PM Capital

QUARTERLY REPORT

MARCH 2019

Valuation disparities creating opportunities

p.1 Video insight

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

PM Capital Asian Companies Fund
ARSN 130 588 439
APIR Code PMC0002AU

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

PM Capital Enhanced Yield Fund
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APIR Code: PMC0103AU
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Quarterly video update

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

- The V- shaped recovery in the March quarter
- The range of opportunities presented by record relative valuation disparities
- The biggest issues facing markets now

Access the video **here.**

"It may be "late cycle" but that does not necessarily mean end of cycle."

Total returns since inception[1]

Fund		Benchmark	
PM Capital Global Companies Fund	429.6%	MSCI World Net Total Return Index (AUD)	158.3%
PM Capital Asian Companies Fund	297.9%	MSCI AC Asia ex Japan Net (AUD)	138.2%
PM Capital Australian Companies Fund	485.9%	S&P / ASX 200 Accum. Index	346.7%
PM Capital Enhanced Yield Fund*	160.0%	RBA Cash Rate	94.8%

[1]Past performance is not a reliable indicator of future performance. See page 15 for Important Information. As at 31 March 2019.
*Enhanced Yield Fund (Performance Fee Option).

Global Companies Fund

- **The Global Companies Fund** aims to create long term wealth through a hand-picked, concentrated portfolio of 25-45 global companies trading at prices that we consider, after extensive research, to be trading at prices different to their intrinsic values and may provide attractive future returns.
- **The Fund's investment objective** is to provide long term capital growth and outperform the greater of the MSCI World Net Total Return Index (AUD) or RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Global equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 25-45 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	28 October 1998
Unit trust FUM	$433.6m as at 31 March 2019
Global equities FUM	$1,076.7m as at 31 March 2019

Global Companies Fund

Paul Moore
Global Portfolio Manager

Fund performance (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
Global Companies Fund	**10-1998**	**2.9100**	**11.1%**	**-3.3%**	**-0.7%**	**11.9%**	**10.5%**	**16.4%**	**15.3%**	**8.5%**	**429.6%**
MSCI World Net Total Return index (AUD)			11.5%	-0.8%	12.3%	13.7%	12.6%	15.2%	12.1%	4.8%	158.3%
Outperformance by the Fund			-0.4%	-2.5%	-13.0%	-1.8%	-2.1%	1.2%	3.2%	3.7%	271.3%

KEY POINTS

- Markets rebound strongly in the first quarter of 2019
- Sharp rally in government bonds, with 10-year German bond yields turning negative
- Ares Management's c-conversion expands its shareholder base

PERFORMANCE

Equity markets rose sharply in the quarter, with the portfolio up strongly as fears of an economic recession subsided, credit spreads contracted, and the US Federal Reserve indicated it would be more patient with future federal funds rate increases.

PORTFOLIO ACTIVITY

We initiated a handful of new short positions. Several real estate investment trusts have reached valuation multiples where we perceive the risk-to-reward balance to be skewed to the downside, along with a number of consumer companies that have stretched valuations in a structurally challenged industry.

In late 2018 we initiated a long position in Freeport McMoRan, one of the largest and lowest cost copper producers in the world, after its stock fell over 50% from January 1, 2018. It is very economically sensitive, particularly to China, and while we may not be at the end of the down cycle in commodities, copper's importance in alternative energy infrastructure should increase the value of this company over the long term.

OUTLOOK

The largest contributors to fund performance over the quarter were the alternative asset managers, in particular Ares Management. This can be attributed to material growth in fee-related earnings, margin expansion from robust funds under management growth and also the change from a partnership structure to a regular corporation, which is leading to index inclusion and a significant broadening of its shareholder base.

Our US bank holdings, including Wells Fargo and Bank of America, performed well over the quarter as full year results illustrated their underlying business strength. They are now making double digit returns on equity, while also returning close to 100% of net income to shareholders via buybacks and dividends. We remain confident in these businesses, with their stock valuations very reasonable at a 10x earnings multiple.

