



PM CAPITAL AUSTRALIAN COMPANIES FUND

ANNUAL REPORT For the Year Ended 30 June 2020

PM Capital Australian Companies Fund is a Registered Scheme under the *Corporations Act 2001* (ARSN 092 434 467).

PM Capital Limited (ABN 69 083 644 731), the Scheme's Responsible Entity, is a company limited by shares, incorporated and domiciled in Australia. Its principal place of business is:

PM Capital Limited,
Level 27,
420 George Street,
Sydney NSW 2000

A description of the nature of the Scheme's operations and its principal activities is included in the directors' report.

PM CAPITAL AUSTRALIAN COMPANIES FUND
ANNUAL REPORT
For the Year Ended 30 June 2020

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**PM CAPITAL AUSTRALIAN COMPANIES FUND
DIRECTORS' REPORT**

**PM Capital Limited (ABN 69 083 644 731) as Responsible Entity
for the PM Capital Australian Companies Fund ("the Fund")**

The directors of PM Capital Limited ("PM Capital") submit the financial report of the Fund for the year ended 30 June 2020.

The directors of PM Capital Limited authorised the financial report for issue on 24 September 2020. The directors of PM Capital Limited have the power to amend and reissue the financial report. PM Capital has relied on the New Zealand Financial Markets Conduct Act 2013, Financial Markets Conduct (Overseas FMC Reporting Entities) Exemption Notice 2016 in respect of its financial statements for the year ended 30 June 2020.

Directors

The following persons were directors of the Responsible Entity ("RE") during the whole of the financial year, and up to the date of this report:

Paul Moore
Jarod Dawson
Benjamin Skilbeck

Principal activities of the Fund

The principal activity of the Fund was investing in companies based in Australia.

Review of operations

The performance of the Fund, as represented by the results of its operations, was as follows:

	2020	2019
	\$	\$
Operating revenue	2,182,721	601,776
Operating expenses	351,009	435,176
Profit for the year	<u>1,831,712</u>	<u>166,600</u>

Please refer to the Statement of Profit or Loss and Other Comprehensive Income for further details.

Distributions

Accounting and tax distributions for the financial year were \$Nil (2019: \$733,228).

State of affairs

There have been no significant changes in the Fund's state of affairs during the financial year.

Events subsequent to balance date

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Fund, the result of those operations or the state of affairs of the Fund in subsequent financial years.

Likely developments

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Indemnification of officers

The Responsible Entity has indemnified its directors and officers, including members of the Compliance Committee, from any actions that may arise as a result of acting in their capacity as directors and officers of the Responsible Entity in respect of:

- a) Liability to third parties when acting in good faith; and
- b) Costs and expenses of defending legal proceedings and ancillary matters.

The terms of the policy preclude disclosure of the premium.

PM CAPITAL AUSTRALIAN COMPANIES FUND

DIRECTORS' REPORT (continued)

Fees paid to the Responsible Entity and Investment Manager out of Fund Property

The fees payable in respect of the year ended 30 June 2020 to the Responsible Entity were \$196,908 (2019: \$257,347) and to the Investment Manager were \$97,673 (2019: \$142,605). Refer to Notes 8(a) and 10 to the financial statements.

The number of interests in the Fund held by the Responsible Entity or its associates

As at the end of the financial year, Nil units in the Fund were held by the Responsible Entity and its related parties. Refer to Note 10 to the financial statements.

Interests in the Fund issued during the financial year

The movement in unitholder funds during the year is disclosed in Note 6 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of Financial Position and is derived using the basis set out in Note 1 to the financial statements.


Number of interests in the Fund as at the end of the financial year

There were 11,800,786 units on issue at the end of the financial year.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under *Section 307C* of the *Corporations Act 2001* is set out on page 3.

