Avoiding Groupthink:

The case for multi-decade assessment of fund perfomance and the value of investment-manager longevity

A PM Capital Whitepaper

pmcapital.com.au/invest_differently

Contents

PM Capital

Important information

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

PM Capital Global Companies Fund	PM Capital Australian Companies Fund	PM Capital Asian Companies Fund	PM Capital Enhanced Yield Fund
ARSN 092 434 618	ARSN 092 434 467	ARSN 130 588 439	ARSN 099 581 558

the 'Fund', or collectively the 'Funds' as the context requires.

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The document 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).

This 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 October 2021 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 PM Capital Global Companies Fund is the MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. The Index for the PM Capital 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 PM Capital Australian Companies Fund is the S&P/ASX 200 Accumulation Index. See www.asx.com.au for further information. The Index for the PM Capital Enhanced Yield Fund is RBA Cash Rate. See www.rba.gov.au for further information.

Fund return rankings in the Morningstar peer group are sourced from Morningstar Direct. As at 30/9/2021. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'class service' have been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. Refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/s/fsg.pdf . You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information.

1.. The PM Capital Enhanced Yield Fund was named Money Magazine's 2020 Winner for Best Income Fund – High Yield and Credit.

2. Pro forma Fund performance has been calculated based on the new fee structure (implemented 1 December 2018), assuming it had applied from the Fund's inception. These returns do not represent the actual net Fund performance and are included for illustrative purposes only.

Founder's note: Paul Moore

Key points

- The case for investors to assess the performance of active managed funds over the long term (seven, 10 and 20 years) has never been stronger.
- However, the market remains too focused on short-term returns (one, three, or five years) and therefore risks chasing the latest fad and short-lived outperformance.
- This has resulted in a plague of 'groupthink' in global investing. The market continues to ignore history, creating opportunities for patient investors focused on valuation anomalies, such as PM Capital.

Introduction

Should investors assess the performance of an active managed fund over one, three, five years or longer? Few questions are more important in portfolio construction and maintenance than choosing the right timeframe to assess performance.

Before seeking to answer this question, some observations:

- Return persistence reveals how managers perform in different market conditions. It recognises that winning streaks in active funds management are often short-lived. Investors need to apply caution when viewing funds with strong short-term outperformance, but limited history.
- A consistent, disciplined, patient investment approach is vital. The 24/7 news cycle and social media are amplifying volatility in global equities. This 'noise' influences human emotion and encourages rash investment decisions. Human emotion is a reason why company share prices trade above or below their true value. It is also drives flows in and out of funds.

To answer the above question, PM Capital analysed the performance of more than 500 international equity funds offered in Australia from 1984 to end-September 2021.[1] The group included current and non-surviving funds to eliminate survivor bias.[2] We compared fund performance over one, three, five, seven, 10, 15 and 20 years.[3]

In addition, PM Capital reviewed academic and industry-based studies on fund-manager performance and tenure. We tested our hypothesis that investors should assess managed funds based on multi-decade performance.

PM Capital undertook this research for three reasons. First, we want to encourage more discussion on the best timeframe for assessment of active managed funds. In our view, fund performance should be compared over 10- and 20-year periods, to understand how a manager realises the full value of a fund's holding through investment cycles.

Second, we want to highlight the dangers of chasing short-term fund performance. Since my investing career began in 1985, I have seen the closure of many supposed 'star' funds. These funds were more like 'shooting stars' – they had a blaze of eye-catching outperformance in their first few years, then a longer period of underperformance and, ultimately, closure.

Over the years, funds with strong short-term outperformance attracted significant fund inflows because the market was seduced by near-term past performance. Closer inspection showed much of the performance came from chasing 'momentum' stocks or investing in fads.

Importantly, when undertaking a long-term assessment of a fund, this requires confidence that there has been consistency in the fund's philosophy and process, there has been consistency in the portfolio manager, and the fund's size hasn't grown to the point where it is constrained from operating in a manner consistent with when early returns were generated.

