

# Monthly Update

## Fund commentary

- Minimal interest rate exposure protects investor capital as local rates rise.
- Spain gets back to business.
- Cash on hand for a rainy day.

The Fund's effectively 100% strategic exposure to floating interest rates protected capital well over the month, as Australian medium to long term interest rates rose by an average of ~15-20 basis points.

Spanish property strengthened in December with Lar Espana and Hispania all performing well, as Spanish markets put the Catalonia volatility behind them for the time being.

Predominately US and UK property company Kennedy Wilson was weaker over the month, partly as a result of a number of Kennedy Wilson Europe (KWE) investors divesting their holdings post KWE's merger with the

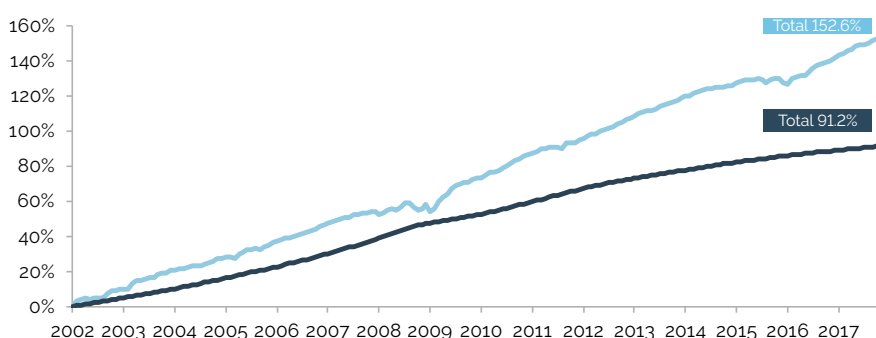
Kennedy Wilson US entity. It appears to us that the selling relates to their inability to own the US entity, rather than anything company or valuation-specific.

The Fund currently has significant cash available to be deployed, should any near to medium term pockets of volatility present any significant opportunities to invest capital.

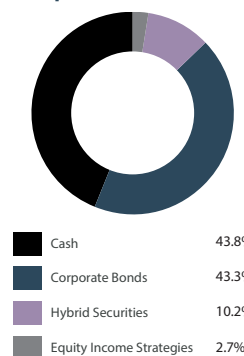
Looking forward, we firmly believe that the best way to generate an acceptable return from fixed income over the medium to long term will be to focus on strategies that employ targeted stock picking, and are positioned to avoid any meaningful exposure to rising interest rates.

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	Total Return
<b>Enhanced Yield Fund</b>	<b>02-2002</b>	<b>1.1330</b>	<b>0.3%</b>	<b>1.2%</b>	<b>1.9%</b>	<b>5.3%</b>	<b>3.9%</b>	<b>4.2%</b>	<b>6.0%</b>	<b>152.6%</b>
RBA cash rate			0.1%	0.4%	0.8%	1.5%	1.8%	2.1%	4.2%	91.2%
Excess			0.2%	0.8%	1.1%	3.8%	2.1%	2.1%	1.8%	61.4%

## Total return since inception



## Effective exposure



Yield security maturity profile	
0-1 Year	49.0%
1-2 Years	14.9%
2-3 Years	9.1%
3-4 Years	5.7%
4 Years +	21.3%

Top 10 exposures**	Holding
NAB	4.2%
Wells Fargo	4.0%
Taurus	3.4%
CBA	3.3%
IAG Finance	3.2%
Seek Ltd	3.1%
NAMA	3.1%
Tattersalls	2.9%
Lar Espana Real Estate	2.7%
Tesco Property Finance PLC	2.3%

Regional allocation	
Australia	28.8%
Europe	11.5%
United Kingdom	7.8%
North America	6.1%
New Zealand	2.0%
Cash	43.8%

Risk/return	
Standard deviation (1 year)	0.62%
Maximum drawdown	3.26%
Percentage of positive months	86.8%

Duration	
Interest rate*	0.15
Average term to maturity*	2.28

\*These numbers are estimates and should be used as a guide only. \*\*Excludes cash.

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 around the world. 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. This mispricing can arise as a result of any number of reasons, but is most often associated with disruptive or cyclical change, new information which is misunderstood by the market as having a permanent impact when it is in fact transitory, or just because they are operating in a sector out of favour with investors.

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?

Jarod Dawson is the Portfolio Manager and has been managing the portfolio since 2004. Assisted by John Whelan and Russell Morgan, together they have over 30 years' combined industry experience. Jarod, John and Russell are also supported by the broader investment team, with Paul Moore as CIO who has over 30 years' experience in successfully managing investment funds.