Signed at Sydney this 24 day of September 2020, in accordance with a resolution of the Board of Directors, by:



Benjamin Skilbeck
Director
PM Capital Limited

24 September 2020

Auditor's Independence Declaration

To the directors of PM Capital Limited:

As lead auditor for the audit of the financial report of PM Capital Australian Companies Fund for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

Sydney, NSW
24 September 2020



S Grivas
Partner

PM CAPITAL AUSTRALIAN COMPANIES FUND

**RESPONSIBLE ENTITY'S DECLARATION TO THE UNITHOLDERS
FOR THE YEAR ENDED 30 JUNE 2020**

1. In the opinion of the directors of the Responsible Entity of the Fund:
 - (a) the financial statements and notes set out on pages 5 to 18 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
 - (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
2. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.

The declaration is made in accordance with a resolution of the directors of PM Capital Limited (ABN 69 083 644 731) as Responsible Entity for the PM Capital Australian Companies Fund.



Benjamin Skilbeck
Director
PM Capital Limited

24 September 2020

PM CAPITAL AUSTRALIAN COMPANIES FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 \$	2019 \$
Revenue			
Dividends		133,845	754,841
Interest		264,572	230,803
Gains/(losses) on investments at fair value through profit or loss	7	1,966,648	(396,021)
(Losses)/gains on foreign exchange		(182,352)	11,944
Other revenue		8	209
Total revenue		2,182,721	601,776
Expenses			
Fees paid to the Responsible Entity	8(a), 10	196,908	257,347
Fees for outsourced functions	8(a), 10	97,673	142,605
Transaction costs		51,926	32,238
Other operating expenses		4,502	2,986
Total expenses		351,009	435,176
Profit for the year		1,831,712	166,600
Other comprehensive income		-	-
Total comprehensive income for the year		1,831,712	166,600

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Financial Statements which follow.

PM CAPITAL AUSTRALIAN COMPANIES FUND

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020**

	Note	2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents	3	2,772,245	1,341,428
Investments - Listed equity and credit securities	2(e)(iii)	17,601,978	25,146,915
Investments - Unlisted equity securities	2(e)(iii)	621,659	-
Investments - Unlisted credit securities	2(e)(iii)	3,786,278	752,063
Investments - Unlisted convertible notes	2(e)(iii)	-	418,988
Investments - Forward currency contracts	2(e)(iii)	364,386	-
Receivables	4	10,692	107,074
Total assets		25,157,238	27,766,468
Liabilities			
Current liabilities			
Interest bearing liabilities	3	947,906	566,769
Financial liabilities at fair value through profit or loss	2(e)(iii)	62,914	-
Payables	5	22,185	505,449
Total liabilities		1,033,005	1,072,218
Net assets attributable to unitholders - equity	6	24,124,233	26,694,250

*The Statement of Financial Position should be read in conjunction with
the Notes to the Financial Statements which follow.*

PM CAPITAL AUSTRALIAN COMPANIES FUND

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2020 \$	2019 \$
Total equity at the beginning of the financial year		26,694,250	36,246,129
Comprehensive income for the year			
Profit for the year		1,831,712	166,600
Other comprehensive income		-	-
Total comprehensive income for the year		1,831,712	166,600
Transactions with unitholders for the year			
Applications	6	1,505,176	2,744,246
Redemptions	6	(5,906,905)	(11,981,856)
Reinvestment of distributions	6	-	252,359
Distributions paid and payable	6	-	(733,228)
Total transactions with unitholders for the year		(4,401,729)	(9,718,479)
Total equity at the end of the financial year		24,124,233	26,694,250

The above Statement of Changes in Equity should be read in conjunction with Note 6.

*The Statement of Changes in Equity should be read in conjunction with
the Notes to the Financial Statements which follow.*