Remember, many funds change their manager and investing style, meaning they are no longer true-to-label relative to their past return profile.

Third, PM Capital believes the market does not sufficiently recognise the value of fund-manager tenure and consistency. Having had the same investment processes and key personnel for 23 years, PM Capital provides the consistency required to properly judge our long term returns.

Short-termism fuels short-lived outperformance

The market's focus on shorter-term fund performance is neither new nor surprising. PM Capital's analysis more than 500 international equity funds found:

- Approximately 200 of those funds have closed
- The median tenure of closed funds was seven years
- Only 84 funds had an inception date before 2000

Put another way, fewer than one in five international equity funds offered in Australia has delivered multi-decade investment returns.

Of course, fund tenure is no guarantee of performance, but funds that have existed for more than two decades typically do so as a result of the returns they have delivered.

This is the time for funds that have stood the test of time, are patient and focused on value. Funds that have managers who can generate attractive returns through multiple investment cycles. Funds that show consistent skill, rather than benefitting from good luck or good timing.

I'm pleased to report that PM Capital's long-term approach continues to deliver for our investors. The flagship PM Capital Global Companies Fund ranked in the top quartile in its Morningstar category over one, 10 and 20 years to end-September 2021.[4]

Since inception[5], the PM Capital Global Fund is ranked equal second (out of 30 peer funds). Our performance rankings are shown in the table on page 17 of this report.

I hope you find this report useful and would be delighted if you refer it to colleagues who might also benefit from this information. We look forward to helping more investors and financial advisers achieve their long-term investment goals.

Good investing,

Paul Moore
Founder and Chief Investment Officer
PM Capital

1 Decades, not years, matter with fund-manager assessment

Key points

- Investment cycles typically take seven to 10 years to play out. Managers should be assessed on their ability to generate returns over a full investment cycle.
- Ideally, managers should be assessed over two full investment cycles (10- and 20-year returns). Managers who outperform over two full cycles are rare.
- This approach reduces the impact of luck, timing or market fads.

For more than 20 years, PM Capital's investing style has been to buy high-quality companies at bottom-quartile valuations and sell them at top-quartile valuations. We believe valuation and patience are the most critical investment parameters. Valuation determines long-term investment returns; patience ensures those returns are delivered.

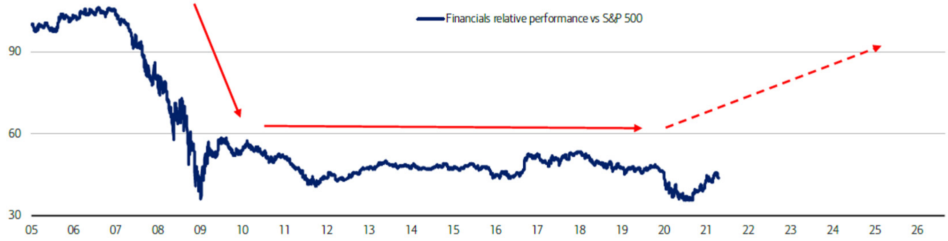
A consistent, disciplined, patient investment approach has never been more important. The 24/7 news cycle and social media are amplifying volatility in global equities. This 'noise' influences human emotion and encourages rash investment decisions. Human emotion is a reason why company share prices trade above or below their true value.

It takes time to capitalise on asset mispricing, and for 'problem sectors' to rise from the ashes. Asset managers who are more focused on this year's return or next, miss opportunities that can take years to come to fruition. Or they sell early into recoveries, eager for quick gains.

The first chart below shows the recovery in US tech stocks over the previous decade. The second chart shows the emerging recovery in US bank stocks. The PM Capital Global Companies Fund exited many of its long-held positions in US tech-stock oligopolies over the past 2 years as these stocks achieved top-quartile valuations. The Fund increased its global bank holdings during Covid in 2020 when the sector was oversold and offered outstanding long-term value, in our opinion.