While our European banking positions were up strongly over the quarter, the volatility in their stock prices has dampened sentiment towards the stocks. European banks have also struggled over the last year as ultra-low interest rates in Europe pressured profitability. We note that ING Group reiterated forward guidance at its March investor day and maintains its 10 to 12% return on equity target. It is currently earning a 10%+ return on equity while being valued at less than 0.8x book value, implying a 12%+ cost of equity in an environment of zero interest rates in Europe. We also note a key management focus area is fee-related earnings growth which is less dependent on interest rates and less capital intensive than lending-based earnings.

Macau gaming companies, which were among the hardest hit in second half of 2018, recovered meaningfully from their December lows. A combination of factors worked to support the sector including an improved risk appetite among investors and a strong results season, with most operators beating expectations and reiterating their positive long term expectations for the market.

Importantly, a significant overhang was removed from the Macau gaming operators during March, with Macau authorities extending MGM China and SJM Holdings' licenses until 2022 for a relatively small outlay. This now puts all six operators on the same license terms and reduces the complexity of the renewal process.

License renewals remain a core issue for Macau gaming

Global Companies Fund

operators to navigate in the future, but we believe the risks have been overblown on account of the US/China trade tensions. Further to this, two of our Macau holdings have local partners which we think puts them in a stronger position in negotiating their respective licences.

Oracle bounced 22% during the quarter, assisted from a technical perspective by a share buyback. It spent $10 billion buying back its stock last quarter - approximately 5% of shares outstanding. Investors are fearful that Oracle will be disrupted by the more agile software companies during the general transition to the cloud. As a result, Oracle remains one of the cheapest software stocks in the sector.

In contrast, we believe Oracle is executing its long term roadmap well. Oracle has already re-written its enterprise suite to be totally cloud native. It is in a good position to take market share as enterprises consider migrating their enterprise applications to the cloud and furthermore, Oracle is again leading the database industry. It introduced its new autonomous database technology in 2018, which promises significant cost savings and efficiency gains for its clients. We are seeing early signs that its strategy is working. Its Fusion application suite grew over 30% yoy last quarter. Oracle has become the leading Enterprise Applications vendor in North America, ahead of SAP and Salesforce.com (per IDC research). Its autonomous database is also currently seeing very strong customer trial activities. We are optimistic that Oracle has turned the corner and will grow steadily in the coming years.

Visa and Mastercard also had a strong quarter (+17% and +26% respectively). The current valuation multiple is reasonably high at mid-20s x earnings. However, we believe this multiple is sustainable given the quality of the business models, competitive position and growth profiles.

The only significant detractor of performance over the month was Spanish property company Neinor. While its 2018 earnings beat expectations, investors waited for the release of its medium to long term strategy. Its 2019-21 business plan was announced in early April. We believe this will improve long term sentiment and are happy to hold the investment, particularly given the positive trajectory of the Spanish property market.

With regard to the currency, while the negative spread between Australian and US interest rates widened, which would normally lead to a weakening of the Australian Dollar, commodity prices had a strong rally that resulted in the Australian Dollar finishing relatively flat over the quarter.

Portfolio investments	Weighting
Post GFC Housing Recovery - US	11.7%
Post GFC Property Recovery - Europe	6.6%
Global Domestic Banking	33.0%
Service Monopolies	16.7%
Gaming - Macau	7.2%
Alternative Investment Managers	17.7%
Other	10.8%
Long Equity Position	**103.7%**
Short Equity Position	-16.2%
Net Invested Equities	87.5%
Total holdings	47

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

Currency exposure*	
USD	61.9%
EUR	16.6%
AUD	12.9%
GBP	5.5%
HKD	3.1%
Total exposure	100.0%

* Stated at effective value.

