PM Capital

DECEMBER 2017

Quarterly Report

Fortune tellers

Forecasts, predictions and other dangerous activities

p.1 Quarterly video update

PM Capital Global Companies Fund
ARSN 092 434 618
APIR Code PMC0100AU

PM Capital Asian Companies Fund
ARSN 130 588 439
APIR Code PMC0002AU

PM Capital Australian Companies Fund
ARSN 092 434 467
APIR Code PMC0101AU

PM Capital Enhanced Yield Fund
ARSN 099 581 558
APIR Code: PMC0103AU

CONTENTS

Quarterly video update

Chief Investment Officer Paul Moore and Portfolio Manager Jarod Dawson give their views on:

- How our investment approach remains positive after recent market gains
- Where the real market opportunities and risks lie now
- How investors need to be careful that gains from credit aren't wiped out by exposures to interest rate duration.

Access the video **here**.

"Unemployment in some US states is now 3% or below, another anecdote highlighting that we are now in the second innings of the post-Trump world and that inflation and rates, in our opinion, have inflected."

Total returns since inception[1]

Fund		Benchmark	
PM Capital Global Companies Fund	425.3%	MSCI World Net Total Return Index (AUD)	128.5%
PM Capital Asian Companies Fund	325.4%	MSCI AC Asia ex Japan Net (AUD)	126.7%
PM Capital Australian Companies Fund	534.1%	S&P / ASX 200 Accum. Index	314.6%
PM Capital Enhanced Yield Fund	152.6%	RBA Cash Rate	91.2%

[1]Past performance is not a reliable indicator of future performance. See page 15 for Important Information. As at 31 December 2017.

Global Companies Fund

- **The Global Companies Fund** aims to create long term wealth through a hand-picked, concentrated portfolio of 25-45 global companies trading at prices that we consider, after extensive research, to be trading at prices different to their intrinsic values and will provide attractive future returns.
- **The Fund's investment objective** is to provide long term capital growth and outperform the greater of the MSCI World Net Total Return Index (AUD) or RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Global equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 25-45 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	28 October 1998
Unit trust FUM	$389.5m as at 31 December 2017
Global equities FUM	$1,046.7m as at 31 December 2017

Global Companies Fund

Paul Moore
Global Portfolio Manager

Fund performance (net of fees)	Inception Date	Exit Price ($)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Since inception - total
Global Companies Fund	**10-1998**	**2.8865**	**5.9%**	**9.3%**	**20.4%**	**11.8%**	**19.8%**	**9.0%**	**425.3%**
MSCI World Net Total Return Index (AUD)			5.8%	8.5%	13.3%	10.9%	18.1%	4.4%	128.5%
Outperformance by the Fund			0.1%	0.8%	7.1%	0.9%	1.7%	4.6%	296.8%

KEY POINTS

- Market moves on US tax reform
- Secular trends inflecting
- Earnings growth the driver from here

