5%	-8.6%	-9.5%	-6.7%	-5.0%	-1.4%	0.6%	5.5%	148.4%

KEY POINTS

- Investor concerns remain high
- Growth stocks particularly affected
- New positions initiated amid the market weakness

PERFORMANCE

The Fund, together with global equity markets more broadly, experienced a meaningful drawdown during the period. Investor unease throughout the period centred on slowing economic growth, firstly in emerging markets (China most notably) and then as the quarter progressed, the United States.

October was responsible for the bulk of the declines in the Asian region, with the MSCI Asia ex-Japan (AUD) recording its largest monthly decline in a decade as the twin threats of the US/ China trade dispute and rising US interest rates brought into question the upbeat economic growth forecasts investors had been anticipating only a handful of months ago.

The 10-year US Treasury yield moved through 3% for the first time since 2011, spiking to 3.23% in early October, in expectation of persistent tightening in interest rates by the US Federal Reserve. Higher rates in the US continue to support a stronger USD which has threatened to put a material strain on emerging market economies.

November and December were more subdued months for Asian equity markets as attention shifted to the United States. An overly aggressive Fed, coupled with increasing political conflict which has resulted in the longest government shutdown on record, stoked fears of a possible recessionary environment. In just three short months the 10-year US Treasury yield retreated to 2.68% at year end.

At the portfolio level a majority of the underlying equity positions were in negative territory for the quarter, with the most significant detractors to performance being Baidu, iCar Asia and Turquoise Hill Resources.

PORTFOLIO ACTIVITY

Investors have become increasingly cautious about companies that have yet to reach a consistent breakeven position. Many of these, including iCar Asia, were sold off aggressively over the quarter. We continue to view the operational progress made by iCar's management positively and believe this will be reflected in the share price in due course. Its Malaysian operation achieved EBITDA breakeven in the September quarter, with Thailand reaching the same milestone in the most recent quarter. A meaningful step change in the Indonesian business is also being overlooked - Indonesia has been the largest cash burn market for the Company and management recently moved to a paid subscription model from freemium which will change the economics materially.

As the #1 automotive classified business across three of the largest markets in ASEAN that are all transitioning to profitability, iCar's current $A52 million market capitalisation seems to undervalue it, particularly in light of recent private market transactions in the classifieds space across the region.

Baidu declined 31% despite releasing third quarter results that beat expectations. NASDAQ listed Baidu has sold off with the majority of US listed Chinese ADRs, many of which are internet focused, and US technology stocks more broadly. While it is clear the Chinese economy is slowing, Baidu remains leveraged to growing segments of the economy (digital advertising, streaming, artificial intelligence) and furthermore remains attractively valued, having not reached the lofty highs of some other overhyped FAANG names in recent years.

Turquoise Hill Resources fell 22%. Copper producers and the copper price are viewed by investors as proxies for global growth therefore it is unsurprising that the sector came under pressure. We remain confident that a deficit will arise in the copper

Asian Companies Fund

market in the coming years driven principally by inadequate supply growth, benefiting our holdings through higher copper prices. We added to our copper exposure over the period by establishing a position in Hong Kong-listed producer MMG Limited.

Positive contributors to performance included gaming companies MGM China and Nagacorp as well as consumer goods companies Heineken Malaysia and Dali Foods. The gaming names' positive performance came after a difficult period in the September quarter, while the consumer companies outperformed the broader market given their defensive characteristics.

In late November we visited Macau and Hong Kong, meeting both with casino and VIP junket operators. Current operating conditions are not reflective of the share price correction seen in recent months. While growth rates have slowed from peak months earlier this year, activity has not deteriorated further. Furthermore, our long term view of the sector remains intact. Subsequent to the trip we initiated a position in Melco Resorts, reinvesting the proceeds of a sell down in our Nagacorp position.

The Australian Dollar (AUD) depreciated 3%, assisting performance. We have gradually increased our AUD position over the past six months via a put option strategy. At 31 December the portfolio had an effective AUD exposure of 35.5%, representing a meaningful shift in positioning from the 20.3% at the beginning of the period and 12.7% twelve months ago.

OUTLOOK

The rapid sell off across asset classes in the past year has resulted in a much-needed adjustment to valuations. While this is positive we remain cautious, as in many cases consensus earnings expectations likely remain inflated, particularly in a slowing China environment, artificially boosting valuations. We are also cognisant of the overall uplift experienced in equity valuations over the past decade, a period in which equities have been supported by loose monetary policy, therefore looking at 5 or 10 years average valuation might not be considered a normalised valuation range.

