PM Capital

Quarterly report

December 2023

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

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Quarterly video updates

Global Companies Fund update

Kevin Bertoli - Portfolio Manager
John Whelan - Portfolio Manager

This video update includes:

- Outlook for 2024 as the market continues to focus on inflationary data and interest rate speculation
- Core themes in the portfolio such as commodities and industrials
- The shifting investment landscape and the importance of valuation

Access the video **here.**

Enhanced Yield Fund update

Jarod Dawson - Portfolio Manager

In this video, Jarod discusses:

- The recent change in dynamic and value proposition of interests markets
- How credit markets are reacting and the opportunities they present
- How the fund rounded out calendar year 2023, and the outlook for 2024

Access the video **here**.

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

Total returns since inception[1]

Fund		Benchmark	
PM Capital Global Companies Fund	990.3%	MSCI World Net Total Return Index (AUD)	336.7%
PM Capital Australian Companies Fund	1089.0%	S&P / ASX 200 Accum. Index	557.1%
PM Capital Enhanced Yield Fund*	193.4%	RBA Cash Rate	107.4%

[1]Past performance is not a reliable indicator of future performance. See page 8 for Important Information. As at 31 December 2023.
*Enhanced Yield Fund (Performance Fee Option).

Global Companies Fund

Simple ideas, simple businesses

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

Global Companies Fund	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 (net of fees)[1]	**10-1998**	**5.9915**	**4.9%**	**18.3%**	**18.6%**	**18.0%**	**14.0%**	**12.7%**	**10.0%**
MSCI World Net Total Return Index (AUD)			5.4%	23.0%	11.8%	13.5%	11.7%	11.6%	6.0%

PERFORMANCE

The portfolio returned 4.9% over the quarter. Positive contributors to performance over the quarter included Siemens, the European homebuilders and Bank of America. Detractors to quarterly performance included Allied Irish Banks, Bank of Ireland and Woodside Energy.

Our position in Siemens had a strong quarter with the stock price up just over 25%. Noise around Siemens Energy requiring a bailout (Siemens currently owns 17% of Siemens Energy) coupled with a general market selloff created the temporary opportunity. Siemens took advantage of the situation by using its strong balance sheet to buy a 18% interest in Siemens India (separately listed) from Siemens Energy for 2.1 billion euros. This has resulted in Siemens now owning 69% in this highly valuable growth business. The deal was done at a 15% discount to the market price of Siemens India.

Our position across the Irish and Spanish homebuilders also performed strong over the quarter. All four companies are expected to generate free-cash flow yields of between 15% and 25% over 2024, coupled with a stated policy to return the majority of free-cash flow back to shareholders through dividends and buybacks. While the free-cash flow generation and return story is the thesis behind our positions, the short-term pullback in interest rates from their highs in September 2023 also created a positive sentiment around the homebuilders.

Our US financial holdings which include the large money center banks and Charles Schwab, recovered in the December quarter after being oversold in the prior quarter. With interest rates falling, the market became less worried about deposit holders reducing balances in search of higher yields elsewhere. While interest rate moves will continue to impact stock prices in the short term, evidence suggests most of Bank of America's checking accounts are primary accounts into which incomes and day-to-day expenses are paid, and the average of Schwab's 34 million retail brokerage accounts has less than 5% of its value in transactional cash.

After some very strong performance on the back of rising interest rates, AIB Group and Bank of Ireland fell over the quarter as the market priced in aggressive interest rate cuts by the European Central Bank (ECB). While we acknowledge the ECB will likely cut interest rates at some stage over 2024, AIB is trading on ~5 times 2024 earnings and just ~7 times if rates were hypothetically cut to 2%. We believe AIB is very inexpensive for arguably the best capitalised bank in Europe, operating in an oligopoly market with a long runway of growth.

Our energy positions were a headwind for the quarter, with oil price declining 16% over the period. While core holdings Shell and CNOOC performed relatively well against this backdrop, Woodside declined 15% over the quarter as regulatory concerns surrounding offshore drilling in Australia and the effect this may have on Woodside's Scarborough project weighed on the stock. Post quarter end, a favourable ruling from the Federal Court of Australia has eased concerns and provided an opportunity to add to our position.

PORTFOLIO ACTIVITY & OUTLOOK

During the quarter we had the opportunity to meet with most of the major listed global oil producers in Houston which provided valuable insights to our oil sector research and reinforced our positive outlook on energy stocks despite the recent weakness in oil and gas prices. We expect continued volatility in energy markets, supported by limited investment in new supply and continued growth in oil demand, even with the faster uptake of renewable energy sources. Our insight, after meeting with approximately 30% of global oil production, can be found here.