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	$27.1m as at 31 March 2019
Asian equities FUM	$88.6m as at 31 March 2019

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**	**1.6645**	**9.3%**	**-2.3%**	**-6.5%**	**7.8%**	**6.5%**	**10.9%**	**11.1%**	**13.7%**	**297.9%**
MSCI AC Asia ex Japan Net Total Return Index[2]			10.4%	3.7%	2.3%	14.9%	12.3%	11.9%	11.0%	8.4%	138.2%
Outperformance by the Fund			-1.1%	-6.0%	-8.8%	-7.1%	-5.8%	-1.0%	0.1%	5.3%	159.7%

PERFORMANCE

Asian equity markets performed strongly over the quarter, erasing a large portion of the declines recorded in the second half of 2018. Key contributors to performance included iCar Asia, the regional gaming thematic and Malaysian brewers.

iCar Asia (+52%) rose after management reinforced a positive view of the current operating environment as well as cash flow breakeven guidance during a post-results roadshow. As communicated in recent commentary, we have been impressed with the progress made by management over the past year (EBITDA breakeven in both Malaysia and Thailand, monetisation in Indonesia and the launch of new businesses targeting the new car and auctions markets) despite this not being reflected in the share price. We believe technical factors, namely a significant shareholder selling down its shares, have now abated and the share price action is beginning to reflect the improving fundamentals.

Regional gaming companies, which were among the hardest hit in second half of 2018, recovered meaningfully from their December lows (Nagacorp +30%, Melco Resorts +28%, MGM China 25% and Wynn Resorts +21%). A combination of factors worked to support the sector, including better than expected monthly data releases and a strong results season, with most operators beating expectations and reiterating their positive long term expectations.

Importantly, a significant overhang was removed from the Macau gaming operators during March with MGM China and SJM Holdings having their licenses extended until 2022 for a relatively small outlay. This puts all six operators on the same license terms and reduces the complexity of the renewal process. License renewal remains a core issue for Macau gaming operators to navigate, but we believe the risk has been overblown on account of the US-China trade tensions. Further, two of our Macau holdings, Melco Resorts and MGM China, have large local shareholders, which we think puts them in a strong position when negotiating their respective licences.

Carlsberg Malaysia (+36%) and Heineken Malaysia (+17%) continued the strong performances witnessed in 2018. A decision by both companies to increase prices by up to 6.2% across their brand portfolios will drive strong underlying earnings growth over the next year. The Malaysian government's recent successes in reducing contraband beer sales, which have been a consistent headwind for the industry, also supported share prices.

PORTFOLIO POSITIONING

The invested position declined as two long term holdings, Nagacorp and Carlsberg Malaysia, were exited after our investment theses largely played out and target prices where reached.

The initial investment thesis for Nagacorp was centred around the ramp-up of their new casino property, aptly named 'Naga2', which we believed the market was underestimating. Firstly, we believed that the company's strong mass market gaming business, which was capacity constrained at Naga1, would accelerate meaningfully once Naga2 opened and secondly, that the higher quality nature of the new property and Cambodia's low tax rate jurisdiction would lead to new VIP partnerships. Both have now occurred, with results beating even our expectations. Consensus earnings projections have risen considerably, driving significant share price appreciation (+75%) since the opening of Naga2 in October 2017. We believe much of the positive earnings rerating story has now been exhausted while valuation relative to other regional operators is now comparable.

Carlsberg Malaysia, like Nagacorp, was also sold near its all-time highs. Carlsberg Malaysia, along with Heineken Malaysia which is still held in the portfolio, were positions first entered in 2013. Our Malaysian brewers have always sparked lively debate when speaking with fellow investors, the most common response being: "Why would you own a beer business in Malaysia, it's a predominantly Muslim country?". This natural bias was one of the factors that attracted us to these companies initially. Perception did not match reality in our opinion. Both companies have benefited from a favourable market structure and rational competitive landscape in Malaysia that has driven consistent growth in earnings, returns and share price performance. At

Asian Companies Fund

the time of our initial investment both brewers traded at approximately 16x earnings and consistently paid out 100% of earnings as dividends. They have now rerated to 25x which we consider to be fairly valued.