Chart 1: S&P Tech relative performance vs. S&P 500

Chart 2: S&P Financials relative performance vs. S&P 500



Source for charts: BofA US Equity & Quant Strategy, Bloomberg

Charts 1 and 2 reinforce another trend the market too often ignores: the big sector winner from the previous decade is rarely the big winner in the following decade. PM Capital believes that global banking and commodity stocks (last decade's loser) will likely outperform this decade. The table below shows the winning stock from one decade rarely stays on top in the following decade.

Long term cycles and fund assessment

Consider what investment cycles of 7-10 years mean for the assessment of active managed funds. A fund that was overweight US tech stocks might have delivered strong outperformance and attracted fund flows at the top of the market. But that fund could badly underperform this decade if these stocks lose favour.

Moreover, a fund that was established five years ago and invested in "momentum" growth stocks, such as US tech stocks, might still look like a star performer on paper, but it's too soon to know if the manager has the skill to capitalise on market turning points and rotate to undervalued companies.

Assessing funds over at least a 10-year performance cycle allows investors and advisers to understand how the manager performs through a full investment cycle. Assessing a fund over 20 years (two or more cycles) provides even more confidence. Funds that outperform during two consecutive full investment cycles are rare.

Top- ten market by market cap: how often do winners stay on top?

1980	1990	2000*	2010	2020
IBM	NTT	Microsoft (-74%)	Exxon Mobil	Apple Inc.
AT&T	Bank of Tokyo-Mitsubishi	General Electric (-87%)	Petro China	Microsoft
Exxon	Industrial Bank of Japan	NTT DoCoMo (-85%)	Apple Inc.	Amazon Inc.
Standard Oil	Sumitomo Mitsui Banking	Cisco Systems (-88%)	BHP Billiton	Facebook Inc.
Schlumberger	Toyota Motors	Wal-Mart (-39%)	Microsoft	Alphabet Inc. (C)
Shell	Fuji Bank	Intel (-71%)	ICBC	Alphabet Inc. (A)
Mobil	Dai ilichi Kangyo Bank	NTT (-85%)	Petrobras	Johnson & Johnson
Atlantic Richfield	IBM	Exxon Mobil (-25%)	China Construction Bank	Visa A
General Electric	UFJ Bank	Lucent Technologies (-87%)	Royal Dutch Shell	Nestle
Eastman Kodak	Exxon	Deutsche Telekom (-89%)	Nestle	Procter & Gamble
Survivors				
2/10	2/10	2/10	3/10	???

Source Evergreen Gavekal and MSCI World Index. (Returns shown in red in brackets are 2000 peak to decade trough.)

Longer timeframes needed

A 2018 study by Morningstar[6] reinforced the importance of long-term assessment of managed funds. The study analysed a global set of active funds over 15 years (January 2003 to December 2017). The study found that funds that outperformed over 15 years often had periods of underperformance. Investors needed to be patient for the fund to realise its full returns.

The authors wrote: "… Standard performance-measurement periods, such as three, five or even 10 years, are far too short to evaluate a manager with confidence. Investors who believe they picked a good fund must show more patience than is commonly assumed."

The authors added: "The implications of these findings for investors, consultants and funds-of-funds managers are clear. The designers of asset-management firms' portfolio-manager evaluation systems will also need to consider incorporating longer periods into their methodologies."

The Morningstar study concluded with a reminder that 'active investing is a long game'. "It is unwise for fund consultants to put too much stock in three- or five-year returns. … investors who have confidence in their pick [fund] need a big dose of patience, an investment virtue that has not been emphasised enough. It turns out that even if you have the acumen to pick a good manager, this may be of little avail if your [investment] patience fails you."

> "Standard performance-measurement periods, such as three, five or even 10 years, are far too short to evaluate a manager with confidence"
>
> - Morningstar

2 The elusiveness of return persistence

Key points

- Few fund managers deliver sustained outperformance over 10 and 20 years.
- Often, a period of strong outperformance is followed by a period of underperformance.
- ‘Chasing performance’ by investing in a fund based on short-term results is unlikely to be a recipe for investment success.

