PM Capital

QUARTERLY REPORT

MARCH 2018

When Titans collide

The US and China are testing each other's resolve. What does it mean for markets?

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

PM Capital provides investors with their quarterly video update.

Paul Moore, Chief Investment Officer and Portfolio Manager, Global Strategies, gives his views on:

- How tariffs could affect the world economy (but focus on the stocks)
- How liquidity is being drained from the system
- Why the risk/ reward proposition has changed, but that opportunities remain

Access the video **here.**

"Although short term valuation discrepancies are becoming few in nature…the real long term opportunities are increasing demonstrably. It's back to the old days of a genuine stock picker's market."

Total returns since inception[1]

Fund	
PM Capital Global Companies Fund	433.3%
PM Capital Asian Companies Fund	325.6%
PM Capital Australian Companies Fund	489.5%
PM Capital Enhanced Yield Fund	153.7%

Benchmark	
MSCI World Net Total Return Index (AUD)	130.0%
MSCI AC Asia ex Japan Net (AUD)	132.7%
S&P / ASX 200 Accum. Index	298.6%
RBA Cash Rate	61.8%

[1]Past performance is not a reliable indicator of future performance. See page 15 for Important Information. As at 31 March 2018.

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	$401.7m as at 31 March 2018
Global equities FUM	$1,066.4m as at 31 March 2018

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	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
Global Companies Fund	**10-1998**	**2.9307**	**1.5%**	**7.5%**	**16.8%**	**8.3%**	**18.7%**	**15.2%**	**9.3%**	**9.0%**	**433.3%**
MSCI World Net Total Return Index (AUD)			0.7%	6.5%	13.0%	7.8%	16.6%	13.4%	7.8%	4.4%	130.0%
Outperformance by the Fund			0.8%	1.0%	3.8%	0.5%	2.1%	1.8%	1.6%	4.6%	303.3%

KEY POINTS

- Global equity market volatility jumps over the quarter
- We exit our final holding in the brewing industry, selling our remaining position in Heineken
- The Federal Reserve continues on its path of increasing US interest rates

PERFORMANCE

Global equity market volatility jumped over the quarter amid higher US interest rates and concerns that trade wars may affect global economic activity. Notwithstanding some dramatic price action generally, the portfolio benefited from our investments in the exchanges, Spanish hotel stocks and our exposure to the US Dollar which appreciated versus the Australian Dollar. The portfolio was up 1.5% over the quarter.

PORTFOLIO ACTIVITY

We increased our position in Ares Management (an alternative asset manager) over the quarter. The continued sell-down by Abu Dhabi Investment Authority (sovereign wealth fund of the Emirate of Abu Dhabi) and the issuance of new shares by Ares allowed us to buy additional shares at a discount to their trading price. Ares also announced it will convert its structure from a publicly listed partnership into a corporation. This conversion, along with the near doubling of its free float, will greatly enhance Ares's market appeal over the medium term.

We exited our final holding in the brewing industry, selling our remaining position in Heineken. This is a rather historic moment for the strategy. Its original brewing position was bought back in 2004 and it has held 16 stocks in the sector over the past 14 years, spanning Europe, the Americas, Asia and Australia. The original investment theme was simple. We observed there were premium beer brands emerging which would allow for industry consolidation and a positive pricing environment. This story has now largely played out. We think current valuations now require a continuation of very strong earnings growth to satisfy market expectations, so the risk is now to the downside if there are earnings disappointments.

We reduced our exposure to Macau gaming companies early in the quarter. We decided to sell Wynn Macau as allegations of sexual misconduct surfaced against Steve Wynn, CEO and Chairman of Wynn Macau. We expect these allegations, although serious, will have little impact on gaming activity in the near term. However, there is heightened risk around licensing. The presence of these difficult to forecast tail risks, coupled with consensus estimates now more closely reflecting our own, led to the decision to exit the position. We also sold our position in Las Vegas Sands.

Finally, we closed our short positions in several US apartment REITs. We entered these positions in late 2017 with the stocks trading close to their all-time highs. The shares fell circa 15% over our three-month holding period as they reacted to the sharp rise in US bond yields.