PERFORMANCE

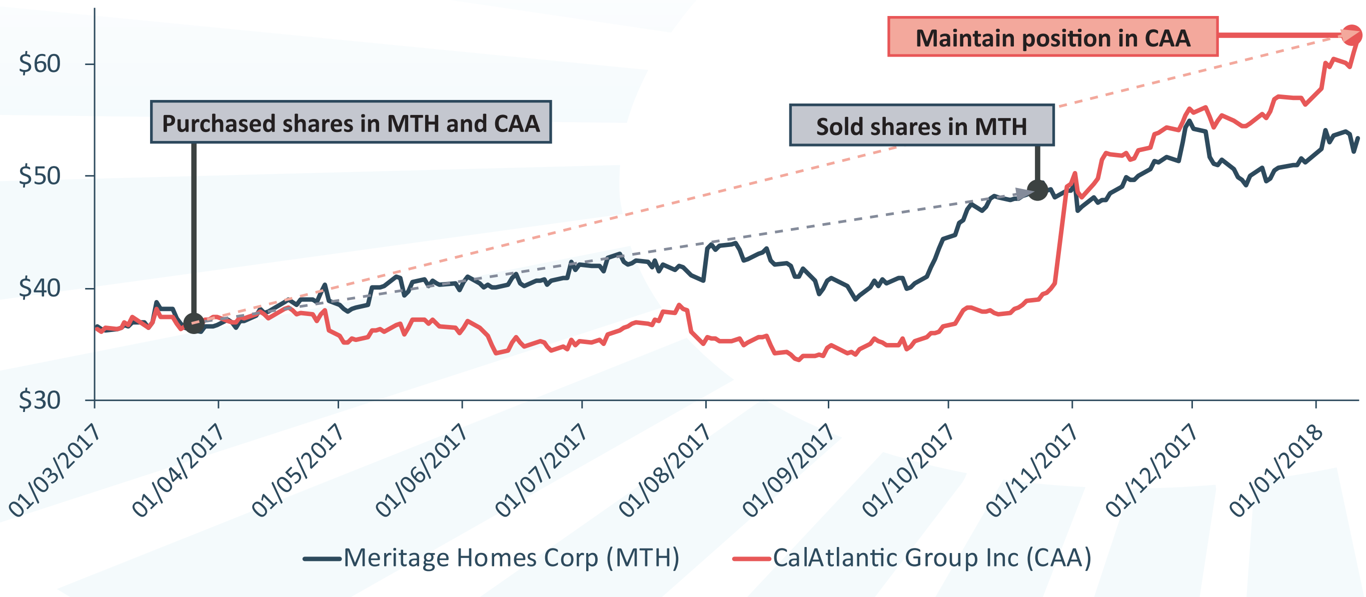
The portfolio has produced attractive returns in the December quarter and 2017 calendar year, benefiting from its exposure to domestically-focused US firms that will most benefit from corporate tax reform.

PORTFOLIO ACTIVITY

We purchased US homebuilders Meritage Homes and CalAtlantic Group in early 2017. We subsequently sold Meritage during the December quarter at a 30% profit over less than a 9-month holding period. In October CalAtlantic attracted a stock and cash takeover bid by another homebuilder, Lennar, at a 27% premium to the pre-bid price. This will create the largest homebuilder in the USA with significantly greater brand recognition and improved scale density in all its major markets. We remain comfortable with our remaining exposure to the sector.

In November we met with Merck in New York. There has been evidence of increasing competitiveness in their core drug franchises and a delay in pivotal data from Keytruda (a cancer drug). Keytruda is a significant contributor to future earnings growth. Given increased downside risk to earnings in the absence of a positive read-out from the Keytruda trial data we deemed it prudent to exit the position.

Figure A: US homebuilders Meritage Homes Corp (MTH) and CalAtlantic Group Inc (CAA)
Fund position history (USD)
Source: Factset



OUTLOOK

The US market had a strong quarter, driven by a rotation into the companies set to benefit the most from lower corporate tax rates. As we have discussed previously, the changes in tax will encourage domestic production via:

1. Significant reduction in the corporate tax rate from 35% to 21%
2. Allowing the full expensing of capital investment – a catalyst for corporate capital expenditure
3. Fundamental changes to the taxation of multinationals which will promote US production
4. Reduced taxes on the repatriation of previously untaxed old earnings
5. Reduction in individual income tax rates

The agenda will now move onto the long term infrastructure plan and reducing the regulatory burden on the business community. These initiatives, if enacted, should lead to a more productive economy over the long term.

US banking stocks have performed well recently in anticipation of the tax changes being passed. However, we believe the likely positive effects of the corporate tax cuts have not been fully appreciated by the overall market. We believe that tax reform should meaningfully increase the earnings power for both the businesses the banks lend to, as well as themselves.

Our US homebuilding positions were up strongly over the quarter with robust, broad-based demand for new housing. The limited inventory and pent-up demand among first-time home buyers confirms our view that the outlook for the future remains positive. New home sales are rapidly rising to meet this demand but remain well below mid-cycle transaction levels.

Our Spanish hotel stocks are in the midst of a recovery cycle, helped by the nation's safe destination status, reasonable prices and rising internal demand. During the quarter, NH Hotel's share price rise was caused by another Spanish hotel operator, Barcelo approaching NH with a merger plan. While we value NH on a stand-alone basis, we also think long term that it will be a part of consolidation in the highly fragmented European hotel market.

