PM Capital

The best opportunities are away from the In-Crowd.

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
ARSN 092 434 618

PM Capital Australian Companies Fund
ARSN 092 434 467

PM Capital Asian Companies Fund
ARSN 130 588 439

PM Capital Enhanced Yield Fund
ARSN 099 581 558

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

For Target Market Determinations for the Funds, please see our website: www.pmcapital.com.au/design-and-distributions-obligations

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.

The Investment In-Crowd	PM Capital's approach
Owns the same stocks and sectors as everyone else	Often invests differently to prevailing market view
Seduced by the latest hot trends, sectors or market hype	Focuses on undervalued companies, often in out-of-favour sectors
Vulnerable to 'group think' - mostly looks for opinions that support their view	Independent thinker. Avoids 'group think' and 'market noise'
Inflated self-confidence. Sometimes confuses luck for investment skill	Humble. Knows how hard it is to beat the market over long periods
Makes investment decisions based too much on emotion	Disciplined. Capitalises on asset mispricing that occurs because human emotions drive prices too high or too low
Will often buy assets when prices are high, or sell early into rallies	Buys companies at bottom-quartile valuations, sells at top-quartile valuations. Focuses on letting profits run over long periods
Favours asset managers that invest in the latest hot theme or sector that drives near-term outperformance	Has stood the test of time. Doesn't chase investment fads to boost short-term returns
Experiences style drift through investment cycles	Same portfolio manager, style and process over more than two decades
Focuses on short-term returns	Focuses on multi-decade returns over full investment cycles
Often has little real 'skin in the game'	Co-invests with its clients through PM Capital funds
90% underperform the market over long periods	Better placed to deliver outperformance and drive long-term wealth creation

6 traits of great investors

1 Reject groupthink

You'll never beat the sharemarket over long periods by owning the same stocks and sectors as everybody else. Groupthink damages long-term returns.

2 Avoid the In-Crowd

Beware of overhyped companies, sectors and themes. Avoid overhyped investment ideas from fund managers, research reports and the media. Successful investors are independent thinkers.

3 Focus on value

When investing in shares, nothing matters more than company value. The price paid for an asset determines its long-term return. Value is everything.

4 Be patient

Investment cycles can take 7-10 years to play out. Be prepared to own assets for the long term. Be persistent – if you believe an asset is undervalued, stay with it. Invest with conviction.

5 Pick experienced managers

Beware the shiny and the new. Use fund managers that have outperformed the sharemarket through full investment cycles. Favour managers that have had the same investment team and style for long periods.

6 Think decades, not years

Examine a fund manager's performance over 10 and 20 years, not just one, three or five years. Multi-cycle outperformance shows great investment skill. It's rare.

About PM Capital

1 Established in 1998. Same chief investment officer and style for more than two decades. Proven people and processes.

2 Known for investing in valuation anomalies. Our high-conviction, patient investing style avoids groupthink, the in-crowd, investment fads and other market hype.

3 Market-leading performance. Our flagship PM Capital Global Companies Fund is the top-ranked fund in its Morningstar category over 10 years .And the third-highest ranked fund over 20 years.

4 Award-winning. PM Capital won the 2021 Zenith Investment Partners Award for International Equities – Alternative Strategies.

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.

From the Founder

In more than three decades of investing, I have learned an undeniable truth: you don't make money by following the 'in-crowd' or 'herd'. That's how you destroy wealth.

When everyone is buying the same group of stocks, that's usually the best time to sell. When everyone is selling stocks, that's the time to buy.

I liken the in-crowd to investors all standing on the same side of a ship. Because lots of people own the latest hot theme or stock, more investors do the same. It feels safe to own the same stocks as everyone else and be reassured by positive 'noise' about an idea.

In my time investing, I cannot recall when market 'groupthink' was as rampant as it is today. Social media has created a plague of investors doing the same thing. However, groupthink also creates opportunities for patient investors, such as PM Capital.

Make no mistake: when investing, there is no 'safety in numbers' in the herd. As more people buy the same narrow group of stocks, prices rise too far. When the herd turns, prices fall too far. Human emotion causes assets to become mispriced. PM Capital exists to spot such opportunity.

This concept of going against the market is often called 'contrarian investing'. At PM Capital, we call it investing in valuation anomalies. We buy companies when they trade at bottom-quartile valuations and sell when they trade at top-quartile valuations.

Our process takes time, patience and discipline. It requires conviction to buy stocks that everybody else is selling, and vice versa. Our process demands that we ignore market noise and focus on what matters: company value in the context of industry cycles.