OUTLOOK

Our investments in the Spanish hotel sector continues to perform. Hispania, one of our investments in the sector, was set up in 2014 to invest in the Spanish property market with a focus on hotels. It had a six-year business plan that involved buying undermanaged hotels over the first three years of its life; not only taking advantage of the cyclical low in Spanish hotel values but also to invest much needed capital in the undermanaged properties. With Hispania now the largest owner of hotels in Spain, the company's focus remains the continued transformation of its hotels into modern, institutional-quality property assets. In early April, this resulted in a voluntary takeover offer by Alzette Investments (a vehicle owned by firms advised by affiliates of Blackstone) at €17.45 per share. This equates to a 10% premium to Hispania's latest valuation. At the time of writing we are evaluating the takeover proposal.

We also have a position in another Spanish-listed hotel company, NH Hotels, which gives us a broader exposure to the European hotel market. The European hotel market is very fragmented especially when compared to the US market. We believe this will evolve over time and NH Hotels is likely to be part of the consolidation. After rejecting a merger proposal by Barcelo (a private Spanish hotel group), the Board of NH Hotels has engaged investment banks and signalled its intention to participate in future hotel consolidation. The stock is up 7% over the quarter and over 45% over the last 12 months.

Our positions in the exchanges were very strong over the quarter. Deutsche Borse produced good results, with its Clearstream business the standout. The new CEO reiterated that the business expects at least 5% revenue growth and, with operational leverage, should achieve 10% earnings per share growth over the medium term.

Wells Fargo detracted from our performance as the fallout from the Federal Reserve's consent order impacted sentiment towards the stock. The order forbids Wells from growing its balance sheet beyond the current US$1.95 trillion in assets it had at the end of 2017. The rationale for this particular form of punishment stems from the bank having prioritised growth since the financial crisis. In the Fed's view, Wells Fargo failed to increase risk management and oversight alongside that growth. While Wells stated the consent order will reduce profits by between 1.5-1.9% and should not affect the bank's plan to return capital to shareholders this year, it does create negative sentiment around the stock until the Fed completes its assessment and is satisfied with Wells' compliance and risk management functions. While the growth restriction will impact short term profits, we believe the overhaul of Wells compliance and risk management functions will enhance shareholder value over the long term. Having previously reduced our exposure when Wells sold at a premium to other banks, we are now looking at increasing our exposure, as it is now selling at a discount to its peers - reflective of its current issues.

US interest rates continued to increase, with the Fed raising short-term interest rates in March. The Fed is now targeting 1.50-1.75%, above Australian base rates of 1.50%. More significantly, for the first time in 18 years US 10-year bond yields rose above Australian 10-year yields. US fiscal stimulus, near full employment and three more rate hikes priced into 2018 indicate why there is momentum in US interest rates.

We believe it is now clear that interest rates have turned and liquidity is being drained from the system. It is even more clear that stocks which can grow earnings are now required, rather than stocks that can re-rate on the back of lower interest rates.

Portfolio investments	Weighting
Post GFC Housing Recovery - US	14.0%
Post GFC Property Recovery - Europe	12.3%
Global Domestic Banking	35.3%
Service Monopolies	19.4%
Pharmaceuticals	3.6%
Gaming - Macau	2.9%
Alternative Investment Managers	13.4%
Other	3.7%
Long Equity Position	**104.6%**
Short Equity Position	-11.2%
Net Invested Equities	93.5%
Total holdings	36

Current stock example
Howard Hughes Corporation
Cairn Homes
Bank of America
Alphabet
Pfizer
MGM China Holdings
KKR & Co L.P.

Currency exposure*	
USD	80.1%
EUR	17.6%
GBP	6.5%
AUD/ NZD**	-4.2%
Total exposure	100.0%

* Stated at effective value.

** Represents net exposure to AUD and NZD. Actual NZD exposure is -5.2%.

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	$27.7m as at 31 March 2018
Asian equities FUM	$94.5m as at 31 March 2018

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**	**1.9824**	**0.0%**	**5.1%**	**21.6%**	**9.1%**	**15.5%**	**16.0%**	**325.6%**
MSCI AC Asia ex Japan Net Total Return Index			2.6%	11.4%	25.1%	9.1%	15.0%	9.1%	132.7%
Outperformance by the Fund			-2.6%	-6.3%	-3.5%	0.0%	0.5%	6.9%	192.9%

KEY POINTS

- A healthy cash balance maintained, leaving us well placed to take advantage of opportunities resulting from heightened volatility
- Macau holdings were reduced materially during the period
- Korean preferred shares represent a new thematic in the portfolios

PERFORMANCE

The quarter saw the return of equity market volatility after a long absence, not just in Asia but globally. The headline performance figures – flat for the portfolio and 2.6% for the MSCI Asia ex Japan – mask a period where the status quo of consistently rising markets and corresponding investor complacency was aggressively tested. Escalating trade tensions and concerns around the growth outlook and valuation of the large cap technology darlings of the recent bull market were the central themes which led the heightened volatility.