The previous section in this PM Capital Whitepaper argued that investors need to put more weight on the assessment of funds over 10 and 20 years, rather than one, three, or five years.

The concept of “return persistence” is another way to approach this issue. Return persistence reveals how managers perform in different market conditions. It recognises that winning streaks in active funds management are often short-lived – another reason why financial advisers and investors need caution with funds with strong outperformance, but limited history.

PM Capital analysed approximately 280 global equity funds in the Morningstar category Australia OE Equity World – Currency Hedged (the peer category for the PM Capital Global Companies Fund). We took the 10 top-ranked funds over three years[7] and compared them to their rankings over five, seven, 10 and 20 years. We did a similar analysis of the top-ranked funds over 10 and 20 years.

Table 1: 3-year peer-group rankings (based on the 10 top-ranked funds over 3 years)

	3-year ranking	5-year ranking	7-year ranking	10-year ranking	20-year ranking
Fund A	1	-	-	-	-
Fund B	2	-	-	-	-
Fund C	3	-	-	-	-
Fund D	4	4	2	-	-
Fund E	5	6	1	-	-
Fund F	6	2	-	-	-
Fund G	7	1	-	-	-
Fund H	8	3	-	-	-
Fund I	9	4	-	-	-
Fund J	10	-	-	-	-
# of funds in peer group	**120**	**104**	**81**	**67**	**31**

Source PM Capital: Based on Morningstar peer group ranking. 1 year (1/10/2020 to 30/09/2021), 3 years (1/10/18 to 30/09/21), five years (1/10/2016 to 30/09/21), seven years (1/10/2014 to 30/09/21), 10 years (1/10/2011 to 30/09/21), 20 years (1/10/01 to 30/09/21). Based on peer-group ranking in Australia OE Equity World – Currency Hedged category. Based on % annualised returns.

Table 2: 10-year peer-group rankings (based on the 10 top-ranked funds over 10years)

	10-year ranking	15-year ranking	20-year ranking
Fund A	1	35	1
Fund B	2	-	-
Fund C	3	12	19
Fund D	4	6	9
Fund E	5	25	10
Fund F	6	-	-
Fund G	7	-	-
Fund H	8	8	-
Fund I	9	-	-
Fund J	10	7	7
# of funds in peer group	**67**	**51**	**31**

Source PM Capital: Morningstar peer group ranking. 10 years (1/10/2011 to 30/09/21), 15 years (1/10/2006 to 30/09/21). 20 years (1/10/01 to 30/09/21). Based on peer-group ranking in Australia OE Equity World – Currency Hedged category. Based on % annualised returns.

Table 3: 20-year peer-group rankings (based on the 10 top-ranked funds over 20years)

	20-year ranking	10-year ranking	5-year ranking	1-year ranking
Fund A	1	59	75	3
Fund B	2	58	92	135
Fund C	3	64	94	98
Fund D	4	63	91	92
Fund E	5	1	35	1
Fund F	6	21	14	79
Fund G	7	10	28	72
Fund H	8	31	9	14
Fund I	9	4	33	75
Fund J	10	5	18	87
# of funds in peer group	**31**	**67**	**104**	**145**

Source PM Capital: Based on Morningstar peer group ranking. 1 year (1/10/2020 to 30/09/2021), five years (1/10/2016 to 30/09/21), 10 years (1/10/2011 to 30/09/21), 20 years (1/10/01 to 30/09/21). Based on peer-group ranking in Australia OE Equity World – Currency Hedged category. Based on % annualised returns.