Underperforming stocks over the quarter included US real estate company Realogy and Spanish financial services company Caixabank. Realogy missed earnings expectations in the third quarter due to pressure on agent splits and tight housing inventory which is having the effect of lowering housing transactions. Caixabank was hit due to poor sentiment, with the results of the recent Catalonian elections resulting in what is likely to be a continuing political stalemate and uncertainty.

The Australian Dollar finished the year close to the top of its three-year trading range. While the interest rate differential has narrowed significantly between the US and Australia, commodity prices have been rebounding on synchronised global growth and a weaker US Dollar against the majors.

Portfolio investments	Weighting
Global Brewing	2.3%
Post GFC Housing Recovery - US	13.9%
Post GFC Housing Recovery - Europe	12.6%
Global Domestic Banking	36.2%
Service Monopolies	18.2%
Pharmaceuticals	3.2%
Gaming - Macau	4.9%
Alternative Investment Managers	12.1%
Other	4.0%
Long Equity Position	**107.5%**
Short Equity Position	-17.7%
Net Invested Equities	**89.8%**
Total holdings	42

Current stock example
Heineken
Howard Hughes Corporation
Cairn Homes
Bank of America
Alphabet
Pfizer
Wynn Macau
KKR & Co L.P.

Currency exposure*	
USD	75.2%
EUR	18.0%
GBP	6.4%
AUD	0.4%
Total exposure	100.0%

* Stated at effective value.

Paul Moore - Chief Investment Officer and Global Portfolio Manager

John Whelan - Contributing author

Asian Companies Fund

- **The Asian Companies Fund** aims to create long term wealth through a concentrated portfolio of 15-35 hand-picked companies within Asia ex-Japan that we believe are trading at prices different to their intrinsic values.

- **The objective of the Fund** is to provide long term capital growth and outperform the greater of the MSCI All Country Asia (ex-Japan) Net Index (AUD) or RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Asian (ex-Japan)[2] equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-35 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	1 July 2008
Unit trust FUM	$26.9m as at 31 December 2017
Asian equities FUM	$95.5m as at 31 December 2017

Asian Companies Fund

Kevin Bertoli
Asian Portfolio Manager

Fund performance[1] (net of fees)	Inception Date	Exit Price ($, cum)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Since inception - total
Asian Companies Fund	**7/2008**	**1.9815**	**5.1%**	**10.9%**	**27.2%**	**11.5%**	**15.7%**	**16.5%**	**325.4%**
MSCI AC Asia ex Japan Net Total Return Index			8.6%	13.2%	31.2%	12.4%	14.2%	9.0%	126.7%
Outperformance by the Fund			-3.5%	-2.3%	-4.0%	-0.9%	1.5%	7.5%	198.7%

KEY POINTS

- Performance was pleasing over the quarter building upon strong returns over the last year
- Macau holdings again were strong contributors to performance
- New position initiated in South Korean company Amorepacific Corporation

PERFORMANCE

The Fund continued its recent period of positive performance in December, with the majority of portfolio holdings advancing.

Dali Foods (+27%) was the largest contributor to portfolio performance. Many of China's leading Fast Moving Consumer Good's businesses, of which Dali Foods is one, performed strongly over the quarter as the 'Chinese consumer' thematic garnered more attention from investors. While there was no Dali-specific news which has led us to change our view of the company's underlying earnings trajectory, the recent share price move suggests investors are becoming more optimistic about the company's outlook, particularly management's efforts to 'premiumise' its brand portfolio.

Our gaming investments were mixed during the quarter with Macau-based holdings, MGM China (+26%) and Wynn Macau (+16%), as well as Cambodia-based Nagacorp (+28%) all providing significant positive contributions to performance. This offset a weak Donaco International (-14%). Our Macau holdings once again benefited from the release of strong monthly gaming revenue and visitation statistics which exceeded market estimates and drove upward revisions to consensus estimates. This rational for the strong performance of our Macau holdings has been a consistent message over the past eighteen months.

Official gaming revenues released by Macau's government advanced 19% in 2017, the first increase in three years, while overnight visitation grew 10%. Attitudes towards Macau have improved considerably over the last year as investors have become more comfortable with the drivers of revenue growth and the industry's ability to navigate regulatory risks. This improved sentiment can be no better summed up than by the recent headline to a Bloomberg article: "Macau casino profits may surge to pre-crackdown highs".