PM CAPITAL AUSTRALIAN COMPANIES FUND

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2020 \$	2019 \$
Cash flows from operating activities			
Dividends received		226,619	910,519
Interest received		267,406	238,804
Other operating receipts		8	209
Fees paid to the Responsible Entity		(198,541)	(264,088)
Fees for outsourced functions		(98,435)	(146,358)
Other operating payments		<u>(55,654)</u>	<u>(34,434)</u>
Net cash inflow from operating activities	9	<u>141,403</u>	<u>704,652</u>
Cash flows from investing activities			
Proceeds from sale of investments		18,995,763	9,591,529
Purchase of investments		<u>(13,226,406)</u>	<u>(5,886,123)</u>
Net cash inflow from investing activities		<u>5,769,357</u>	<u>3,705,406</u>
Cash flows from financing activities			
Net (redemptions)/applications		(4,401,729)	(9,237,610)
Cash distributions		<u>(480,869)</u>	<u>(616,517)</u>
Net cash (outflow) from financing activities		<u>(4,882,598)</u>	<u>(9,854,127)</u>
Impact of exchange rate changes on cash and cash equivalents		21,518	(7,800)
Net increase/(decrease) in cash and cash equivalents		<u>1,049,680</u>	<u>(5,451,869)</u>
Cash and cash equivalents at the beginning of the year		<u>774,659</u>	<u>6,226,528</u>
Cash and cash equivalents at the end of the year	3	<u>1,824,339</u>	<u>774,659</u>

*The Statement of Cash Flows should be read in conjunction with
the Notes to the Financial Statements which follow.*

PM CAPITAL AUSTRALIAN COMPANIES FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. Summary of significant accounting policies

PM Capital Australian Companies Fund ("the Fund") was constituted on 20 January 2000. Since that date, nine amended constitutions have been executed, the dates of each amendment being: 3 May 2001, 11 February 2002, 21 October 2002, 19 June 2006, 16 March 2009, 12 March 2012, 29 June 2012, 10 October 2014 and 26 June 2018. The Fund will terminate on 20 January 2080 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, the requirements of the Constitution, other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*.

Compliance with Australian Accounting Standards ensures that the financial statements comply with International Financial Reporting Standards. Comparative information is reclassified where appropriate to enhance comparability.

(a) Investments

Investments held at fair value through profit or loss are initially recognised at fair value including any transaction costs related to their acquisition. Subsequent to initial recognition, all financial instruments held at fair value through profit or loss are accounted for at fair value, with changes to such values recognised in profit or loss.

Details of how the Fund values its investments are shown in Note 2(e).

Investments are recognised on a trade date basis.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

(ii) Transactions and balances

Transactions during the year denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Overseas investments and currency, together with any accrued income, are translated at the exchange rate prevailing at the balance date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss. Net exchange gains and losses arising on the revaluation of investments are included in Losses on investments at fair value through profit or loss.

Hedging may be undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. Hedging gains or losses are included in profit or loss, as part of Gains on foreign exchange.

(c) Income tax

Under current legislation, the Fund is not subject to income tax provided that taxable income (including assessable capital gains) is attributed to unitholders under the AMIT regime.

The unit price of the Fund is based upon the net fair value of underlying assets and thus may include a share of unrealised capital gains.

Realised capital losses are not distributed/attributed to unitholders but are retained in the Fund to be offset against any realised capital gains. As at 30 June 2020 the Fund has \$108,351,151 of retained capital losses (2019: \$107,730,730). If realised capital gains exceed realised capital losses, the excess is distributed/attributed to unitholders.

The Fund currently has withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in profit or loss. The benefits of imputation credits and withholding tax are passed on to unitholders.

PM CAPITAL AUSTRALIAN COMPANIES FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

1. Summary of significant accounting policies (continued)

(d) Goods and services tax ("GST")

The Fund is registered for GST and currently claims 75% or 55% of the GST incurred depending on the nature of the expense. The unclaimable portion is written off as an expense.

(e) Revenue and expenses

Revenue and expenses are brought to account on the accrual basis. Changes in the net fair value of investments are recognised in profit or loss.

(f) Distributions

Distributions to unitholders comprise the distributable income of the Fund. The distributions are payable at the end of June each year. If the unitholder has elected to reinvest, the amount to be reinvested is not recorded as a payable. Amounts payable in cash at balance date are recorded as a current liability. Distributions are recognised in the statement of changes in equity as transactions with unitholders.

(g) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders.

The units can be put back to the Fund at any time for cash based on the relevant price.

The units are carried at the redemption amount that is payable at the reporting date if the holder exercises the right to put the units back to the Fund.