OUTLOOK

An improved risk appetite among investors as US-China trade negotiations were seen to be progressing favourably and the Federal Reserve's decision to pause on further interest rate increases were key factors in the inflection seen in markets over the quarter. Macroeconomic factors such as these tend to be the predominant drivers of market direction day to day, and price action over the past 12 months highlights why investors, particularly those in emerging markets, need to be cognisant of the wider environment in which a business operates in when allocating capital.

While broad macroeconomic issues rarely form the basis of our investment ideas, rather investments are identified at an individual equity or industry level, an evaluation of these issues remain an important component of the investment process and they often contribute to why an asset or asset class might be mispriced.

When we look specifically at the companies owned in the portfolio, the underlying investment rationale has not changed for the vast majority over the past 12 months despite significant volatility in share prices. Rather, heightened macro concerns and a propensity for investors to become increasingly cautious regarding the key issues affecting a business as these concerns rise, drove the selloff in some portfolio names in the latter part of last year. This has reversed relatively quickly as expectations have changed again and as several of our investments have proven themselves. If changing macroeconomic factors do not alter the investment rationale of a holding, you should expect us to act counter to the prevailing sentiments; like in December and January when we added to unloved sectors and companies (iCar, copper, Macau).

The recent decline in the invested position should not be taken as a reflection of our view on markets - the sale of one position does not necessarily mean the purchase of another just because capital has been released. Rather, each new position we are researching or have on our watchlist has a specific catalyst which we are waiting for that will allow us to enter the position.

Portfolio investments	Weighting
Financials	16.6%
Gaming	15.6%
Consumer - Breweries	6.2%
Consumer - Other	9.9%
Online Classifieds & Ecommerce	15.2
Capital Goods & Commodities	9.7%
Oil & Gas Infrastructure	8.3%
Technology - Hardware	4.6%
Long Equity Position	**86.1%**
Net invested position	86.1%
Total holdings	28

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

Currency exposure*	
AUD	32.2%
HKD	31.2%
USD	26.5%
INR	4.9%
Other	5.2%
Total exposure	100.0%

Kevin Bertoli - Asian Portfolio Manager

Australian Companies Fund

- **The Australian Companies Fund** aims to create long term wealth through a hand-picked portfolio of 15-25 predominantly Australian companies that we believe are trading at prices different to their intrinsic values.
- **The Fund's objective** is to provide long term capital growth and outperform the greater of the S&P/ASX 200 Accumulation Index or the RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Australian equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-25 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	20 January 2000
Unit trust FUM	$29.7m as at 31 March 2019
Australian equities FUM	$29.7m as at 31 March 2019

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**	**1.8516**	**8.9%**	**-4.3%**	**-0.6%**	**6.8%**	**5.9%**	**9.6%**	**12.2%**	**9.6%**	**485.9%**
S&P / ASX 200 Accumulation Index			10.9%	1.8%	12.1%	11.5%	7.4%	10.0%	10.4%	8.1%	346.7%
Outperformance by the Fund			-2.0%	-6.1%	-12.7%	-4.7%	-1.5%	-0.4%	1.8%	1.5%	139.2%

KEY POINTS

- Best quarter for the market in the last 12 years
- First half results for stocks in the portfolio were in line with our expectations
- Our confidence in the underlying portfolio holdings remains despite market volatility

PERFORMANCE

In the fourth quarter of 2018 the S&P/ ASX 200 suffered its worst return in five years. Fast forward to the March quarter, and the benchmark index had its best quarter in the past 12 years, rising 10.9% as global equity markets rebounded from the December 2018 growth scare.

First half earnings reports, which by and large showed tepid but not declining domestic business conditions, were a key factor in the strong performance by the index during the quarter. Technology was the best performing sector as the reports from the sector showed that earnings and revenue growth remained resilient.