Nagacorp saw a positive reaction to the November opening of its Naga 2 casino in Phnom Penh. The property doubles Nagacorp's capacity and should support significant growth in earnings over the next couple of years. Conversely, Donaco International declined after management provided a disappointing trading update to investors at its AGM in November.

The portfolio's financial holdings also contributed meaningfully to performance as they reacted positively to rising US interest rates. DBS Group (+19%) was the strongest of our holdings, continuing the valuation rerating seen over the past 12 months as concerns surrounding its oil and gas loan portfolio also diminished.

PORTFOLIO ACTIVITY

The invested position increased over the period to 85.9%. During the quarter we initiated a position in South Korean cosmetics company Amorepacific Corporation. Recent geopolitical tensions between South Korea and China have had a meaningful impact on Korean companies reliant on Chinese consumers. Korea's cosmetics companies are beneficiaries of inbound Chinese tourism, particularly through the duty-free channel, which has reduced considerably as tensions have risen. While the conflict looks to be easing, it is always difficult to predict how these events will unfold in the short term. However, it is our belief that in the longer term these issues will prove to be transitory and will not fundamentally impact the long term competitive position of Amorepacific which commands a leading position in the Korean cosmetics market. We chose to initiate this position in the Company's

Asian Companies Fund

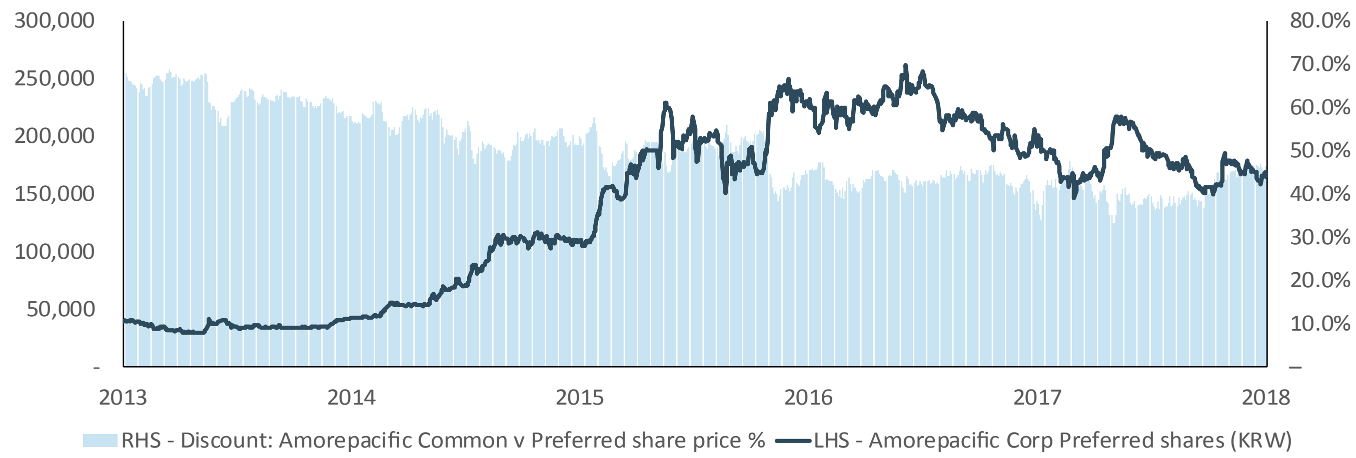
preferred, rather than common, shares. Preferred shares give investors virtually the same economic benefits as common stock holders (in some cases the dividend per preferred share is slightly higher) without the voting rights. Amorepacific's preferred shares currently trade at a 45% discount to the common stock.

Portfolio holding iCar Asia announced a A$10 million rights issue in November. Participating shareholders also received an attaching option that has the potential to raise another A$10 million within the next 18 months. This raising strengthens the company's balance sheet, ensuring management has adequate scope and flexibility to continue investing in the recent initiatives it outlined to the market. We participated in the capital raising, taking up our pro rata allocation in the rights issue, but also increased our position by taking a portion of the shortfall in demand for the pro rata rights allocations.