Units are classified as equity when they satisfy the following criteria in AASB 132 *Financial Instruments: Presentation* :

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life of the instrument are based substantially on the profit or loss.

The Fund's units are classified as equity as they satisfy all the above criteria.

(h) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, Cash and Cash Equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within Interest bearing liabilities in Current Liabilities in the Statement of Financial Position.

(i) Receivables

Receivables may include amounts for dividends, interest and securities sold. Dividends are receivable when they have been declared and are legally payable. Interest is accrued at the balance date from the time of last payment. Amounts receivable for securities sold are recorded when a sale has occurred.

(j) Payables

These amounts represent liabilities for amounts owing by the Fund at year end which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

PM CAPITAL AUSTRALIAN COMPANIES FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

1. Summary of significant accounting policies (continued)

(k) Portfolio valuation

The Fund calculates its net asset value daily for purposes of unit applications and redemptions. The net asset value of the Fund is calculated by deducting from the value of the Fund's gross assets the value of the liabilities of the Fund, excluding net assets attributable to unitholders.

(l) Derivative financial instruments

The Fund may invest in financial derivatives. Derivative financial instruments are accounted for on the same basis as the underlying investment exposure. Gains and losses relating to financial derivatives are included in profit or loss as part of Gains/(Losses) on Investments at fair value through profit or loss.

(m) New and amended standards adopted by the Fund

There are no new accounting standards and interpretations that have been published and have been adopted for the 30 June 2020 reporting year that are material to the financial statements.

(n) New standards and interpretations not yet adopted

A number of new accounting standards, amendments to standards and interpretations have recently been issued or amended but are not yet effective for the 30 June 2020 reporting period and have not been early adopted in preparing these financial statements. The directors' assessment of these new accounting standards and interpretations (to the extent relevant to the Fund) is that they are not expected to have a material effect on future financial statements of the Fund.

2. Financial risk management

(a) Objectives, strategies, policies and processes

The Fund's activities are exposed to different types of financial risks. These risks include market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Fund may employ derivative financial instruments to hedge these risk exposures in order to minimise the effects of these risks. The use of derivatives is an essential part of proper portfolio management and is not managed in isolation. Consequently, the use of derivatives is multifaceted and includes, but is not limited to:

- hedging to protect an asset of the Fund against a fluctuation in market values or foreign exchange rates or to reduce volatility;
- as a substitute for physical securities;
- adjusting asset exposures within the parameters set in the investment strategy; and
- adjusting the interest rate duration of fixed interest securities.

(b) Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate. These fluctuations can be caused by market volatility, interest rate volatility, economic cycles, political events and levels of economic growth, both global and domestic. The Fund is materially exposed to one type of market risk, namely price risk. Market risk exposures are assessed and managed through employing established investment strategies.

The Fund has a focused portfolio and, due to the concentrated nature of the Fund's investments, considerable short term volatility may be experienced. The Fund may also short specific securities that, in the opinion of the Investment Manager, are overvalued. All of the portfolio positions are subject to research and peer group review and if appropriate opportunities cannot be found the Fund will hold cash until new opportunities arise. Leverage may be used on what is judged by the Investment Manager as a prudent basis to take advantage of investment opportunities. As part of its risk management strategy, the Fund uses futures, options and forward currency contracts to manage exposures resulting from changes in interest rates, foreign currencies, credit spreads and equity price risks.

(i) Foreign currency risk

Of the net assets of the Fund, \$23,194,286 or 96% (2019: \$21,899,250 or 82%) is denominated in Australian Dollars. Any reasonably possible changes in foreign currency will not have a material impact on the equity or profit or loss of the Fund.

PM CAPITAL AUSTRALIAN COMPANIES FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

2. Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk

Of the assets (liabilities), on a net basis, \$7,576,282 (2019: \$5,103,156) is exposed directly to interest rate risk. Any reasonably possible change in interest rates will not have a material impact on the equity or profit or loss of the Fund.