At 31 December the invested position was 93.7%, a marginal reduction compared to the end of the September quarter. In addition to the positions highlighted above we are in the process of initiating several new investments to take advantage of the weakness seen across regional markets.

Portfolio investments	Weighting
Consumer - Breweries	8.9%
Consumer - Other	10.7%
Gaming - Macau	13.8%
Gaming - Other	3.9%
Financials	17.2%
Online Classifieds & Ecommerce	14.0%
Capital Goods & Commodities	10.9%
Oil & Gas Infrastructure	9.4%
Technology - Hardware	4.9%
Long Equity Position	**93.7%**
Net invested position	93.7%
Total Holdings	30

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

Currency exposure*	
USD	21.2%
HKD	34.7%
AUD	35.5%
INR	3.0%
Other	5.6%
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	$30.5m as at 31 December 2018
Australian equities FUM	$30.5m as at 31 December 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**	**1.6998**	**-12.2%**	**-10.9%**	**-15.2%**	**1.6%**	**4.8%**	**10.0%**	**11.1%**	**9.3%**	**437.9%**
S&P / ASX 200 Accumulation Index			-8.2%	-6.8%	-2.8%	6.7%	5.6%	9.6%	9.0%	7.6%	302.8%
Outperformance by the Fund			-4.0%	-4.1%	-12.4%	-5.1%	-0.8%	0.4%	2.1%	1.7%	135.1%

KEY POINTS

- Domestic market has worst quarter in seven years
- Banks and consumer discretionary stocks hurt Fund performance
- Confidence remains in Fund positions; some retracement in early January

PERFORMANCE

December was a difficult quarter for the Fund, with the broader market sell off as well the Fund's positioning in consumer discretionary stocks and international financial stocks detracting from returns.

Despite the Fund's performance and the continued high volatility environment, we retain confidence in the long term outlook for the underlying positions in the Fund and take some comfort from the fact that positive corporate news released after the close of the last quarter for iCar and BigTinCan - two of the big detractors from performance in the quarter – support our investment theses for these stocks.

From a top-down perspective, although its losses were less than other large global markets, the ASX's quarter was the most negative in the past seven years as volatility and fears of a global slowdown caused a significant decline.

PORTFOLIO ACTIVITY

The Fund's position in the international banks were the key detractors of performance as they declined between 12%-19% during the quarter. We believe that the decline in banking stocks in unwarranted. Paul Moore's CIO letter and quarterly commentary for the Global Companies Fund provides more detailed insights into why we believe that international banks remain cheap and why we are confident that these positions will provide a good reward to investors who have the patience to look through the current market volatility.

iCar was the biggest detractor to performance during the quarter, with the stock down 38%. Our research of iCar, its competitors and the broader markets in which it operates in has shown us that iCar remains a market leader in the online auto portal markets in its three core regions of activity – Malaysia, Thailand and Indonesia. Over the past 12 months, the operational performance of the business has accelerated and the lead it has over its competitors has been maintained. However, disappointingly, the share price for the stock has run contrary to the improving fundamentals of the business.

In particular, iCar's last quarter was the strongest operational quarter the business had in the last three years, but the stock declined. Given the broad macro sell-off in emerging markets, we can understand investors' reduced risk appetite and selling the stock. However, to an investor such as us, this was a time to buy more of the stock rather than sell.

As a result, we increased our position in iCar during the quarter after the stock sold off. This proved to be beneficial, with the company announcing in early January that it had become EBITDA positive in Malaysia and Thailand during the quarter. Subsequent to releasing its quarterly cashflow release the stock rose 26% from its end of year position to 11 January.

"The difficult and volatile equity markets were to us a good buying opportunity as the valuations of good quality businesses declined from previous high levels."

Australian Companies Fund

Similarly, Bigtincan was another stock affected by the reduction in investors' risk appetite. We remained invested in Bigtincan over the quarter as we believe the sales mobility market in which it operates is continuing to grow as expected and its competitive position remains ahead of peers. The stock declined 17% during the quarter (in line with the Nasdaq index's similar fall).

After quarter close, Bigtincan provided an update in relation to T-Mobile, one of its large customers. Bigtincan said T-Mobile had re-signed with it, nearly doubling the contract size following a competitive tender process. Bigtincan was up 17% after this announcement.