OUTLOOK

Our current thoughts remain consistent with views outlined in recent portfolio commentary. As witnessed by the strong recent performance of Asian markets the pendulum has clearly shifted, with investors now holding a much more favourable view of the region's economic prospects, particularly those in China. As a result, many of the anomalies that existed 12 months ago have been realised. Despite the noticeable improvement in sentiment, many underlying risk factors that were at the forefront of investors' minds in 2016 such as excessive debt and an overreliance on government infrastructure stimulus in the absence of strong private demand, still exist and continue to pose real risks to the economic growth and investor's confidence. Consequently, we remain vigilant when redeploying capital and caution readers against being caught up in the euphoria of strong markets.

Figure B: New purchase - Amorepacific Corporation
Source: Factset



Portfolio investments	Weighting
Financials	17.3%
Online classifieds & Ecommerce	17.3%
Consumer - Breweries	5.7%
Consumer - Other	10.3%
Gaming - Macau	9.1%
Gaming - Other	5.5%
Capital Goods & Commodities	9.4%
Oil & Gas Infrastructure	9.0%
Other	2.3%
Long Equity Position	**85.9%**
Credit Securities	0.0%
Net invested Equities	85.9%

Current stock example
HSBC Holdings
Baidu
Heineken Malaysia
Dali Foods
Wynn Macau
Naga Corp
Turquoise Hill Resources
Sinopec Kantons

Currency exposure*	
USD	44.0%
HKD	43.2%
AUD	12.7%
Other	0.1%
Total exposure	100.0%

* Stated as Effective Exposure.

Portfolio Manager Kevin Bertoli talks on the impact of changing capital flows in Asia here.

Kevin Bertoli - Asian Portfolio Manager

Australian Companies Fund

- **The Australian Companies Fund** aims to create long term wealth through a hand-picked portfolio of 15-25 predominantly Australian companies that we believe are trading at prices different to their intrinsic values.

- **The Fund's objective** is to provide long term capital growth and outperform the greater of the S&P/ASX 200 Accumulation Index or the RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Australian equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-25 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	20 January 2000
Unit trust FUM	$38.4m as at 31 December 2017
Australian equities FUM	$38.4m as at 31 December 2017

Australian Companies Fund

Uday Cheruvu
Australian Portfolio Manager

Fund performance[1] (net of fees)	Inception Date	Exit Price ($, cum)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Since inception - total
Australian Companies Fund	**1/2000**	**2.0533**	**4.4%**	**3.3%**	**11.2%**	**11.2%**	**13.5%**	**10.8%**	**534.1%**
S&P / ASX 200 Accumulation Index			7.6%	8.4%	11.8%	8.6%	10.2%	8.2%	314.6%
Outperformance by the Fund			-3.2%	-5.1%	-0.6%	2.6%	3.3%	2.6%	219.5%

KEY POINTS

- Positive overall performance, with the majority of Fund positions contributing
- PMP and a relatively high net cash position were the biggest drags on performance

PERFORMANCE

The Fund provided a return for the quarter of 4.4% bringing the return for the year to 11.2%. Whilst returns of this nature are generally well received, we are mindful the market ran ahead of this, with the December quarter being below the benchmark S&PASX 200 index.

A majority of the Fund's positions performed better than the broader market. However, this was contrasted by:

- no exposure to resources stocks during a period where benchmark stocks such as BHP and Rio Tinto rallied ~14%
- having a net invested position of ~75% for the quarter
- losses in the Fund's largest position, PMP

PMP has been a positive contributor to the Fund over the past three financial years. During this time, PMP management undertook a sensible strategy of focusing on profitability and free cash flow growth, rather than chasing revenue growth in a highly competitive industry. This strategy allowed PMP to move to a cash-positive position. In addition, rational pricing behaviour by PMP management encouraged its competitors to reply in kind, improving margins and creating consolidation opportunities in the industry.