Copper positions Freeport McMoRan and Grupo Mexico performed well during the quarter buoyed by further evidence of the challenging supply environment the industry faces – we wrote about these events in an insight piece in December. Most notably was the closure of First Quantum's Cobre Panama mine after the Supreme Court of Panama deemed the company's operating contract to be unconstitutional, and an update from Anglo American which included a 20% reduction to copper production guidance in the coming years. These two events alone have taken close to 600kt of production out of the market going into 2024 which equates to over 2.5% globally. Consensus now expects small deficits in each of the next three years. After this, deficits are expected to grow as underinvestment in production and increased demand from renewables and electric vehicles start to contribute more meaningfully.

Teck Resources announced the sale of their metallurgical coal business to Glencore and Nippon Steel. The transaction is due to complete in the third quarter of 2024 and the proceeds will total close to US$8 billion after taxes. Post completion, Teck will be a pure-play copper and zinc miner and we are assessing the valuation relative to other pure-play copper miners and commodity producers. We incrementally added to our position over the quarter. We also had the opportunity to attend Teck Resource's recent investor trip to their new Quebrada Blanca II copper mine in Chile which we detailed in a January insight piece.

A new position in Newmont was also initiated during the quarter following their acquisition of Newcrest. Despite gold trading at near record highs and a portfolio of global Tier-1 assets, Newmont's share price has declined more than 30% since announcing the acquisition in 2023, and down 60% from the 2022 high. With a peak in US interest rates a likely headwind for the US dollar, combined with easing production cost inflation pressures, we view the outlook for gold as favourable and Newmont's discounted valuation as attractive.

Portfolio investments	Weighting
Domestic Banking - Europe	21%
Commodities - Energy	15%
Commodities - Industrial metals	15%
Domestic Banking - USA	12%
Industrials	12%
Gaming	10%
Alternative Investment Managers	5%
Housing Ireland & Spain	5%
Other	6%
Long Equity Position	**101%**
Direct Short Position	-3%
Index Short Position	-2%
Net invested equities	96%
Total holdings	44

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

Currency exposure*	100%
AUD	79%
GBP	6%
HKD	5%
USD	4%
Other	6%

* 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

Australian Companies Fund	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 (net of fees)[1]	**01-2000**	**3.5258**	**6.4%**	**6.5%**	**13.8%**	**17.2%**	**11.1%**	**10.8%**	**10.9%**
S&P/ASX 200 Accumulation Index			8.4%	12.4%	9.2%	10.3%	8.5%	7.9%	8.2%

PERFORMANCE

The fund returned 6.4% over the quarter with positive contributions from Siemens, BHP, Stanmore Resources, Imdex and Frontier Digital Ventures. The primary detractors to performance included Woodside Energy, Star Entertainment and Coronado Resources.

Siemens had a strong quarter with the share price up just over 25%. However, this strong performance masked the underlying volatility experienced in the share price which traded in a wide range between ~€120 and ~€170. We were active in taking advantage of this volatility adding to our position in October and subsequently selling this additional stake in the latter part of the quarter. Noise around Siemens Energy requiring a bailout (Siemens currently owns 17% of Siemens Energy) coupled with a general market selloff created the temporary opportunity. Siemens took advantage of the situation by using its strong balance sheet to buy a 18% interest in Siemens India (separately listed) from Siemens Energy for 2.1 billion euros. This has resulted in Siemens now owning 69% in this highly valuable growth business. The deal was done at a 15% discount to the market price of Siemens India.

It was an eventful quarter for Stanmore Resources with a number of stock-specific events acting as positive catalysts. In October, Stanmore sold the southern area of their Wards Well tenement to fellow coal miner Peabody for US$136 million, with an associated agreement for potential infrastructure sharing. The Wards Well tenement was inherited when Stanmore acquired BHP's former mines in 2022, and Stanmore was unlikely to utilise the southern area of Wards Well in the foreseeable future given their current development plans. Second, in December Stanmore acquired the remaining 50 percent interest that they didn't already own in the Millennium & Mavis Downs mine project for cash consideration of one dollar. The market does not ascribe much value to the project, but we see it as a potential upside option. Third and in our view most meaningful, the Board declared a special dividend of close to A$0.09 per share during the quarter, kicking off what we believe is the start of a shareholder capital returns story. We hope to see an additional dividend declaration at the full year results in February.