Our experience with iCar and Bigtincan during the quarter and their subsequent performance after the quarter close is a good example of how our decision making and Fund positioning may raise questions when looking through the prism of certain time intervals. However, over the longer run we continue to have faith in our investment philosophy and in the current positions of the Fund.

We took advantage of the dislocation in the market to initiate new positions in Pact Group, a leading manufacturer of plastic containers and materials handling equipment in Australia and Asia, Ooh Media, the largest outdoor media operator in Australia, Nufarm, a global manufacturer of herbicides, pesticides and insecticides, and Google. We will provide more information on these stocks in future reports.

We sold out of the Fund's position in Macquarie Group and closed out our short position in REA Group. The net equity position of the Fund increased from 72.5% at the start of the quarter to 81.8%.

OUTLOOK

The difficult and volatile equity markets were to us a good buying opportunity as the valuations of good quality businesses declined from previous high levels.

Our investment philosophy is premised on the belief that while in the short term there may not be a tight correlation between earnings and stock price movements, over the long term stock prices follows earnings. As a result, we focus most of our time researching the long term earnings capacity and trajectory of a business, finally investing in businesses in which we have a high degree of confidence. This has not and will not change despite short-term volatility.

Portfolio investments	Weighting
Domestic Banks	16.2%
International Banks	14.1%
Non Bank Financials	11.3%
Industrials	13.5%
Internet	10.3%
Technology	7.1%
Property	6.8%
Resources	0.6%
Other	1.0%
Long Equities Position	**80.9%**
Short Equities Position	-1.0.%
Net Invested Equities	79.9%
Total holdings	28

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

Currency exposure*	
AUD	85.6%
EUR	8.0%
USD	6.4%
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	$522.0m as at 30 September 2018
Fixed Income FUM	$833.3m 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**	**1.1133**	**-0.2%**	**-0.3%**	**0.3%**	**1.6%**	**3.8%**	**3.4%**	**4.1%**	**5.2%**	**5.8%**	**156.8%**
RBA cash rate			0.1%	0.4%	0.8%	1.5%	1.6%	1.9%	2.3%	2.8%	4.0%	94.1%
Excess			-0.3%	-0.7%	-0.5%	0.1%	2.2%	1.5%	1.8%	2.4%	1.8%	62.7%
Enhanced Yield Fund (Class B units)**	**05-2017**	**1.1291**	**-0.2%**	**-0.4%**	**0.3%**	**1.7%**					**2.9%**	**4.6%**
RBA cash rate			0.1%	0.4%	0.8%	1.5%					1.5%	2.4%
Excess			-0.3%	-0.8%	-0.5%	0.2%					1.4%	2.2%

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

KEY POINTS

- Returns never come in a straight line - markets get a reality check
- A good time to be investing in credit markets

PERFORMANCE

Performance for the quarter was -0.3% versus the RBA cash rate return of 0.4%. Credit and equity markets have been weakening since September, as the timing of a number of issues of significance across multiple continents at the same time caught investors by surprise.

Uncertainty around the path forward for the UK's exit from the EU is having a significant effect on markets in the UK and greater Europe in particular. We suspect that longer term the implications for companies will be less significant than markets are currently pricing, however when there is no clear path forward markets tend to start speculating.

The US is also contributing to current sentiment, with progress on trade negotiations between the US and China (while generally constructive) taking considerable time, and a partial shutdown of US government spending until budget negotiations are completed also agitating investors.

In terms of the longer term impact on the US economy of these two issues, the Federal Reserve (Fed) seemed somewhat unfazed as it raised interest rates in December (as expected) to a range of 2.25% to 2.50%, citing “a very healthy economy” as its driver.

On a recent research trip I attended a briefing given by former Fed Governor Bill Dudley in Florida, who was adamant that US monetary policy is still accommodative. He articulated the view that rates need to rise further, as the US economy is now operating at or beyond full employment - which is positive for growth - and could potentially put further pressure on inflation. He also commented that he feels the market is too focussed on the idea of an inverted yield curve being a precursor to a recession, and needs to just focus more on the accommodative nature of policy.

