

Monthly Update

Fund commentary

Tesco continuing to deliver. UK and Irish commercial property on a solid footing. Potential uncertainty may create opportunity.

Credit markets were mixed over the month, as investors speculate on the implications of the Federal Reserve's plans to start reducing its balance sheet, the timing of rate hikes, and rising tensions between the US and North Korea. We suspect these issues have the potential to create opportunities near term, rather than being structural impediments to longer term investing.

The Fund's holding in Tesco's senior secured bonds performed well over the month as its turnaround strategy continues to deliver solid sales growth. Our holding in senior secured UK office property investment Taurus also performed well as it pays down debt and the UK economy shows further signs of improvement.

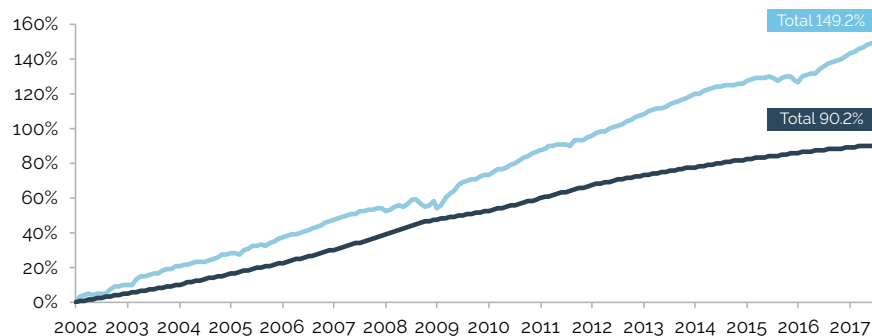
We sold our holding in Hibernia as Irish commercial property prices approach more normalised levels. We generated over a 20% return from this investment.

We increased our position in CBA's Euro subordinated bond at \$A Bills + ~190bp (yield ~3.65%) on weakness post ASIC's announcement of an investigation into their ability to detect money laundering. We view this as a transitory issue.

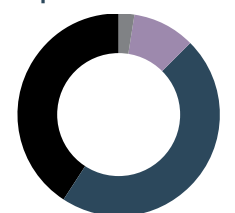
With plenty to digest, we suspect markets will bounce around a little more over the coming months. However, with substantial capital available we are well positioned to take advantage of any significant opportunities in credit markets.

| 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 |
|-----------------------------------|-------------------|----------------------------|-------------|-------------|-------------|-------------|------------------|------------------|--------------------------|-----------------|
| Enhanced Yield Fund | 02-2002 | 1.1280 | 0.2% | 0.7% | 2.2% | 5.4% | 3.6% | 4.3% | 6.0% | 149.6% |
| RBA cash rate | | | 0.1% | 0.4% | 0.8% | 1.5% | 1.9% | 2.2% | 4.2% | 90.5% |
| Excess | | | 0.1% | 0.3% | 1.4% | 3.9% | 1.7% | 2.1% | 1.8% | 59.1% |

Total return since inception



Effective exposure



| Yield security maturity profile | | Top 10 exposures** | | Regional allocation | |
|---------------------------------|-------|----------------------------|------|---------------------|-------|
| 0-1 Year | 43.0% | NAB | 4.4% | Australia | 30.2% |
| 1-2 Years | 12.7% | CBA | 4.2% | United Kingdom | 10.4% |
| 2-3 Years | 12.3% | ANZ | 4.0% | Europe | 9.8% |
| 3-4 Years | 6.7% | Taurus | 3.5% | North America | 7.0% |
| 4 Years + | 25.3% | IAG Finance | 3.1% | New Zealand | 2.1% |
| | | Wells Fargo | 3.1% | Cash | 40.5% |
| | | Seek Ltd | 2.9% | | |
| | | Lar Espana Real Estate | 2.8% | | |
| | | Tattersalls | 2.6% | | |
| | | Tesco Property Finance PLC | 2.4% | | |
| Risk/return | | Duration | | | |
| Standard deviation (1 year) | 0.66% | Interest rate* | 0.15 | | |
| Maximum drawdown | 3.26% | Average term to maturity* | 2.67 | | |
| Percentage of positive months | 86.6% | | | | |

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

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, together they have over 30 years' combined industry experience. Jarod and John 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

\$444.2million

Strategy size

\$657.7 million

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 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% | | | | 4.1% |
| 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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