Imdex Limited rebounded 21% over the quarter after providing a positive trading update during its AGM in October which suggested the environment in the mining exploration market has stabilised after a challenging first half of calendar year 2023. Drilling sensors on hire are a key measure of activity in Imdex's business and this metric increased almost 10% sequentially during the third quarter. Imdex continues to see a bifurcation among customers with activity at junior miners, particular in the gold sector, remaining subdued on tighter capital markets and strained balance sheet liquidity, whereas majors are increasing expenditure given their bullish assumptions for longer-term demand across key commodities (note, exploration expenditure is heavily weighted towards gold and copper which accounted for 70% of expenditure in 2023 according to S&P). The company also provided an update on Devico which was acquired in February 2023. Devico operating performance has comfortably surpassed pre-acquisition performance, as management integrates the two businesses and takes advantage of the significantly improved distribution capabilities Imdex holds.

Woodside was a key detractor to performance declining 15% over the quarter, with oil down 16% over the same time frame as the market grapples with potential excess supply on a macro slowdown. Australian energy stocks were especially weak due to regulatory concerns surrounding offshore drilling in Australia and the effect this may have on new projects, such as Woodside's Scarborough field and Pluto LNG project. Post quarter end, a favourable ruling from the Federal Court of Australia regarding Santos' Barossa project eased concerns and provided an opportunity for us to add to our Woodside position.

PORTFOLIO ACTIVITY & OUTLOOK

A new position in Newmont was initiated during the quarter following their acquisition of Newcrest. Despite gold trading at near record highs and a portfolio of global Tier-1 assets, Newmont's share price has declined more than 30% since announcing the acquisition in 2023, and down 60% from the 2022 high. With a peak in US interest rates a likely headwind for the US dollar, combined with easing production cost inflation pressures, we view the outlook for gold as favourable and Newmont's discounted valuation as attractive. We also added a new position in the 2028 Mineral Resources senior bond at an effective yield of 9.25%. This recently issued bond was done at a time of increased uncertainty in the lithium space and we believe this uncertainty created an attractive opportunity on the credit side. Furthermore, it is our expectation that 2024 should represent the peak in the Mineral Resources capital expenditure program and the subsequent cash flows inflection will allow for a rapid deleveraging thereafter.

We exited our position in packaging company Pact Group after we accepted the revised takeover bid of A$0.84c by Kin Group in December 2023. The revised bid represented a 24% increase on their original bid of A$0.68c back in September 2023. The acquirer intends to delist Pact group from the ASX. The Fund also exited its position in Perpetual Credit Income Trust after a period of strong performance which saw its discount to NTA effectively close. We originally bought the position in late 2022 and generated a total return of more than 20% over the holding period.

Portfolio investments	Weighting
Commodities - Energy	17%
Commodities - Industrial Metals	16%
Banking	15%
Diversified Financials	9%
Industrials	8%
Online Classifieds & Internet	2%
Gaming	1%
Consumer	1%
Long Equities Position	**69%**
Short Equities Position	-2%
Net Invested Equities	67%
Corporate Debt & Bonds	11%
Net Invested	78%
Total holdings	22

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

Currency exposure*	100%
AUD	97%
EUR	2%
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**	**1.1312**	**1.7%**	**3.1%**	**6.5%**	**2.7%**	**2.7%**	**2.9%**	**3.0%**	**5.1%**
RBA cash rate			1.1%	2.1%	3.9%	1.8%	1.4%	1.4%	1.6%	3.4%
Excess			**0.6%**	**1.0%**	**2.6%**	**0.9%**	**1.3%**	**1.5%**	**1.4%**	**1.7%**
Enhanced Yield Fund (Class B units)**	**05-2017**	**1.1649**	**1.9%**	**3.3%**	**6.9%**	**2.9%**	**2.9%**			**2.9%**
RBA cash rate			1.1%	2.1%	3.9%	1.8%	1.4%			1.4%
Excess			**0.8%**	**1.2%**	**3.0%**	**1.1%**	**1.5%**			**1.5%**

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

KEY POINTS

- Strong performance for the quarter, delivering a 6.5% return for the year
- Fixed rate bond exposure reduced significantly and profit realised, as interest rate markets price in an aggressive rate cut cycle
- Fund very well positioned to take advantage of near-term valuation anomalies

PERFORMANCE

The December quarter was another eventful one for global interest rate markets, as investors digested a mixed array of data, ultimately leading them to settle on the idea that the next move in interest rates for most developed global central banks would be down. Indeed, at the time of writing (early January), markets were pricing in seven 0.25% rate cuts in calendar 2024 for the US Federal Reserve and three 0.25% rate cuts for the Reserve Bank of Australia (who is coming off a lower cash rate base).