PORTFOLIO ACTIVITY

Some of our UK and European holdings were weaker in response to Brexit nerves. To give some insight into investors' current mindset, consistent with our thesis both Tesco and Allied Irish Bank's holding company received significant credit rating upgrades from Fitch and S&P respectively. These upgrades took them both to investment grade and recognises their improved credit profiles. However, both names were weaker during the quarter. We increased our exposure to Allied Irish Bank on the weakness, initiating a position in their senior debt at Bills +~250bp (~4.50% yield) and we are happy owning Tesco at its current valuation of Bills +~400bp (~6% yield).

Our holdings across Spanish homebuilders Aedas and Neinor and Irish homebuilder Glenveagh were also weaker on sentiment towards the region. We are comfortable that these companies are on track to deliver on their construction and revenue objectives. Post the weakness in the sector we increased Glenveagh and added Cairn Homes back to the portfolio, after having owned it previously and sold it down (generating a ~30% return). We regard Cairn as one of the strongest Irish home builders in a very under-supplied market.

We sold our holding in litigation funding business IMF Bentham's bonds towards the end of the quarter, after it announced a bond buyback program at a very attractive price. This investment realised a return of ~30% over the ~4 years that we held it.

We added to our exposure in UK pub company Enterprise Inns during the quarter – initiating a new position in their 5 year senior secured debt at Bills + ~370bp (~5.70% yield), and we also added to our ANZ and Westpac US Dollar floating rate subordinated debt at Bills + ~250bp (~4.5% yield). This is a play on higher US interest rates over time.

OUTLOOK

There is a lot for investors to focus on (and be distracted by) currently.

With regard to the US, it is still the largest economy in the world and we think it is supported by solid corporate fundamentals, partly evidenced by sound job and wage growth. As a result, we think it likely that US interest rates will continue to rise. This is not fully factored into rate markets, and hence we are happy to position the Fund to benefit from this.

One thing that markets are not talking about much at the moment is that the majority of the world's major economies are net oil importers, and thus the recent ~30-40% fall in the oil price, if sustained for a period, should provide a boost to their economies. We suspect investors will take more notice of this in months to come.

"On the credit side, experiences over the past 20 years has taught us that the best way to navigate markets like these is to just focus on the individual businesses that we are investing in, and the rest will take care of itself."

Given the considerable moves in markets recently, we think the universe of potential anomalies has grown considerably and we are taking advantage of this. In the interim, we are pleased to have broadly preserved the Fund's capital since markets started weakening in September (4 month performance -0.20%).

We suspect market volatility will remain elevated into 2019, and thus we expect month to month returns to bounce around a little more than normal – in both directions. That said we are finding what we believe to be some very good opportunities to invest the Fund's capital.

The average running yield on the Fund's assets sits comfortably over 2% above cash, and all things being equal this will increase as we further deploy the Fund's considerable cash balance which we have been holding patiently.

Duration	
Interest rate*	0.15
Average term to maturity*	2.73

Regional allocation	
Australia	32.2%
Europe	12.4%
United Kingdom	8.7%
North America	8.3%
New Zealand	1.7%
Cash	36.7%

Portfolio Investments	Weighting**	Average yield	Average spread to RBA
Cash	**36.7%**	**2.29%***	**0.79%***
Corporate bonds	**53.3%**	**4.53%***	**3.03%***
Fixed	0.0%*		
Floating	100.0%*		
Hybrids	**8.2%**	**3.57%***	**2.07%***
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.

Yield security maturity profile	
0-1 Year	47.7%
1-2 Years	16.8%
2-3 Years	7.5%
3-4 Years	10.2%
4 Years +	17.8%

Jarod Dawson - Global Yield Portfolio Manager

Contact

REPRESENTATIVE CONTACTS

Lachlan Cameron
Head of Distribution, NSW

P +61 2 8243 0807
M +61 411 564 191
E lcameron@pmcapital.com.au

Rebecca Morgan
Sales Director, VIC & WA

M 0407 917 661
E rmorgan@pmcapital.com.au

Aaron Gascoigne
Business Development Representative, New Zealand

P 0800 222 143
E nzinvestors@pmcapital.co.nz

James Noone
Sales Director, QLD

M 0432 355 892
E jnoone@pmcapital.com.au

RESPONSIBLE ENTITY

PM Capital Limited
ABN 69 083 644 731
AFSL 230222

Level 27, 420 George Street
Sydney NSW 2000

P +61 2 8243 0888
F +61 2 8243 0880
E pmcapital@pmcapital.com.au
www.pmcapital.com.au

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 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).

PM Capital