Investing in valuation anomalies works. Our flagship PM Capital Global Companies Fund has ranked in the top quartile in its Morningstar category over 20 years, 10 years and 1 year to end-September 2021 . Since inception , the Fund is ranked equal second (out of 30 peer funds).

When choosing a fund to invest with, I encourage you to consider four factors:

- Use an active fund that aims to add to portfolio returns, rather than a fund that provides the market return. This is a dangerous time for passive investing through Exchange Traded Funds (ETFs), which epitomise the risks of herd investing.
- Choose a fund manager that has stood the test of time. Beware unproven fund managers that achieve short-term outperformance by investing with the in-crowd.
- Assess manager performance over 10 and 20 years, not one, three or five. Only by reviewing a fund's performance over 10 and 20 years can you know if the manager has outperformed the market over a full investment cycle – or preferably, multiple cycles.
- Have awareness of inflection points in markets which are likely to impact returns more broadly. For example, returns in the decade ahead are unlikely to match the high returns of the prior decade as these were supported by falling interest rates.

I hope you enjoy this report on the dangers of investing with the in-crowd. I would be delighted if you refer this report to friends, family or colleagues you think might find it useful.

Good investing,

Paul Moore
Founder and Chief Investment Officer
PM Capital

PM Capital

1 Don't be left hanging with the In-Crowd

Key points

- Know what in-crowd investing looks like
- Be able to spot the warning signs
- Recognise how in-crowd investing hurts long-term manager performance

Understanding the In-Crowd

In-Crowd investment takes many forms. Typically, it begins with relentless hype about a sector or theme. Total addressable market (or TAM) stocks with little in earnings but high revenue growth are a recent example. Supported by continuing expectations of near zero bond rates, promoters believed these stocks would lead sharemarkets higher, seemingly in perpetuity. While these stocks had been strong performers, from both absolute and relative valuation perspectives better opportunities were presenting in out-of-favour cyclical segments of the market.

The in-crowd usually buy into a theme too late. Or sell too early. Often, they extrapolate the past too far into the future. They base investment decisions on past company returns and share-price performance, even though the market always looks forward. They become seduced by investment hype and stop thinking for themselves. They overestimate their investment skill.

Danger signs

Overhyped fund-manager commentaries, research reports and media 'noise' are tell-tale signs of the investment in-crowd. When funds emerge with catchy names or products based on the latest theme, care is needed. When fund managers with a limited performance record appear every day in the media, be sceptical.

When seemingly every research report has a buy recommendation on a stock, it's usually time to sell. When research reports promote the 'consensus' view on a stock as a reason to buy, run for cover. You'll never make money following the consensus, which is often wrong. PM Capital's best ideas often come from taking a strong position against the consensus view.

How In-Crowd investing affects manager performance

Fund managers need to attract investors and 'net funds flow' (more money coming into a fund than going out). The best way to attract funds is through return outperformance (the fund achieves a better return than its benchmark index, such as the S&P/ASX 200). For some fund managers, the easiest way to achieve return outperformance is by hanging with the in-crowd.

In fund-manager terms, we call this 'momentum investing'. Funds allocate more of their portfolio to companies with strong share-price momentum. In the past decade, the big momentum play was 'growth stocks', at the expense of 'value stocks'. Short-term performance can be great because of underlying momentum in share prices, but eventually fades.

The star manager from one decade is rarely the star manager in the next decade. Fund managers who invest with the in-crowd rarely last.

2 The long flight to exceptional returns

Key points

- Understand how investment cycles play out
- Use a multi-decade view to assess fund managers
- Learn why sustained fund outperformance is rare

Investment Cycles

For more than 20 years, PM Capital has advocated that valuation and patience are the most critical investment parameters. Valuation determines long-term investment returns; patience ensures those returns are delivered.

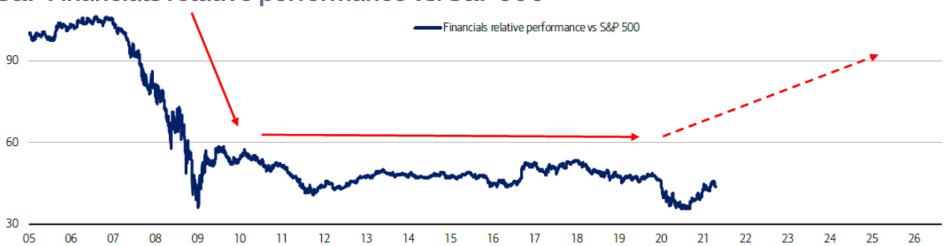
In our experience, investment cycles take 7-10 years to play out, on average. It can take years for the market to recognise when a stock is badly mispriced, or for problem sectors to recover. Fund managers that focus on short-term returns and the in-crowd miss these opportunities.