(iii) Price risk

Price risk is the risk that the fair value of financial instruments will fluctuate, whether those changes are specifically related to an individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund is exposed to price risk for its investments in both listed and unlisted securities. The price risk of a security is dependent upon the financial circumstances of the company in which the security is purchased, including its profits, earnings and cash flows. The return on a security may also be affected by the quality of company management, the general health of the sector in which it operates and government policy. Securities present a risk of loss of capital.

In cases where financial instruments are denominated in currencies other than the Australian dollar, future prices will also fluctuate because of changes in foreign exchange rates. Refer to Note 2(b)(i) for foreign currency risk.

The Investment Manager's security selection process is fundamental to exposure to price risk. Whilst the ASX 200 is used in measuring relative performance of the Fund, risk in the view of the Investment Manager is not limited to relative performance versus a benchmark, but more so the prospect of losing money (i.e. absolute returns) over the long term. The Fund seeks a diversified range of investments whose business and growth prospects are being undervalued by the market. As a result, the Fund's securities holdings vary considerably from the composition of the index.

The Fund's overall market positions are monitored on an ongoing basis by the Investment Manager.

The Fund's net exposure to listed equity and credit securities as at 30 June 2020 and 30 June 2019 are summarised below:

Industry Groups	2020	2019
	\$	\$
Materials	6,694,047	1,818,708
Financials	3,659,311	12,501,317
Information Technology	2,446,034	2,650,820
Consumer Discretionary	1,595,679	2,903,687
Prefs/Bonds	1,965,666	3,157,446
Energy	1,102,000	-
Industrials	760,900	901,600
Real Estate	-	1,213,337
Total	18,223,637	25,146,915

Price sensitivity

The directors of PM Capital Limited believe that it is errant to try to estimate future returns. Market returns can be somewhat volatile and returns from year to year can have a fairly wide variance. As such, PM Capital Limited uses a sensitivity analysis that directors consider is more commensurate with the risk profile of the Fund.

As at reporting date, if the listed equity and credit security prices had increased/(decreased) by 5% [2019: 5%] with all other variables being constant, this would have increased/(decreased) the net assets attributable to unitholders by approximately +/- \$911,182 [2019: +/- \$1,257,346].

PM CAPITAL AUSTRALIAN COMPANIES FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

2. Financial risk management (continued)

(c) Credit risk

Credit risk is the risk that a counterparty or issuer will fail to perform contractual obligations (i.e. default in either whole or part) under a contract causing the Fund to make a financial loss.

Market prices generally incorporate credit assessments into valuations, and risk of loss is implicitly provided for in the carrying value of assets and liabilities as they are marked to market at balance date.

The total credit risk for assets including fixed income and equity securities is therefore limited to the amount carried in the Statement of Financial Position.

The Investment Manager minimises the Fund's concentrations of credit risk by adopting a number of procedures, including the following:

- Undertaking transactions with a large number of counterparties on recognised and reputable exchanges; and
- Ensuring that OTC counterparties are approved, enter into appropriate contractual documentation, and in some cases provide collateral to fulfil obligations to which they are liable.

The contractual credit risk of assets is represented by the net payments or receipts that remain outstanding, and the cost of replacing the derivative position in the event of a counterparty default. There are no financial assets that are past due or impaired as at balance date.

An analysis of the credit risk exposure by ratings of the counterparties for the Fund's holdings of unlisted and listed credit securities is set out in the table below.

Long term ratings displayed as AA, A, BBB, BB or B relate to securities which are rated as AA+ to AA- (AA), A+ to A- (A), BBB+ to BBB- (BBB), BB+ to BB- (BB) or B+ to B- (B). The securities have been grouped together for disclosure purposes only.