This analysis provides several insights:

- **The top-ranked funds over three years mostly have limited performance history.** Only two of the top-10 funds had at least seven returns performance history. This reinforces our view that new managed funds in global equities often deliver outperformance by investing in 'momentum plays' at the time. Many top-performing funds over short periods do not have sufficient performance history to show they can sustain those returns.
- **Few of the top-ranked funds over 10 years have shown they could repeat that performance over 20 years.**
- **It's rare for funds to deliver long- and short-term outperformance.** Our analysis of the 10 top-ranked funds in the Morningstar Australia OE Equity World Large Value category showed that most had deteriorating shorter-term performance (over 10 years, five years and one year). As so often happens, they outperformed in one decade and underperformed in the following decade. That is a trait of fund managers who benefit from investing in the 'big idea' of that decade.

Sustained outperformance persistently hard to find

S&P Global's Australia Persistence Scorecard (year-end 2020)[8] had broadly similar findings to PM Capital's analysis. S&P measured the performance of active funds that outperformed their peers and benchmark over consecutive three- and five-year periods.

In S&P's fund category of International Equity General (over five consecutive years from 2016 to 2020), there were 61 funds in the top quartile at the start of 2016. By 2020, the percentage of International General Equity funds that remained in the top quartile was 1.6%.

It was a similar story with active Australian equity and bond funds, and Australian Real Estate Investment Trusts (A-REITs), as the S&P table below shows. The message for investors and advisers is clear: few funds have sustained outperformance over long periods.

Exhibit 3: Performance Persistence of Australian Active Funds over Five Consecutive Years (2016-2020)

FUND CATEGORY	NUMBER OF FUNDS IN TOP QUARTILE AT START	% OF FUNDS STAYING IN TOP QUARTILE			
	2016	2017	2018	2019	2020
Australian Equity General	81	24.7	9.9	0.0	0.0
Australian Equity Mid- and Small-Cap	28	17.9	7.1	0.0	0.0
International Equity General	61	14.8	1.6	1.6	1.6
Australian Bonds	14	64.3	42.9	35.7	7.1
Australian Equity A-REIT	17	29.4	11.8	0.0	0.0
All Categories	**201**	**23.9**	**9.5**	**3.0**	**1.0**

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 31, 2020. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

3 The value of fund-manager tenure

Key points

- Fund-manager tenure is an important consideration with fund choice. A fund with the same key team members and investment style over long periods is an asset.
- However, long fund tenure is rare, given the high failure rate of funds.
- Changes in fund personnel and investment style complicate tenure analysis.

PM Capital believes manager tenure is a key consideration in fund choice. In our view, a fund with the same key investment personnel and investment style over long periods has a greater chance of delivering multi-decade outperformance, relative to its peers.

As S&P notes[9], style consistency is important because investment-style drift (equity funds diverging from their initial investment categorisation) can impact asset-allocation decisions.

Moreover, consistency of people and process helps ensure a fund remains true-to-label for its investors. Over the years, PM Capital has seen many active managed funds change their key investment personnel or style.

PM Capital's study of more than 500 international equity funds in three Morningstar international equity categories[10] includes non-surviving funds that became obsolete[11]. We sought to understand how many international equity funds have closed over the past 20 years – and how long they lasted. We included current and closed funds.

Our analysis found:

- Approximately 200 of 520 global equity funds in our research set had closed
- The median tenure of funds that closed (the time between inception and becoming obsolete) was approximately seven years
- Only 88 of the 520 global equity funds had an inception date before 2000
- 37 of the 88 global equity funds that were started before 2000 have since closed

Of course, that only tells part of the story. To our knowledge, no Australian research has measured how many funds have changed their key investment personnel or style since 2000. It is likely that hundreds of global equity funds could have closed or changed their key personnel or style (and are now a different fund to their original form) over the past two decades.

This view could be conservative. The 2020 SPIVA US Scorecard[12] measured the survivorship and style consistency of US equity funds over 20 years. It found:

- Only 31.65% of 2,044 All Domestic Funds survived the 20-year period
- Only 31.12% of these funds maintained style consistency over 20 years
- Large-cap growth funds had one the lowest survival rates of 22.44% over 20 years

The 2020 SPIVA Scorecard for US equity funds[13] noted: "Over 20 years, nearly 70% of domestic equity funds and two-thirds of internationally focused equity funds across segments were consigned to the history books."

