ASIAN COMPANIES FUND QUARTERLY REPORT

MARCH 2022

We do not make forecasts;
we make observations on valuations

Rotation into “value stocks” still in its early days

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

Closed to additional investment

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Asian Companies Fund

Profiting from hand-picked business operating in the world's growth engine

Fund performance[1] (net of fees)	Inception Date	Exit Price ($cum)	3 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa
Asian Companies Fund	**7/2008**	**1.6868**	**-0.6%**	**-0.8%**	**3.8%**	**5.0%**	**4.5%**	**8.7%**	**11.5%**
MSCI AC Asia ex Japan Net Total Return Index[2]			-10.9%	-13.4%	3.2%	7.1%	5.6%	9.2%	7.3%

KEY POINTS

- Elevated commodity prices acted as positive catalysts for CNOOC Limited and Freeport McMoRan. The Australian Dollar also benefited.
- Capital management initiatives at CNOOC Limited and China Mobile were well received by investors.

Shifting inflation expectations and the evolving conflict between Russia and Ukraine were the primary catalysts impacting markets over the quarter. In the Asia region Chinese equities were negatively impacted by another COVID-19 outbreak domestically, the largest since the start of the pandemic, as well as continuing geopolitical tensions between China and the US both adding to the wider market issues. With this backdrop the MSCI Asia Ex Japan (AUD) index finished the quarter down 6% and extended its losses over the past year to 13%.

In this environment we have been able to protect the underlying capital of the Fund with the portfolio value declining less than 1% for both the quarter and the past 12 months.

An overweight commodities position, through direct equity positions in companies like Freeport McMoRan and CNOOC, but also through an increased exposure to the Australian Dollar supported relative performance. A decision not to hold companies in the Chinese internet sector has also helped preserve capital with large index weightings amongst the largest decliners (Alibaba -8%, Tencent -18% and Meituan -31%).

In late January, the US Federal Reserve signaled it would begin raising interest rates at its March meeting and begin reducing its balance sheet. Inflation is forcing the Federal Reserve's hand. In its official statement the board stated, "With inflation well above 2% and a strong labor market, the committee expects it will soon be appropriate to raise the target range for the federal funds rate." Interest rates were subsequently increased 0.25% at the March meeting. A recognition that inflation is not transitory and that officials may be behind the curve in recognising this caused a violent rotation between growth and value stocks.

The ultra-low interest rate environment witnessed over the past decade has been a tailwind for most asset classes, however none more so than long-duration growth stocks. When rates are low, future growth is worth more when discounted back to present value. Combine this with the impact of the pandemic which pulled forward demand for many growth companies, and you had a utopian environment for growth stocks. We have spoken about the valuation divergence between growth and value at length and argued for investors to position for a rotation. This valuation dynamic was highlighted succinctly by Morningstar data, which showed that for the rolling 10-year period ended December 2020, large value underperformed growth by its widest margin since 1999.

The Russia-Ukraine conflict is further exaggerating the inflation environment particularly with regards to commodities. Industrial metals and energy prices rose as investors evaluated the impact the conflict and subsequent sanctions on Russia would have on the supply of natural resources. Most notable were the price moves in oil, coal, nickel and wheat given the importance Russia (and Ukraine) play in supplying those markets. We anticipate many of these factors will be structural in nature leading to higher trend commodity prices. At the portfolio level CNOOC Limited, Freeport McMoRan and MMG Limited each advanced more than 20%.

CNOOC and China Mobile attracted renewed investor interest after announcing progressive capital management initiatives. Both companies have traded at significant discounts to their global peers post the imposition of ownership restrictions on US investors. A recognition of this valuation discount and a willingness to address the issue is a very welcome development. CNOOC, the portfolio's largest holding, has committed to a minimum annual dividend payout which implies a yield above 10% at current Brent oil prices. It will also pay a special dividend this year and initiate an inaugural buyback program. China Mobile announced plans to buy back approximately 10% of its h-shares. This coupled with encouraging commentary from management at the company's annual results announcement resulted in shares trading up 15% over the period. Announcements from both CNOOC and China Mobile are just two examples which highlight a visible change in attitudes amongst state owned entities in China.

Detractors to performance during the quarter included Frontier Digital Ventures, TravelSky Technology and Melco Resorts and Entertainment.

Frontier Digital Ventures declined despite reporting a solid full year result and providing encouraging guidance in late January. Performance in 2021 underscored the progress the company has made in its pursuit of its 'Classified 2.0 Strategy' which aims to embed the business at the centre of property and automotive transactions. We believe the economics of this model will be superior to the legacy classifieds business of collecting fees for providing a passive listing service.

The recent COVID-19 outbreaks and lockdowns seen in Shenzhen and Shanghai negatively impacted TravelSky. Rising COVID-19 cases will further delay the recovery in aviation activity which TravelSky directly benefits from. Despite this we continue to maintain our position which is based on the long term outlook for the business and its unique position within the aviation sector in China.

Melco, was negatively impacted as sentiment towards US listed Chinese ADR's worsened. Chinese ADR's were once again in focus after five companies were identified as being at risk of delisting for failing to adhere to the Holding Foreign Companies Accountability Act. The Act, passed last year, requires the SEC to prohibit the securities of any company from being traded on U.S. exchanges if its auditor is not subject to inspection by the U.S. Public Company Accounting Oversight Board ("PCAOB") for three consecutive years, beginning in 2021. Melco is the portfolio's only ADR position.

The Fund's invested position rose over the quarter primarily due to fund flows, effectively increasing the relative weights across the portfolio. No new positions were entered. We reduced our holdings in copper miner Freeport McMoRan after an 8-fold increase since its March 2020 low. Several of the catalysts we identified when we initiated the Freeport position have now played out and assuming reasonable long-term copper and gold price assumptions, Freeport now trades at a valuation multiple closer to our target multiple. We also exited iCar Asia after independent shareholders approved the Carsome Scheme of Arrangements.

The heightened volatility experienced over the past quarter comes after an extended period of malaise particularly for China facing businesses. Currently the sentiment towards investing in China is overwhelmingly negative and company valuations are presenting as extremely cheap. As highlighted above we are starting to see companies become more active around capital management with an increasing number initiating or increasing buyback programs. We consider this to be an interesting dynamic as buybacks are not commonplace in Asia like they are in the US and periods of increased insider buying has been a good signal that valuations have reached extreme levels.

Portfolio investments	Weighting
Infrastructure	14%
Gaming	12%
Financials	12%
Consumer	11%
Energy	10%
Online Classifieds & Ecommerce	9%
Technology	6%
Materials (Copper)	3%
Other	5%
Long Equities Position	**82%**
Net invested position	82%

Current stock example	
Sinopec Kantons	
Wynn Resorts	
Shinhan Financial	
SABECO	
CNOOC	
Frontier Digital Ventures	
Travelsky	
Freeport-McMoRan	
China Mobile	
Total Holdings	19

Currency exposure*	100%
AUD	49%
USD	36%
KRW	11%
HKD	4%
Total exposure	100.0%

* Stated as Effective Exposure.

The 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 Fund's investment objective 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 **Minimum investment:** $20,000 **Suggested investment time:** 7 years+

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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:

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Companies Fund
ARSN 130 588 439

the 'Fund'.

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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 Fund's 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 2022 and represent the combined income and capital return. The investment objective is expressed after the deduction of fees and before taxation. The objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term. While we aim to achieve the objective, the objective and returns may not be achieved and are not guaranteed. Past performance is not a reliable guide to future performance and the capital and income of any investment may go down as well as up due to various factors, including market forces. The Index for the 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.

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 Fund 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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