Rating (S&P)	2020	2019
	\$	\$
Unlisted credit securities		
These are classified as current assets despite their maturity dates, as the assets are held for trading.		
Fixed rate bonds, floating rate notes and swaps, and other interest-bearing instruments that have a maturity date beyond the next twelve months:		
Unlisted credit securities	3,786,278	752,063
Unlisted convertible notes	-	418,989
	3,786,278	1,171,052
Listed credit securities		
BBB	1,965,666	2,195,422
BB	-	962,024
Total listed credit securities	1,965,666	3,157,446

Listed credit securities are included within listed equity and credit securities in the Statement of Financial Position as follows:

Listed credit securities	1,965,666	3,157,446
Listed equity securities	15,636,312	21,989,469
Total listed equity and credit securities	17,601,978	25,146,915

The Responsible Entity has appointed Morgan Stanley & Co. International Plc ("Morgan Stanley") as both Prime Broker and Custodian to the Fund. Morgan Stanley is subject to regulatory oversight and capital requirements imposed by the Financial Services Authority (UK) and, where applicable to its Australian operations, the Australian Securities and Investments Commission. As at the date of this report, Morgan Stanley has a credit rating of A+ (S&P) for long term and a rating of A-1 for short term debt.

PM CAPITAL AUSTRALIAN COMPANIES FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

2. Financial risk management (continued)

(c) Credit risk (continued)

The terms of the Prime Broker Agreement provide that Morgan Stanley may utilise custodial assets for its own lending and financing purposes (including to borrow, lend, charge, rehypothecate, and dispose of) up to, but not exceeding, 180% (2019: 180%) of the value of the Fund's outstanding liabilities with Morgan Stanley. These assets are owned by Morgan Stanley in its Prime Broker capacity. Under the terms of the Prime Broker Agreement, Morgan Stanley is obliged to return to the Fund the equivalent custodial assets irrespective of what transpires between it and any third party with whom Morgan Stanley has transacted.

All other custodial assets not subject to the Prime Broking arrangement outlined above are held by Morgan Stanley in its capacity as a Custodian in a segregated asset pool, as is required by the Financial Services Authority (UK). Cash holdings with Morgan Stanley are not subject to this arrangement.

As at balance date, the maximum value of the Fund's gross assets available to Morgan Stanley for its lending and financing activities is \$1,824,266 (2019: \$1,020,184). This is the maximum value available to Morgan Stanley, however the actual amount utilised by Morgan Stanley may be less. Under the Prime Broker arrangements in place, the amount does not require disclosure by Morgan Stanley. The maximum net exposure to the Prime Broking activities of Morgan Stanley, after offsetting the Fund's outstanding liabilities with Morgan Stanley, approximates \$810,785 (2019: \$453,415) as at balance date.

The credit position of the Fund is monitored on an ongoing basis by the Investment Manager.

(d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations. This risk is mitigated through investing sufficient funds in cash and in instruments that are tradeable in liquid markets, and that are readily convertible to cash, to meet daily operating requirements.

The Constitution of the Fund provides for the daily application and redemption of units, therefore it is exposed to the liquidity risk of meeting unitholder redemptions at any time. The Constitution of the Fund also allows borrowing from its prime broker, Morgan Stanley & Co. International PLC, to take account of opportunities that may exist in the market.

The Fund's liquidity position is monitored on an ongoing basis by the Investment Manager.

(e) Fair value measurements

The Fund measures and recognises financial assets and liabilities held at fair value through profit or loss on a recurring basis.

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

(i) Fair value in an active market (Level 1)

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and listed equity and credit securities) is based on quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

PM CAPITAL AUSTRALIAN COMPANIES FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

2. Financial risk management (continued)

(e) Fair value measurements (continued)

(ii) Fair value in an inactive or unquoted market (Level 2 and Level 3)

The fair value of financial assets and liabilities that are not traded in an active market are valued with reference to external third party pricing information. These assets and liabilities include Forward currency contracts, Unlisted equity securities and Options.

Management have engaged an independent third party with private equity valuation expertise to provide monthly valuations in respect of the unlisted equity security and associated unlisted option. Management review the valuations that are provided by the third party and challenge the third party where the valuations are materially different from expectations. To date valuations provided by the third party have been adopted without any amendments.