Financial stocks, acting as a barometer for the tepid economic expectations, and Healthcare and Consumer Staples stocks, which acted as places to hide for index oriented investors during the painful December quarter, were the laggards, although they did rise (+6.3%, +5.8% and +4.3% respectively).

The Fund benefited from this exposure to technology stocks with iCar and BigTinCan (+52% and +69%) being the biggest contributors to performance as they reported earnings that were significantly better than expectations. Please refer to my colleague Kevin Bertoli's quarterly report for the Asian Companies Fund for a more detailed explanation of iCar's results.

PORTFOLIO ACTIVITY

BigTinCan's performance occurred in a quarter when they reported that T-Mobile, one of its top 10 US clients, had not only decided to renew its contract but also had upscaled the contract by adding an additional $7.2 million of recurring revenue and increasing the total contract value to $11.5 million. In addition to this contract, it also announced it had won a major contract in Europe in a competitive bidding offer. These contract wins reinforce our belief that the total addressable market for BigTinCan's products continues to grow, not just with new clients but also existing clients. As a result of these contract wins, it upgraded its revenue growth guidance for FY19 from 30–40% growth to greater than 40% growth.

Nufarm, down 12% from our purchase price in November 2018, was a detractor from performance as management reported weaker than expected first half earnings and downgraded its expectations for the financial year. Nufarm is a manufacturer of agricultural chemicals and so the business inherently faces cyclical weather-related risks. Outside of this cyclicality, we like the business because of its strong distribution footprint in Australia, South and North America as well its strong supply chain pipeline.

Our opportunity to invest in Nufarm arose from the fact that a once in 100-year drought in Australia and poor weather conditions in North America resulted in declining revenues and a build-up of leverage in the business in 2018, which required management to do a capital raising to shore up the balance sheet. The stock sold off significantly following the announcement of this capital raising. We anticipate that as weather-related cyclicality reverses over the next two to three years the underlying earnings will improve and result in a re-rating of the stock. In the near term, we expect pressure on the balance sheet to persist from weather-related declines in revenue. In its first half results, management reiterated that conditions in Australia remain extremely poor and even though North American conditions improved, supply chain problems in China, arising from key suppliers having to shut down plants due to environmental audits, resulted in another headwind for the business. These developments do not change our view of the long term outlook for the business and we remained holders of the stock and increased our position

during the quarter.

Brambles was another contributor to performance during the quarter (+17%) as the business continued to show an upward operational trajectory; in particular in their US business which has been the main drag on company performance for a number of years. Under the new management team, there has been increased focus on improving operational efficiency in the US by streamlining logistics and distribution while bringing best practices implemented in Europe business into its US operations.

These results from Brambles have led to increased confidence from the market that the operational improvement plans set by the new management team in 2018 have the potential to improve the earnings capacity of the business. In addition to operational improvements, the new management team has also decided to sell IFCO, the reusable plastics pallets business, to strategic investors. US$1.95 billion of the US$2.5 billion proceeds will be returned to shareholders via a US$300 million cash return and up to a US$1.65 billion on-market buy-back program. This reinforces our belief that the current management team is focussed on improving return on investible capital for the business which we believe will be a key driver for the long term valuation of the business.

OUTLOOK

The rebound in market performance in this quarter versus the growth concern-led correction in the previous quarter reinforces our view that market participants are placing too much emphasis on the macroeconomic outlook. We continue to believe that although tepid, there are no indications of a deeper malaise in economic fundamentals. Having said that, we expect volatility in the market to remain high for the next 12 months, but remain confident in the businesses that we own in our portfolio.