#### Why the Enhanced Yield Fund?

**Dependable:** A minimum 20% cash position helps the Fund to preserve capital and achieve its return objectives with low volatility. The Fund's process is effective and repeatable, based on a proven philosophy. This Fund has been producing attractive returns for co-investors for more than 15 years, and is one of the longest running yield funds of its kind.

**Careful:** We have an authentic investment process where our exposure to industry sectors, geographic regions or market capitalisation is determined solely by our conviction in individual risk/reward opportunities that we identify. All holdings within the Fund have been intensively researched by our investment team. No conviction = no investment.

**Co-investment:** Our co-investors receive access to a unique subset of opportunities which they would otherwise find difficult to replicate. PM Capital and some of its staff have meaningful investments in the Fund - they invest for and with you.

### Key Company Details

#### Fund category

Fixed income

#### Investment style

Fundamental, bottom-up-research intensive approach

#### Inception date

1 March 2002

#### Fund size

\$470.0 million

#### Strategy size

\$693.5million

#### Minimum direct investment

\$20,000

#### Recommended investment time

Two years plus

#### Fees (p.a.)

Management fee: 0.55%.

Performance fee: 25% of net excess above RBA Cash Rate (subject to a high watermark)

#### Buy / sell spread

0.2% (Round trip)

#### Investor profile

The Fund may be appropriate for investors seeking capital preservation and potential return in excess of the Reserve Bank of Australia's (RBA) cash rate with a low degree of volatility

### Important Notice

This Report is issued by PM Capital Limited ABN 69 083 644 731 AFSL 230222 as responsible entity for the PM Capital Enhanced Yield Fund (ARSN 099 581 558, 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 a recommendation, 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 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. 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 RBA Cash Rate. See [www.rba.gov.au](http://www.rba.gov.au) for further information.

#### Monthly Return Series Since Inception

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	CYTD
2017	0.7%	0.7%	0.4%	0.4%	0.6%	0.5%	0.4%	0.2%	0.2%	0.5%	0.3%	0.3%	5.3%
2016	-1.1%	-0.3%	1.5%	0.6%	0.3%	0.2%	0.8%	0.7%	0.7%	0.5%	0.2%	0.6%	4.7%
2015	0.0%	0.7%	0.3%	0.5%	0.1%	-0.2%	0.3%	-0.1%	-0.8%	0.8%	0.2%	0.0%	1.7%
2014	0.5%	0.3%	0.3%	0.5%	0.4%	0.5%	0.3%	0.2%	0.2%	0.1%	0.0%	0.3%	3.7%
2013	0.7%	0.4%	0.7%	0.5%	0.5%	-0.1%	0.6%	0.4%	0.5%	0.6%	0.1%	0.7%	5.6%
2012	0.7%	0.6%	0.7%	0.4%	0.1%	0.5%	0.7%	0.5%	0.5%	0.7%	0.4%	0.6%	6.6%
2011	0.4%	0.8%	0.4%	0.6%	0.3%	0.2%	0.1%	0.0%	-0.5%	1.6%	0.2%	0.0%	4.3%
2010	0.5%	0.0%	0.9%	0.8%	0.0%	0.6%	0.9%	0.5%	1.1%	0.7%	0.5%	0.8%	7.5%
2009	1.5%	-2.3%	1.0%	2.5%	1.5%	1.4%	1.6%	1.1%	0.3%	0.6%	0.2%	1.0%	11.0%
2008	-0.4%	-0.6%	0.6%	1.0%	0.5%	-0.7%	1.3%	1.4%	0.2%	-1.9%	-1.0%	0.5%	0.8%
2007	0.6%	0.5%	0.5%	0.6%	0.6%	0.4%	0.5%	0.6%	0.4%	0.4%	0.1%	0.6%	6.0%
2006	1.0%	0.4%	0.6%	0.8%	0.2%	0.5%	0.5%	0.9%	0.5%	0.6%	0.6%	0.8%	7.8%
2005	0.3%	0.6%	-0.1%	-0.4%	1.7%	0.5%	1.3%	0.2%	0.4%	-0.3%	1.3%	0.6%	6.2%
2004	0.8%	0.4%	0.3%	0.1%	1.1%	0.7%	-0.4%	0.2%	0.7%	0.8%	0.9%	0.8%	6.5%
2003	1.0%	0.0%	0.6%	2.1%	1.2%	0.8%	0.5%	0.7%	0.0%	1.1%	0.6%	0.6%	9.5%
2002			2.6%	0.9%	1.0%	-0.5%	0.4%	0.0%	0.2%	2.2%	1.7%	0.0%	8.7%

#### Further Information

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