(iii) Recognised fair value measurements

The following table presents the Fund's financial assets and liabilities measured and recognised at fair value at 30 June 2020 and 30 June 2019:

2020	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets at fair value through profit or loss				
Listed equity and credit securities	17,601,978	-	-	17,601,978
Unlisted equity securities	-	621,659	-	621,659
Unlisted credit securities	3,786,278	-	-	3,786,278
Forward currency contracts	-	364,386	-	364,386
	21,388,256	986,045	-	22,374,301
Financial liabilities at fair value through profit or loss				
Options	65,575	(2,661)	-	62,914
	65,575	(2,661)	-	62,914
2019				
Financial assets at fair value through profit or loss				
Listed equity and credit securities	25,146,915	-	-	25,146,915
Unlisted credit securities	752,063	-	-	752,063
Unlisted convertible notes	418,988	-	-	418,988
	26,317,966	-	-	26,317,966

(iv) Transfer between levels

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

During the year there were two transfers between levels 1 and 2: A listed equity security was transferred to unlisted equity securities (\$621,659) and a listed option was transferred to unlisted options (\$2,661).

The transfers relate to a listed equity security and its associated option, which was voluntarily delisted from the ASX at its own request. As the security and its associated option are no longer listed, it is more difficult to observe that the financial instruments are being traded in active markets.

(v) Fair value of financial instruments not carried at fair value

The carrying values of receivables, payables, swap deposits and margin accounts are assumed to approximate their fair values.

PM CAPITAL AUSTRALIAN COMPANIES FUND

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

	2020	2019
	\$	\$
3. Cash and cash equivalents and interest bearing liabilities		
<i>Cash and cash equivalents</i>		
Cash at bank (Custodian)	2,772,245	1,341,428
<i>Interest bearing liabilities</i>		
Overdraft at Custodian	(947,906)	(566,769)
	<u>1,824,339</u>	<u>774,659</u>

Cash at bank (Custodian) is a cash facility offered by the Custodian.

Cash overdraft at Custodian is a cash facility offered by the Custodian. The Custodian in its role as Prime Broker has been granted a floating charge over the assets of the Fund to secure any liabilities to the Prime Broker.

4. Receivables

Dividends receivable	-	92,774
Interest receivable	7,102	9,936
GST and Tax credits	3,590	4,364
	<u>10,692</u>	<u>107,074</u>

5. Payables

Distributions payable to unitholders	-	480,869
Accruals	22,185	24,580
	<u>22,185</u>	<u>505,449</u>

6. Changes in Net assets attributable to unitholders

Under AASB 132 *Financial Instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund classifies a financial instrument as an equity instrument from the date when the instrument meets those criteria.

	2020	2019
	\$	\$
Opening balance	26,694,250	36,246,129
Applications	1,505,176	2,744,246
Redemptions	(5,906,905)	(11,981,856)
Reinvestments	-	252,359
Distributions to unitholders	-	(733,228)
Profit for the period	1,831,712	166,600
	<u>24,124,233</u>	<u>26,441,891</u>
Net assets attributable to unitholders per statement of financial position	24,124,233	26,694,250
Less distribution reinvestments	-	(252,359)
	<u>24,124,233</u>	<u>26,441,891</u>
Closing Balance	<u>24,124,233</u>	<u>26,441,891</u>
Number of units on issue at year end	11,800,786	13,931,594
Net assets value per unit at year end	\$2.0443	\$1.8980

Capital risk management

The Fund manages its net assets attributable to unitholders as capital. The value of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

The Fund manages its redemption requirements through maintaining either a level of cash and cash equivalents or borrowing capacity to meet daily operating requirements. The Fund's Constitution allows borrowing from its prime broker, Morgan Stanley, to meet operating requirements where needed.

PM CAPITAL AUSTRALIAN COMPANIES FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

	2020	2019
	\$	\$
7. Gains/(Losses) on investments at fair value through profit or loss		
Listed equity and credit securities and unlisted equity securities	3,149,036	35,659
Options	104,587	(130,088)
Unlisted credit securities, convertible notes and swaps	(1,286,975)	(301,592)
	1,966,648	(396,021)

8. Expenses

(a) Fees paid to the Responsible Entity and Fees for outsourced functions

The following fees are charged by the Responsible Entity and the Investment Manager:

- (i) Management fees; and
- (ii) Performance fees.

These fees are paid at rates which, after the Fund recovers the GST related to the payments, results in a cost to the Fund at the rates noted below.