Therein lies the problem for investors and financial advisers. An informed assessment of a managed fund requires reviewing its performance over 10 and 20 years. Yet two-thirds of international equity funds don't last that long. And a high proportion that do survive, change their key personnel or investing style.

All too often, poor returns are 'swept under the rug' through fund closures or by changing the fund's key personnel and investing style (and essentially forming a new fund). Not enough recognition is given to funds that last in their original form.

4 Beware Groupthink

Key points

- Groupthink in global equity markets has never been more apparent than it is today. A larger number of investors are crowding into the same group of popular stocks.
- After 40 years of declining bond rates, the funds-management industry has become increasingly process driven and prone to producing similar outcomes to each other, and thus creating significant crowding in market sectors.
- However, groupthink creates investment opportunities for long-term managers, such as PM Capital, that focus on 7-10-year investment cycles, company fundamentals and valuations – and ignore short-term market noise.

Groupthink in funds management – the propensity of managers to own the same small group of overvalued growth stocks – is rampant. Groupthink is the antithesis of value investing and buying companies at bottom-quartile valuations and selling at top-quartile valuations. Investment strategies influenced by groupthink cannot wait 7-10 years for value to be realised.

Groupthink manifests itself in three main ways in funds management:

- New entrants in active funds management buy the same group of overvalued stocks with strong price momentum.
- Active funds that deliver short-term outperformance often then take a conservative investment approach to minimise performance risks (this is known as 'index hugging 'as funds have less conviction and more closely replicate an index). This observation might explain why so few active funds that outperformed over three, five or seven years continue to outperform over 10 and 20 years. These funds charge active fund fees, yet often have passive-like investment strategies and performance.
- Strong fund inflows into passive funds that buy and sell stocks based on their index weighting are fuelling investor groupthink and magnifying potential risks.

However, groupthink also creates pricing anomalies for long-term investors, such as PM Capital, to capitalise on. These come from:

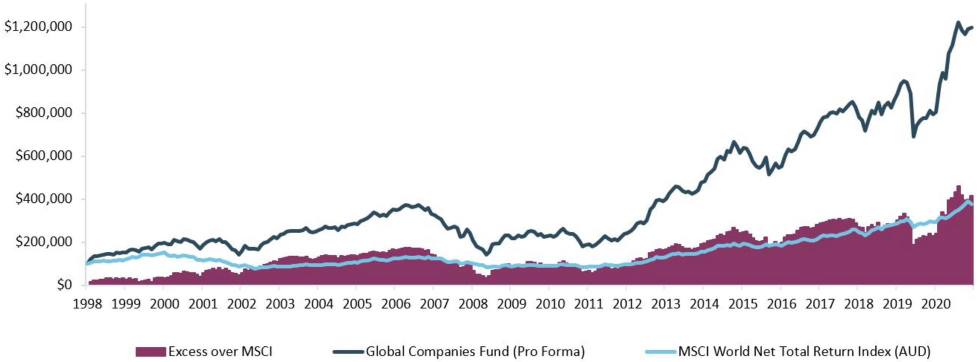
- Investors looking backwards rather than forward (they look at where the share price has come from, or a fund's short-term returns)
- Investors acting on perceptions rather than facts
- A severe short-term focus among too many investors
- Investors distracted by macro-economic noise (particularly central bank comments)
- Conflict and misunderstanding
- Process investing

5 PM Capital's approach and performance

Key points

- PM Capital has had stability in key personnel and investment style for more than two decades. Our approach is based on identifying valuation anomalies, taking a long-term perspective, and having high conviction in our ideas.
- We have a demonstrated record of avoiding market groupthink. We consistently buy companies at bottom-quartile valuations – often when they are deeply out of favour – and sell at top-quartile valuations. We have the patience to wait years for this value to be realised through a full investment cycle.
- The PM Capital Global Companies Fund has outstanding long-term performance. It is the top-ranked fund in its Morningstar category over 10 years and is the third-highest ranked fund over 20 years to 30 September 2021.
- PM Capital's global strategies have recently won the 2021 Zenith Investment Partners Award for International Equities – Alternative Strategies.