Our investment thesis was predicated on the fact that a merger between PMP and its main competitor, IPMG, was inevitable and the combined entity would be able to reduce its cost base by ~$45m over a period of two years, implying ~30 - 40% EPS accretion for PMP and improving pricing further in the industry. The merger proposal did eventuate in October 2016 and approved by the ACCC in February 2017. At the time of PMP's annual results in August and subsequent meetings with management in September we were given indications that the planned cost out was going according to plan and phase one of the cost out, which included plant rationalisation in New South Wales, Queensland and Victoria, had gone according to schedule. Phase one represented ~60% of the synergy benefits. Phase two was expected to be completed in 1H18. However, in a trading update in November, PMP management announced there would be delays of roughly 6 to 12 months in the implementation of phase two. Management also indicated industry pricing had not improved as per expectations. In addition, the CEO, who had run PMP so effectively over the past 5 years, announced his resignation due to a family bereavement. Investor reaction was severe - PMP share price fell 30%.

When considering the current position we can potentially discount the delay in synergies, but continued pricing pressure runs contrary to our investment thesis. In addition, our confidence that the company can hit its earnings targets is severely dented by the fact we are dealing with a new CEO, one who does not have the same cost-cutting experience as the exiting CEO. We weighed this against the current valuation of the business - ~3x forward EV/EBITDA and P/B < 0.8x - which implies the business trading close to replacement value. With these changes in mind, we are undertaking further research to review PMP's future prospects relative to its current valuation.

The commodities sector was the best performing in the last quarter as key commodities such as iron ore and oil rose 20%. Over the past 12 months we have articulated a view that key commodity stocks such as BHP, RIO and Woodside did not look cheap when using long term commodity price assumptions. At the start of the quarter, BHP and RIO were trading on 16x and 14x forward earnings based on long term forecasts. In contrast, if the spot price of commodities, which were ~20% higher than long term prices at that point, were used in valuation models, the PE for BHP and RIO looked more reasonable at ~12x and 9x respectively.

In order to have invested in BHP and RIO at that time, one needed to believe that long term commodity prices would substantially rise more than expected by the broader market. We found this a difficult proposition. We acknowledge that global growth is increasing but believe new supply coming to the market, particularly in 2019, will mean that supply growth will act as a ceiling on commodity prices and the current high spot price will revert to our long term assumptions. As a result, we see the current rally in commodity stocks as a trading rally rather than a secular change in the fundamentals of the sector. Although this contrarian view has affected performance, we remain patient on the benchmark mining stocks.

Bigtincan's (BTH) performance is of particular note, up 110% for the quarter, after two positive developments. Firstly, management accounts for November showed positive operational cashflows as the business hit an inflection point in its growth trajectory. Secondly, management announced that Verizon agreed to resell the "Hub", BTH's Sales Enablement Automation Platform, to users across its network. BTH already has a similar agreement with AT&T and this relationship with Verizon significantly increases the customer base that BTH can target in USA.

PORTFOLIO ACTIVITY

We sold out of our position in Altium after the stock rose ~55% from our purchase price. We bought into the business in August with the view that the market was underappreciating the earnings potential of the business, therefore anticipating that over the next two years a better than expected performance would result in a re-rating. Happily, the re-rating occurred much faster than we expected and we sold the position as it hit our target valuations.

We also increased our position in EML Payments, a provider of reloadable and prepaid gift cards in Australia, UK and Europe.

OUTLOOK

In the past year the Fund's net equity position has declined from ~92% to the current 72.7%. We have held the view that the broader Australian market is fairly valued and a number of the good quality businesses that we would consider owning are trading at valuations that already reflect their earnings potential. In a quarter where the broader market was up 7.7%, having ~25% of the Fund in cash resulted in some underperformance vs the index. Nevertheless, we remain convinced we will have better entry points, that maintaining discipline and higher cash levels affords opportunity in time and are happy to maintain our current net equity position.

Portfolio investments	Weighting
Domestic Banks	10.9%
International Banks	16.2%
Non Bank Financials	16.2%
Property	4.2%
Industrials	5.3%
Technology	9.8%
Internet	8.5%
Other	3.2%
Long Equity Position	74.2%
Short Equity Position	-1.5%
Net Invested Equities	72.7%
Total holdings	21

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

Currency exposure*	
AUD	83.2%
EUR	8.1%
USD	6.2%
GBP	2.5%
Total exposure	100.0%

*Stated at effective value.

Uday Cheruvu - Australian Equities Portfolio Manager

Enhanced Yield Fund

- **The Enhanced Yield Fund** aims to create long term wealth through identifying and profiting from market anomalies predominately in debt, corporate bond and hybrid security markets around the world. Originally developed to invest the portion of PM Capital's own money which would otherwise sit in cash, the Fund was opened to co-investors as we realised our problem – how to produce regular income and attractive returns with low volatility – was shared by many other investors.