That said, early in the quarter the weight of money was in fact headed in the opposite direction – focussed squarely on stubbornly high inflation – a variable that to this day is still notably higher than the Reserve Bank in particular is comfortable with, despite the recent ~0.50% fall in the benchmark 3 year government bond yield.

All in all, we are pleased to report that despite the considerable volatility in interest rate markets over the quarter, the Fund returned a very healthy 1.7%, resulting in a 6.5% return for the year.

PORTFOLIO ACTIVITY

Once again it was a very busy quarter for the fixed income team. While not an exhaustive list, below are some of the investments that were bought and sold, highlighting that there are considerable returns to be generated if you look in the right places and give yourself the scope to invest globally.

We added to our major bank sub debt holdings over the quarter, with new investments made in both ANZ and CBA's subordinated bonds. ANZ was purchased at a 3 year floating rate yield of ~6.75% and CBA at a 5 year floating rate yield of ~6.35%

We also increased our position in the 2.5 year senior bonds in coveted Melbourne tollroad business Eastlink at a fixed rate yield of ~5.70%. This business showed tremendous resilience during and post the COVID-19 pandemic.

Keeping within the tollroad theme, we also increased our position in the 1 year bond issued by tollroad powerhouse Transurban at a floating rate yield of ~5.25%

On the opposite side of the ledger, we sold our holding in the senior bonds of dominant US memory manufacturing business Micron during the quarter. We made this investment in May 2023, when markets were pricing memory production businesses as though the cycle would be weak into perpetuity. With considerable experience investing in this sector, and Micron's comparative advantages in various segments of the market, we were confident that investors were being overly pessimistic about their fortunes. We generated a ~9% absolute return from this investment.

We also sold our holding in the 6 year senior bonds of renewable energy giant Next Era in December. While we believe it to be a very solid business, the market's thirst for green investments pushed its valuation to a point we were no longer comfortable with. We generated a ~7% return from this investment

In terms of broader sectoral moves over the quarter in holdings we still own, our investments across a number of Irish and Spanish property companies contributed meaningfully to performance over the quarter. The market's perceived end to the central bank hiking cycle, and the considerable shortfall in supply – particularly in the residential sector – that we identified a number of years ago is now driving considerable cashflow generation for these businesses. We believe that there is still meaningful upside to be generated from these investments.

Finally, and perhaps most importantly, we all but closed out our exposure to fixed interest rates towards the end of the quarter, locking in considerable profits for the Fund. As highlighted above, while we think the economy has definitely slowed, we think that central banks may well want to see further evidence that inflation is under control, and as a result, the aggressive rate cut cycle that markets are pricing in may not eventuate – at least not to the degree that is being priced in.

OUTLOOK

While economic activity has definitely slowed in developed economies around the world, as noted above, markets are now pricing in an easing cycle that, in our view, reflects an economy fighting off recession, and an imminent likelihood that inflation will soon be back at central bank target levels.

We think this scenario is unlikely to eventuate near term, and indeed believe that broader economic data is still generally mixed rather than recession like. Thus we believe that interest rate markets are prone to disappointment over the next few months. As a result, we think we will see above average volatility in fixed income markets near term.

Reflecting this, we have positioned the Fund so that it has considerable capital available to be deployed in such a period of volatility, in order to take full advantage of valuation anomalies as they come along.

In the meantime, given the Fund's significant leaning towards floating rate yields currently, and the considerable yield premium that floating rate bonds are paying above the great majority of fixed rate bonds (all else being equal) we think this is a good base to work off in terms of generating future returns for the Fund.

Regional allocation	
Australia	65.7%
North America	12.8%
United Kingdom	5.8%
Europe	10.1%
Other	1.1%
Cash/Cash equivalents	4.5%

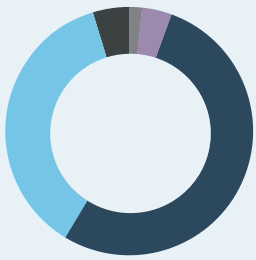
Duration^^	
Interest rate	0.30
Average term to maturity	1.51

Yield security maturity profile	
0-1 Year	45.1%
1-2 Years	22.0%
2-3 Years	20.7%
3-4 Years	4.1%
4 Years +	8.1%

Portfolio Investments^^	Spreads
Cash**	0.5%
Core Corporate Bonds	1.4%
Hybrid securities	2.9%

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

Actual exposure



Cash/Cash Equivalents	4.5%
Senior investment grade (<12mnths) *	36.7%
Government Bonds	0%
Core Corporate Bonds	53.1%
Hybrid securities	4.0%
Equity Income Strategies	1.7%

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

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 31 December 2023 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.

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