GLOBAL COMPANIES FUND



GCF - 30 September 2021	1 yr	5 yrs p.a.	10 yrs p.a.	20 yrs p.a.	Since inception p.a.
Fund performance (net of pro forma* fees)	51.0%	17.1%	20.5%	10.3%	11.4%
Fund performance (net of actual fees)	51.0%	16.0%	18.1%	8.5%	9.5%
MSCI (AUD)	**27.8%**	**15.1%**	**16.1%**	**6.1%**	**6.0%**
Morningstar Peer Ranking (pro forma*)	1/232	8/178	1/131	3/40	2/30

* Pro forma Fund performance has been calculated based on the new fee structure (implemented 1 December 2018), assuming it had applied from the Fund's inception. These returns do not represent the actual net Fund performance. Fund's inception date 28/10/1998.

MORNINGSTAR PEER RANKINGS – 30 SEPTEMBER 2021

1 Year			10 Years			20 Years			Since Inception		
Peer	Annualised Return (%)	Rank (232 peers)	Peer	Annualised Return (%)	Rank (131 peers)	Peer	Annualised Return (%)	Rank (40 peers)	Peer	Annualised Return (%)	Rank (30 peers)
PMC A	**51.0%**	**1**	**PMC A**	**20.5%**	**1**	Peer 4	13.04	1	Peer 15	12.11	1
PMC B	**50.97**	**1**	**PMC C**	**18.81**	**1**	Peer 15	12.01	2	**PMC A**	**11.4%**	**2**
PMC C	**48.33**	**2**	**PMC D**	**18.81**	**2**	**PMC A**	**10.3%**	**3**	Peer 16	11.11	2
PMC D	**47.50**	**3**	Peer 8	18.42	3	Peer 16	8.82	3	Peer 17	10.13	3
Peer 1	45.74	4	**PMC B**	**18.12**	**4**	Peer 17	8.63	4	**PMC B**	**8.99**	**4**
Peer 2	40.00	5	Peer 9	17.88	5	**PMC B**	**8.03**	**5**	Peer 18	6.99	5
Peer 3	39.31	6	Peer 10	17.59	6	Peer 18	7.01	6	Peer 13	6.21	6
Peer 4	39.15	7	Peer 11	17.30	7	Peer 19	7.00	7	Peer 21	6.20	7
Peer 5	37.69	8	Peer 12	17.06	8	Peer 20	6.28	8	Peer 22	6.19	8
Peer 6	37.12	9	Peer 13	16.48	9	Peer 13	6.27	9	Peer 23	6.08	9
Peer 7	36.95	10	Peer 14	16.44	10	Peer 14	6.20	10	Peer 24	6.08	9

Source: Morningstar Peer Rankings as at 30 September 2021, Australia OE Equity World Large Blend

Key: PMC Global Strategies
PMC A – ProForma PM Capital Global Companies Fund
PMC B – PM Capital Global Companies Fund
PMC C – CFS FC Inv-PM Capital Glb Companies
PMC D – CFS FC W Inv-PM Capital W Glb Companies

Notes:
Peers are in **bold** appear more than once.
ProForma PM Capital Global Companies Fund has been inserted where it would appear on the ranking had it been in the Peer Group.