- **The objective of the Fund** is to provide investors a return in excess of the Reserve Bank of Australia's (RBA) cash rate. The Fund aims to outperform the RBA cash rate with a low degree of volatility and minimal risk of capital loss.

Fund category	Fixed Income
Investment style	Fundamental, bottom-up research intensive approach
Investor profile	The Fund may be suitable for investors who seek a steady source of income, with a low degree of volatility, and an emphasis on capital preservation
Minimum investment	$20,000
Suggested investment time	2 years +
Inception date	1 March 2002
Unit trust FUM	$470.0m as at 31 December 2017
Fixed Income FUM	$693.5m as at 31 December 2017

Enhanced Yield Fund

Jarod Dawson
Global Yield Portfolio Manager

Fund performance (net of fees)	Inception Date	Exit Price ($, cum)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Enhanced Yield Fund	**02-2002**	**1.1330**	**1.2%**	**1.9%**	**5.3%**	**3.9%**	**4.2%**	**6.0%**	**152.6%**
RBA cash rate			0.4%	0.8%	1.5%	1.8%	2.1%	4.2%	91.2%
Excess			0.8%	1.1%	3.8%	2.1%	2.1%	1.8%	61.4%

KEY POINTS

- Greene King puts investors in high Spirits
- Tesco continues to deliver
- Targeted stock picking and positioning from higher interest rates the way forward.

PERFORMANCE

Performance for the December quarter was + 1.2%, taking the Fund to +5.3% after fees for the calendar year. For the level of risk taken, we think this compares favourably to the 1-year RBA cash rate return of 1.5%.

The US Federal Reserve raised interest rates to a range of 1.25%-1.50% in December, citing solid employment and GDP growth as the catalysts (and despite moderate inflation levels). It further indicated that it expects to raise rates by another 0.75% through 2018. The Reserve Bank of Australia on the other hand left rates on hold, noting that local inflation (particularly wages) remain subdued, and the rising $A is acting as a headwind to GDP growth.

While wages in Australia have lagged, we think the economy in general is on a reasonably sound footing, and find it hard to justify the RBA cash rate at the lowest level in Australia's history (1.50%). Indeed, the broad fall in lending rates to current levels has acted as a wage rise of sorts for many people. Conversely, we see the biggest risk to rates rising in 2018 as some sort of disorderly downward adjustment to property prices; however this is not our base case.

A number of our key investments performed well over the quarter.

Greene King (the owner of Spirit Pub Company, acquired in 2015) announced that it was calling its GBP denominated securitised debt at par, including the bond we owned. As noted in our November monthly, due to the nature of Greene King not being able to access the cashflow from the acquired secured properties until the bonds were fully redeemed, the redemption scenario was always central to our investment thesis. The bond rallied ~20% on this news and has now been redeemed.

Additionally, our Tesco senior secured property debt performed well during the quarter (rallying ~6%), as notable earnings improvements plus its use of free cashflow to reduce balance sheet debt – including an announcement that it intends to buy back some of its GBP and EUR denominated bonds – further boosted its credit profile. Indeed, we think Tesco is moving closer towards regaining its investment grade credit rating.

Our exposures to recovering property markets in both Spain and Ireland once again performed well, with our Spanish investments in Lar Espana and Hispania continuing to add meaningful value, along with our Irish investments in Glenveagh, the Irish National Asset Management Authority (NAMA) and Allied Irish Bank.

Next DC also performed well, as the earnings profile of its existing data centres continues to improve, and forward demand looks solid for space in the new data centres that it is currently building in Sydney, Melbourne and Brisbane.

PORTFOLIO ACTIVITY

While credit markets were generally stronger over the quarter, we identified numerous opportunities to add to our existing positions. To us this highlights the fact that even when markets are strong, if you focus your attention on stock picking rather than trying to time the broader market, there will always be opportunities to invest capital.