Portfolio investments	Weighting
Domestic Banks	16.8%
International Banks	14.5%
Industrials	14.1%
Internet	14.0%
Non Bank Financials	13.8%
Property	7.5%
Technology	5.2%
Other	0.7%
Long Equity Position	**86.6%**
Short Equity Position	-1.0%
Net Invested Equities	85.6%
Total holdings	28

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

Currency exposure*	
AUD	83.7%
EUR	9.0%
USD	7.3%
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	$552.4m as at 31 March 2019
Fixed Income FUM	$847.1m as at 31 March 2019

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**	**1.1210**	**0.2%**	**1.3%**	**0.9%**	**2.5%**	**4.3%**	**3.4%**	**4.0%**	**5.3%**	**5.8%**	**160.0%**
RBA cash rate			0.1%	0.4%	0.8%	1.5%	1.5%	1.8%	2.2%	2.8%	4.0%	94.8%
Excess			0.1%	0.9%	0.1%	1.0%	2.8%	1.6%	1.8%	2.5%	1.8%	65.2%
Enhanced Yield Fund (Class B units)**	**05-2017**	**1.1370**	**0.1%**	**1.3%**	**0.9%**	**2.5%**					**3.2%**	**5.9%**
RBA cash rate			0.1%	0.4%	0.8%	1.5%					1.5%	2.8%
Excess			0.0%	0.9%	0.1%	1.0%					1.7%	3.1%

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

KEY POINTS

- Strong quarterly performance as markets start to look through the noise
- NAB Income Securities rally as CBA makes a move on non-Basel III compliant securities
- Taking advantage of global volatility. New investments in France, Spain and Australia.

PERFORMANCE

Performance for the quarter was 1.3% versus the RBA cash rate return of 0.4%.

Credit markets rallied strongly early in the quarter, as the US Federal Reserve indicated that it is content to just keep interest rates on hold for a while, and let the heavy lifting that they did over the course of 2018 continue to work its way through the economy. The sceptic in me also thinks that they may be caving in to market and political pressure. That said, we are less concerned with short term movements, and more focussed on the bigger picture.

Later in the quarter, markets also reacted favourably to further progress appearing to be made on trade talks between the US and China, as well as improving chances of a reasonably orderly Brexit outcome.

PORTFOLIO ACTIVITY

Our holding in NAB's listed income securities performed well over the quarter, after CBA announced that they were going to redeem a similarly structured New Zealand bond at par ($100) citing the loss of status as regulatory capital as its main reason. Consistent with our thesis, this prompted investors to speculate that NAB may head down the same path with the NABHAs, which currently still trade below $90.

Qube also performed well. A solid first half result, good progress in signing new leasing agreements at its logistics park in Moorebank, plus an announcement by the NSW Government late last year that that it is spending $120 million to improve rail capacity at Port Botany, all gave investors reason to be optimistic.

Our investment theme centring on rising Irish property prices also added meaningfully to Fund performance over the quarter. Our holdings in Allied Irish Bank (which lends predominately into the residential mortgage market) and home builders Cairn Homes and Glenveagh Properties all performed well, as markets start to recognise the significant housing supply shortage in parts of Ireland, as well as the long term benefits of Ireland's supportive regulatory framework.

Tesco also made a meaningful contribution to performance, as light starts to appear at the end of the Brexit tunnel, and investors become more comfortable putting capital back into UK businesses – particularly those exposed to retail consumers. Additionally, we think markets are starting to recognise the significance of Tesco's credit rating upgrade back to investment grade.

The main detractor from performance over the quarter was our holding in Spanish residential property companies Neinor and Aedas. Both holdings were weaker on negative speculation around short term European growth levels, as well as some modifications to Neinor's long term business strategy. We believe that both of these companies will be able to generate an appropriate return on their assets longer term.

As we noted in the December quarterly report, we felt the recent volatility meant it was "a good time to be investing in credit markets", and have thus made several new investments.

We initiated a position in the senior debt of European energy and communication services business SPIE at $A bills + ~340bp (~5.2% yield). SPIE is a market leader across several major European countries and we believe it falls into the category of a good business that was thrown out with the

proverbial bathwater in late 2018.

We also initiated a position in the subordinated debt of Spanish bank Caixa. Caixa is the number one domestic retail bank in Spain, is well capitalised and we believe has the strongest loan book of any of the Spanish banks. We purchased this investment at $A bills + ~360bp (~5.40% yield).

