

# Monthly Update

28 FEBRUARY 2018

## Fund commentary

The Fund was affected by some holdings announcing worse than expected half yearly results, provoking share price falls and causing a drag on performance.

The Fund had a difficult month on the back of a worse than expected earnings season. EML Payments (-27%) was impacted significantly after management downgraded its expectations for FY18 due to a slower than expected pick-up in their salary packaging business in the US. Although the downgrade did affect the price, the magnitude of the share price fall was probably primarily attributable to the CEO selling 20% of his shareholding post the AGM back in November. Although the optics are bad, we remain comfortable with corporate governance, the management team and the business's growth potential. We retain our position.

PMP (-28%) downgraded its EBITDA expectations for

FY18 again by 10% after the new CEO undertook a detailed analysis of the revenue pipeline in its printing business. The steep deterioration of the fundamentals of the business in a short period of time put into question our investment thesis and we reduced our position in PMP by nearly a third during the month.

NextDC (+16%) continued to be a positive contributor after management upgraded its guidance for FY18 at their half year results. We believe the total addressable market for the business continues to grow.

We reduced our position in BigTinCan and closed out of our short position in Computershare following a positive half yearly earnings announcement.

Fund performance* (net of fees)	Inception Date	Exit Price (\$, cum)	1 Month	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Since inception - total
<b>Australian Companies Fund</b>	<b>1/2000</b>	<b>1.9736</b>	<b>-4.1%</b>	<b>-0.8%</b>	<b>1.1%</b>	<b>6.2%</b>	<b>6.3%</b>	<b>10.4%</b>	<b>10.5%</b>	<b>509.5%</b>
S&P / ASX 200 Accumulation Index			0.4%	1.7%	7.5%	10.1%	5.1%	8.0%	8.2%	314.2%
Outperformance by the Fund			-4.5%	-2.5%	-6.4%	-3.9%	1.2%	2.4%	2.3%	195.3%

Portfolio investments	Weighting
Domestic Banks	15.4%
International Banks	15.2%
Non Bank Financials	13.7%
Property	5.2%
Industrials	6.5%
Technology	10.4%
Internet	6.9%
Other	1.8%
<b>Long Equities Position</b>	<b>75.1%</b>
Short Equities Position	0.0%
<b>Net Invested Equities</b>	<b>75.1%</b>
<b>Total holdings</b>	<b>20</b>

Current stock example
ANZ
Bank of America
EML
Centuria Industrial
PMP Limited
Adacel Technologies
iCar

Currency exposure*	
AUD	82.9%
EUR	9.6%
USD	7.5%
<b>Total exposure</b>	<b>100.0%</b>

\*Stated at effective value.

PM Capital Limited, founded in 1998, is a globally-focussed fund manager that invests money on behalf of private clients, the clients of financial advisers and institutions. PM Capital's goal is to build long term wealth by investing in global markets with patience and conviction.

### Investment philosophy

We aim to build long term wealth together with our co-investors by finding and exploiting investment anomalies. Using a focused, patient and considered approach to finding simple investment ideas produces the best environment for creating that long term wealth.

Our experience has shown us that while the market is largely efficient, it can, and regularly does, misprice a small proportion of companies. Our unique process is based on scanning the world for those companies (hence the radar in our logo), discovering the associated valuation anomalies and extracting value from them. We buy good businesses at a good price; businesses that we believe are being valued differently to their long term intrinsic value, but will return to their correct value over time.

### Who manages the investment?

Uday Cheruvu is the Portfolio Manager, who has over 13 years' industry experience and is supported by a team of investment analysts. The investment team is led by founder and CIO Paul Moore who has over 30 years' experience in successfully managing investment funds.

We believe in being a patient investor, one that has conviction, one that finds opportunities where others can only see risk. We only invest in what we know, deeply, via our fundamental research.

### Why the Australian Companies Fund?

**Proven:** The Fund's process has been shown to be effective, based on a

philosophy developed by Paul Moore, over 30 years. This has produced attractive long term capital growth.

**Unrestricted:** The concentration of the Australian equities market means many managers cannot add significant value. We have an authentic investment process where our exposure to industry sectors or market capitalisation is determined solely by our conviction in the risk/ reward opportunities that we identify within portfolio guidelines. No conviction = no investment.

**Opportunistic and focused:** The Fund is not built around a general market benchmark or index - it is highly focused based on our fundamental, bottom-up investment process. As a guide, the Fund holds around 15 - 25 deeply researched stocks that we believe give the best opportunity to produce strong long term returns.

### Global Expertise and value add:

Through this portfolio construction method used by the Fund directly benefits from PM Capital's global investment research that underlies the award winning PM Capital Global Companies Fund. This works in two ways - the Fund can invest up to 20% of the portfolio in international opportunities identified by the investment team. The Portfolio Manager can also take the market anomalies found globally and use the insights to identify similar opportunities in the Australian market.

**Co-investment:** Our co-investors receive access to a unique subset of opportunities which they may otherwise find difficult to access. The management team have significant investments in the Fund - they invest for and with you.

**Outperformance:** The Fund *has outperformed the relevant market index by 195% since inception*. The Fund is managed from an Australian investor's perspective with consideration for tax and currency outcomes.

## Key Fund Details

### Fund category

Australian equities

### Investment style

Fundamental, bottom-up research intensive approach

### Inception date

20 January 2000

### Fund size

\$37.5 Million

### Strategy size

\$37.5 Million

### Number of stocks

As a guide, 15-25 stocks

### Minimum direct investment

\$20,000

### Recommended investment time

Seven years plus

### Fees (pa)

Management fee: 1.09%

Performance fee: 20% of net excess above RBA Cash Rate (subject to a high water mark).

### Buy / sell spread

0.5% (Round trip)

### Investor profile

The Fund may be appropriate for investors seeking capital appreciation over a seven plus year investment horizon

## Important Notice

This Report is issued by PM Capital Limited ABN 69 083 644 731 AFSL 230222 as responsible entity for the PM Capital Australian Companies Fund (ARSN 092 434 467, the 'Fund'). It contains summary information only to provide an insight into how we make our investment decisions. This information does not constitute advice or recommendations, and is subject to change without notice. It 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 which available from us, and seek their own financial advice prior to investing. The PDS explains how the Fund's Net Asset Value is calculated. 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 market forces. The investment objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term.

1. Returns are calculated from exit price to exit price assuming the reinvestment of distributions for the period as stated and represent the combined income and capital return. The Index is the S&P / ASX 200 Accumulation Index. See [www.asx.com.au](http://www.asx.com.au) for further information on the Index.

## Further Information

[www.pmcapital.com.au](http://www.pmcapital.com.au) T: +612 8243 0888 E: [pmcapital@pmcapital.com.au](mailto:pmcapital@pmcapital.com.au)