Enhanced Yield Fund

During the quarter we added to:

Security	Ranking	Term (years)	Spread to Bills (bp)	Yield (%)
CBA (EUR)	Subordinated debt	4.5	~+190bp	~3.65%
Taurus (GBP)	Senior secured debt	1.5	~400bp	~5.75%
NAMA (EUR)	Subordinated debt	2	~+400bp	~5.75%
Seek (AUD)	Senior unsecured debt	4.5	~+190bp	~3.65%
Sydney Airport (AUD)	Senior secured debt	3	~+210bp	~3.85%
IAG (AUD)	Hybrid debt	2	~+245bp	~4.20%

We also made an investment in a new Spanish residential property company during the quarter, and added to an existing investment in this space. These investments represent a continuation of our European property theme, with a particular emphasis on Spain and Ireland. We believe the new investment has the potential to generate a 10%+ pa return over the medium to longer term. We will detail this investment further in future reports.

OUTLOOK

Credit markets rallied considerably over the calendar year and as mentioned in our September quarterly report, anomalies are becoming a little harder to find. We believe that investors will struggle to generate an acceptable rate of return from a purely broad exposure to credit markets over the next couple of years, particularly if they also have meaningful exposure to interest rates.

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 adopt a strategy that employs targeted stock picking, and one that is focussed on identifying a select group of businesses that are believed possess unique characteristics, as well as being positioned to benefit from higher interest rates, and avoid capital loss if government bonds sell off. This is how the Fund is currently structured.

With over 40% of the fund currently sitting in cash, we are in a strong position to take advantage of any opportunities that fit the above criteria, should any pockets of volatility present themselves near term. Longer term, we believe that the Fund is in a sound position to deliver on its objectives.

Duration	
Interest rate*	0.15
Average term to maturity*	2.28

Portfolio Investments	Weighting**	Average yield	Average spread to RBA
Cash	**43.8%**	**1.99%***	**0.49%***
Corporate bonds	**43.3%**	**4.12%***	**2.62%***
Fixed	0.0%		
Floating	100.0%		
Hybrids	**10.2%**	**4.34%***	**2.84%***
Fixed	0.0%		
Floating	100.0%		
Equity income strategies	**2.7%**		
Total exposure	100.0%		

* These numbers are estimated and provided as a guide only

** Fixed / Floating proportions are determined after the effect of interest rate swaps.

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

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%

Jarod Dawson - Global Yield Portfolio Manager

Contact

REPRESENTATIVE CONTACTS

Lachlan Cameron
Head of Distribution

P +61 2 8243 0807
M +61 411 564 191
E lcameron@pmcapital.com.au

Rebecca Morgan
Sales Director, VIC & WA

M 0407 917 661
E rmorgan@pmcapital.com.au

Shane O'Connor
Sales Director, NSW

P +61 2 8243 0815
M 0424 996 795
E soconnor@pmcapital.com.au

Aaron Gascoigne
Business Development
Representative, New Zealand

P 0800 222 143
E nzinvestors@pmcapital.co.nz

James Noone
Sales Director, QLD

M 0432 355 892
E jnoone@pmcapital.com.au

RESPONSIBLE ENTITY

PM Capital Limited
ABN 69 083 644 731
AFSL 230222

Level 27, 420 George Street
Sydney NSW 2000
P +61 2 8243 0888
F +61 2 8243 0880
E pmcapital@pmcapital.com.au
www.pmcapital.com.au

PM Capital

Important information

This Quarterly Report 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 Asian Companies Fund
ARSN 130 588 439

PM Capital Australian Companies Fund
ARSN 092 434 467

PM Capital Enhanced Yield Fund
ARSN 099 581 558

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

The Quarterly Report 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).

The Quarterly 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 December 2017 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 Global Companies Fund is the MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. The Index for the 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 Australian Companies Fund is the S&P/ASX 200 Accumulation Index. See www.asx.com.au for further information. The Index for the Enhanced Yield Fund is RBA Cash Rate. See www.rba.gov.au for further information.

1. Past performance is not a reliable indicator of future performance.

2. The Asian region (ex-Japan) includes Hong Kong, China, Taiwan, Korea, Indonesia, India, Sri Lanka, Malaysia, Philippines, Thailand, Vietnam, Pakistan and Singapore, but excludes Japan. The Company may also obtain exposure to companies listed on other global exchanges where the predominant business of those companies is conducted in the Asian region (ex-Japan).

PM Capital