The Fund also participated in ANZ's new 3 year senior debt deal in late January at $A Bills + ~90bp (~2.70% yield), as general market volatility plus increasing concern around the Australian property market saw banks having to issue senior debt meaningfully above what we considered to be fair levels.

All three of these investments have already made meaningful contributions to performance over the past couple of months, highlighting the importance of having a flexible mandate that allows us to keep cash up our sleeve to take advantage of pockets of volatility when they present themselves.

OUTLOOK

We noted in our December quarterly report with regard to the market volatility late last year: "We suspect that longer term the implications for companies will be less significant than markets are currently pricing...". Investors now seem to be embracing this idea. In general we still believe that credit market fundamentals look pretty sound, with over a decade of fiscal and monetary stimulation across global markets providing a solid backdrop for longer term returns. This is evidenced by a US economy that is operating beyond full employment.

In addition, while near term rates might bounce around, over the longer term we believe that US, European and Australian interest rates will all need to rise. Thus, we believe having exposure to long term interest rates now is fraught with danger. For example, German 10 year bonds are currently yielding ~0% (!), US 10 year bonds are currently yielding ~2.5% and Australian 10 years are at ~1.75%. These securities are all highly sensitive to changes in interest rates (~10% capital move for every 1% change in yield) and the downside to not owning them is very low – running yields of ~0%-2.5% per year. There are plenty of much safer ways to generate a zero (or close to) return!

You will often hear us talking about investment returns being two or three steps forward and one step back – i.e. returns never come in a straight line. This philosophy is part of the reason that we keep some capital up our sleeve – in order to take advantage of these pockets of volatility as they come along, and benefit us and our co-investors over the longer term. This strategy has served us well over the past 17 years and we are well positioned to take advantage of future opportunities that present themselves.

Portfolio Investments	Weighting**	Average yield	Average spread to RBA
Cash	**39.4%**	**2.24%***	**0.74%***
Corporate bonds	**50.4%**	**4.45%***	**2.95%***
Fixed	0.0%*		
Floating	100.0%*		
Hybrids	**8.3%**	**3.82%***	**2.32%***
Fixed	0.0%*		
Floating	100.0%*		
Equity income strategies	**1.9%**		
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.

Duration	
Interest rate*	0.14
Average term to maturity*	2.83

Regional allocation	
Australia	29.5%
Europe	14.8%
United Kingdom	8.8%
North America	5.8%
Other	1.7%
Cash	39.4%

Yield security maturity profile	
0-1 Year	53.9%
1-2 Years	7.2%
2-3 Years	10.6%
3-4 Years	7.8%
4 Years +	20.5%

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Important information

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

PM Capital Global Companies Fund
ARSN 092 434 618

PM Capital Asian Companies Fund
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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 March 2019 and represent the combined income and capital return. The investment objective is expressed after the deduction of fees and before taxation. The objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term. While we aim to achieve the objective, the objective and returns may not be achieved and are not guaranteed. Past performance is not a reliable guide to future performance and the capital and income of any investment may go down as well as up due to various factors, including market forces.

The Index for the Global Companies Fund is the MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. The Index for the Asian Companies Fund is the MSCI AC Asia ex Japan Net Total Return Index in Australian dollars, net dividends reinvested. See www.msci.com for further information on the MSCI indices. The Index for the Australian Companies Fund is the S&P/ASX 200 Accumulation Index. See www.asx.com.au for further information. The Index for the Enhanced Yield Fund is RBA Cash Rate. See www.rba.gov.au for further information.

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

2. The Asian region (ex-Japan) includes Hong Kong, China, Taiwan, Korea, Indonesia, India, Sri Lanka, Malaysia, Philippines, Thailand, Vietnam, Pakistan and Singapore, but excludes Japan. The Company may also obtain exposure to companies listed on other global exchanges where the predominant business of those companies is conducted in the Asian region (ex-Japan).

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