Consider the chart below of US tech stocks. When tech stocks crashed at the turn of the century, it took two decades for the sector to deliver the same level of outperformance.

S&P Tech relative performance vs. S&P 500

The next chart shows US financial stocks. While these have experienced a long period of depressed prices, underlying fundamentals have been steadily improving and yet to be fully recognised by the market. PM Capital believes the global financial sector will outperform this decade. 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 stock achieved top-quartile valuations. The Fund has increased its global bank holdings during Covid in 2020 when the sector was oversold and offered outstanding long-term value.

S&P Financials relative performance vs. S&P 500



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

Decades, not years, matter with fund returns

So, over what period should you assess a fund manager when deciding where to invest? One year, three years, five years, seven years? As we've mentioned, investment cycles take 7-10 years. Assessing a fund manager only on one, three or five-year returns is risky.

Consider an asset manager that launched a global equities fund in 2015. This manager allocated a large part of its fund to US tech stocks and held them for the next five years. It invested with the in-crowd and its five-year fund returns looked great. But that fund's outperformance may have been due more to timing than skill.

Now, consider a different approach when choosing a fund manager. You assess the manager's return over 10 years to tell how it performed over a full investment cycle. Better still, you assess the manager over two full investment cycles (20 years) to see how it performed. That reduces the risks of a manager outperforming due to luck, timing or sticking with the in-crowd.

Morningstar, a funds-management researcher, neatly summed up the case for long-term assessment of fund performance in a 2018 report . It 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 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."*

Managers that consistently outperform over one full investment cycle are hard to find; those that do it over two cycles, such as PM Capital, are rare.

3 Experience helps separate the frogs from the toads

Key points

- Beware the high rate of failure in active managed funds
- Understand why so many managers choose to stay with the in-crowd
- Recognise the value of fund-manager tenure, longevity

High failure rate

The 2020 SPIVA Persistence Scorecard measured the style and consistency of US equity funds over 20 years. It found that just under a third of all domestic funds survived that period, and about the same proportion maintained their investment-style consistency. The SPIVA Scorecard noted: “Over 20 years, nearly 70% of (US) 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 of those that do survive change their key personnel or investing style.

Why so many managers invest with the In-Crowd

The low survival rate of equity funds encourages too many funds to ‘chase momentum’ to deliver short-term outperformance at the expense of long-term returns. To stand out, some funds promote investment styles based on the latest ‘hot sector’ or business buzzwords (such as ‘disruption’ or ‘FAANG’ funds).

History shows a recurring pattern of new managed equity funds achieving short-term outperformance by investing with the in-crowd, and using returns to attract publicity and net fund inflows. The fund then underperforms for several years and eventually closes.

Value of fund-manager tenure

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.

Moreover, having the same key team members and style helps ensure a fund remains true-to-label for its investors.

Over the years, PM Capital has seen many active managed funds change their investment team or style. In contrast, PM Capital’s key personnel and investment style have not changed since our inception in 1998. Founder Paul Moore remains PM Capital’s chief investment officer and portfolio manager to this day.

4 Portfolio construction checklist – a recap

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 assess company valuations are the key to building 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 – can destroy wealth.

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.

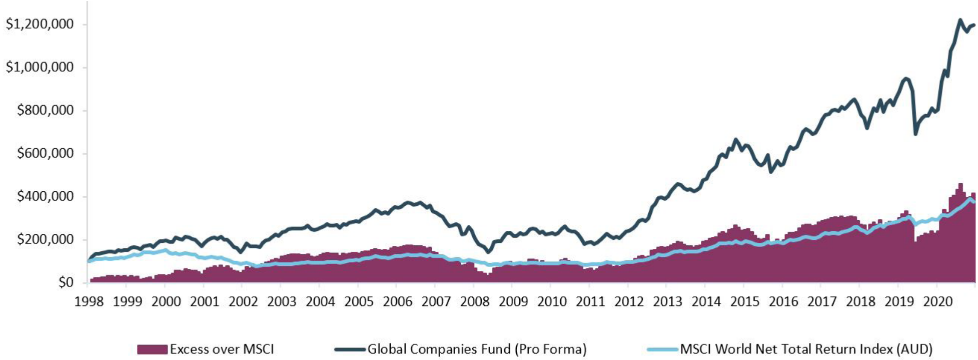
AVOID SHORT-TERM NOISE

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

5 PM Capital's approach and performance

The PM Capital Global Companies Fund has outstanding long-term performance (over 10 and 20 years). When we examine consistency of rankings across each of these time periods, no single fund exceeds our pro-forma investment result. Past performance is not indicative of future performance.

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.

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