PM Capital Global Companies Fund (as at 30 September 2021)

Global Companies Fund	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
Fund performance (net of pro forma fees)[1]	**10-1998**	**4.3638**	**0.5%**	**1.2%**	**7.4%**	**51.0%**	**13.2%**	**17.1%**	**14.1%**	**20.5%**	**11.4%**
Fund performance (net of actual fees)			**0.5%**	**1.2%**	**7.4%**	**51.0%**	**13.2%**	**16.0%**	**12.5%**	**18.1%**	**9.5%**
MSCI World Net Total Return Index (AUD)			-3.0%	3.9%	13.6%	27.8%	13.2%	15.1%	13.6%	16.1%	6.0%

1. Fund performance and outperformance (net of pro forma fees) has been calculated based on the new fee structure (implemented 1 Dec 2018), assuming it had been applied from the Fund's inception. These returns do not represent the actual net Fund performance and are included for illustrative purposes only.

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

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

6 Portfolio construction checklist

LOOK FOR FUND MANAGERS THAT HAVE STOOD THE TEST OF TIME

In a market fixated with short-term performance, look for reputable managers that have had sustained success over multiple investment cycles.

COMPARE FUNDS ON MULTI-DECADE PERFORMANCE

Some investors focus too much on one- and three-year returns, and not enough on annualised 10- and 20-year returns. Wealth accumulators who have a multi-decade horizon, such as Self-Managed Superannuation Fund (SMSF) trustees, should choose funds that deliver attractive multi-decade returns, provided the fund has consistency in style, process and portfolio management.

CHOOSE ACTIVE RATHER THAN PASSIVE MANAGEMENT

Investing in an index fund, such as an Exchange Traded Fund, means putting your money into a fund that buys and sells shares regardless of asset valuations. Active managed funds that have a track-record of successfully investing in valuation anomalies are more likely to build sustainable long-term wealth.

EMBRACE TRUE 'LONG-TERM' INVESTING

Too many investment experts regard long-term investing as "3-5 years", sometimes less. It can take up to a decade for an investment theme to play out, and for companies within that theme to move from bottom-quartile valuations to top-quartile. Patience is a trait of successful investors.

BE SCEPTICAL OF THE 'CONSENSUS' VIEW

Sustained wealth creation requires independent thinking, not the consensus view. Basing investment decisions primarily on 'top-down' views of industry or economic matters – such as central bank comments on inflation and interest rates – is unlikely to be a recipe for investment success.

GO GLOBAL

It makes no sense that Australian investors allocate a large proportion of their portfolio to domestic stocks when the Australian sharemarket comprises ~2% of global equity markets. Do not ignore better-value opportunities that might be found overseas.

AVOID SHORT-TERM NOISE

Avoid kneejerk reactions to your investment strategy based on short-term market noise. Remain focused on long-term valuations.

7 References and notes

[1] Analysis based on Morningstar data at 6 October 2021. Fund categories included were Australia OE World Equity (Currency Hedged), Australia OE World Equity Large Blend, Australia OE Equity World Large Value.

[2] Survivor bias risk relates to the possibility that an investor could make a bad investment decision based on data that only reflects successful funds, rather than all funds (including failed funds).

[3] Returns to end-September 2021.

[4] Morningstar. Peer rankings as at 30 September 2021. Australia OE Equity World Large Blend.

[5] In 1998

[6] Kaplan, P., Kowara, M., (2018), "How long can a good fund underperform its benchmark'.

Morningstar Manager Research. March 2018.

[7] Period is 1/10/2018 to 30/09/2021. Data Morningstar. Category is Australia OE Equity World Large Value

[8] Luk, P., Wang, T., Gupta, A (2018), 'Australian Persistence Scorecard', S&P Dow Jones Indices. Year-End 2020.

[9] Liu, B., Sinha, G., (2020), "SPIVA US Scorecard," S&P Dow Jones Indices. Year-End 2020

[10] The three categories are Morningstar Australia OE Equity World – Currency Hedged, Australia OE Equity World Large Blend, and Australia OE Equity World Large Value

[11] The date at which the fund was deleted.

[12] Liu, B., Sinha, G., (2020), "SPIVA US Scorecard," S&P Dow Jones Indices. Year-End 2020

[13] ibid

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