Management fees

Management fees at a rate of 1.09% per annum of the capital invested in the Fund are assessed and payable on a monthly basis.

The management fee is remitted as follows:

- (i) 0.79% (2019: 0.79%) to the Responsible Entity for responsible entity and administration services; and
- (ii) 0.3% (2019: 0.3%) to the Investment Manager.

Performance fees

The performance fee of the Fund was equal to 20% p.a. of any investment return on each unit in the Fund in excess of the Reserve Bank of Australia cash rate that prevails at the commencement of a performance fee period, subject to a "high water mark", and after taking into account the management fee. PM Capital amended the performance fee calculation method for the Fund from 1 December 2018. The change was to add an additional index - being the S&P/ASX200 Accumulation Index, which units must outperform before a performance fee will be payable. The effect will be that the performance fees payable to PM Capital may be reduced as it may be harder for PM Capital to exceed dual hurdles than a single hurdle.

The performance fee is remitted to the Investment Manager.

Further details of the calculation of these fees can be found in the current offer document. Refer to Note 10 for further details.

	2020	2019
	\$	\$
(b) Auditor's remuneration		
Audit and review of the financial reports	40,750	40,000
Other services	12,332	14,090
	53,082	54,090

The auditor's remuneration is an expense of the Responsible Entity. Other services comprise income tax compliance and other compliance services.

PM CAPITAL AUSTRALIAN COMPANIES FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

	2020	2019
	\$	\$
9. Reconciliation of Profit/(Loss) for the year to net cash flows from operating activities		
Profit for the year	1,831,712	166,600
(Gains)/losses on investments at fair value through profit or loss	(1,966,648)	396,021
Losses/(gains) on foreign exchange	182,352	(11,944)
Changes in assets and liabilities		
Decrease in receivables	96,382	164,469
(Decrease) in payables	(2,395)	(10,494)
Net cash flows from operating activities	141,403	704,652

10. Related party transactions

Details of fees and other expenses paid to the Responsible Entity are set out in Note 8(a) and in the Statement of Profit or Loss and Other Comprehensive Income. Details of fees and other expenses paid to the Investment Manager are set out in Note 8(a) and in the Statement of Profit or Loss and Other Comprehensive Income.

The Investment Manager (MAPP Pty Ltd as trustee for MAPP Trust) is a Corporate Authorised Representative of PM Capital Limited, and is controlled by the same entities or parties that control PM Capital Limited.

Key management personnel ("KMP")

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund and this is considered the KMP. The directors of the Responsible Entity are key management personnel of that entity and their names are Paul Moore, Jarod Dawson and Benjamin Skilbeck.

During the year, the Fund expensed an amount of \$196,908 (2019: \$257,347) as fees paid or payable to the Responsible Entity and as at balance date an amount of \$15,991 (2019: \$17,624) owing to the Responsible Entity is included in accruals and is interest free.

Also during the year, the Fund expensed an amount of \$97,673 (2019: \$142,605) as fees paid or payable to the Investment Manager and as at balance date an amount of \$6,194 (2019: \$6,956) owing to the Investment Manager is included in accruals and is interest free.

No compensation is paid directly by the Fund to any of the key management personnel of the Responsible Entity.

Number of investment interests held

All transactions with related parties are conducted on normal commercial terms and conditions, with the exception of management fee rebates to certain related parties by the Responsible Entity. From time to time the Responsible Entity may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors.

There were no investment interests held in the Fund by the Responsible Entity and its related parties (2019: Nil).

11. Events subsequent to balance date

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Fund, the result of those operations or the state of affairs of the Fund in subsequent financial years.

Independent Auditor's Report to the Members of PM Capital Australian Companies Fund

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of PM Capital Australian Companies Fund ("the Fund") which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Fund is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Report and Auditor's Report Thereon

The directors of the Responsible Entity ("the directors") are responsible for the other information. The other information comprises the information included in the Fund's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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In preparing the financial report, the directors are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Responsible Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



HLB Mann Judd
Chartered Accountants

Sydney, NSW
24 September 2020



S Grivas
Partner