While we saw a very strong start to the year in January, this was quickly retraced in February and March. The underlying equities portfolio detracted from performance while currency gains partially offset these losses. In February and March, the portfolio benefited in a relative sense from the decision to increase the cash weighting over the past 12 months – invested position declining from 97.9% at 31 March 2017 to 85.4% – however, the poor performance from a handful of positions adversely affected performance.

Sinopec Kantons, down 23% for the quarter, had the biggest impact on performance. A majority of this decline came after it reported 2017 results that were below market expectations. While underlying earnings advanced 20% year-over-year, the main area of concern was a larger than expected decline in the realised tariff of the gas pipelines business following the introduction of a new tariff setting mechanism in September. The realised pipeline tariff was below our expectations and led us to revise down our future earnings estimates for the business.

However, we maintain our position. Oil terminals and storage operations account for ~65% of the Company's earnings and the outlook for this business remains robust, with earnings growth expected to exceed 10% p.a. over the mid-term. Rapid growth in the Liquefied Natural Gas (LNG) logistics business, which continues to ramp up as shipments from PNG LNG and Australia Pacific LNG projects mature, will also help to offset a lower contribution from the pipeline division. We view the current valuation at 7.5x 2018 earnings as unjustified given the growth outlook and improving returns profile.

Turquoise Hill Resources fell 10% after several incidents suggest the Oyu Tolgoi mine has once again become the proverbial 'political football' for Mongolian politicians. The central issue is the Mongolian government's continued efforts to amend the 2009 Investment Agreement which forms the basis of Turquoise Hill's investment in the country. Sovereign risk, which is not uncommon when dealing with emerging market mining companies, has been an ongoing issue with Turquoise Hill. We continue to focus on the earnings power of Oyu Tolgoi once the underground mine becomes operational. We believe the market continues to discount these cash flows heavily and far beyond any potential revisions to the Investment Agreement.

Positive contributors to performance included Cambodian casino operator NagaCorp and our two Malaysian brewery holdings, Carlsberg Brewery Malaysia and Heineken Malaysia.

NagaCorp advanced 34% after 2017 results beat consensus expectations by a wide margin. Earnings Before Interest and Tax (EBIT) grew 37% year-over-year, supported by the opening of the company's Naga2 property in Phnom Penh. Naga2 opened in November 2017, therefore the ramp up of the

Asian Companies Fund

property is expected to continue through 2018 and support strong growth in underlying earnings this year. Notably, two key Macau junket operators have started operating at the property in recent months which is a positive reinforcement of the quality of NagaCorp's product offering.

Carlsberg Brewery Malaysia and Heineken Malaysia advanced 23% and 10% respectively. Both companies continue to achieve impressive growth despite the underwhelming economic conditions witnessed in Malaysia in recent years. The two companies recorded respective EBIT growth of 8% and 6% year-over-year in 2017. Malaysia's beer market can best be described as a rational duopoly and the earnings resilience displayed during a period of weak economic activity is testament to this. While product innovation sits as the top priority for both companies, they have also remained steadfast in their desire to drive redundant costs out of the business, supporting margin growth over time.

PORTFOLIO ACTIVITY

We materially reduced our Macau holdings during the period, exiting our Wynn Macau and Las Vegas Sands positions. While the decision to exit Las Vegas Sands was on valuation grounds, we elected to sell Wynn Macau after allegations of sexual misconduct surfaced against CEO and Chairman Steve Wynn. These allegations led to heightened risk around licensing for the business, particularly if Mr. Wynn's involvement continued. The presence of this difficult to forecast tail risk materially changed Wynn Macau's risk reward proposition leading to the decision to exit. Following our exit, it was announced that Mr. Wynn would in fact be stepping down from his position at the Company and he has subsequently sold his 12% stake in parent company Wynn Resorts. Las Vegas Sands and Wynn Macau have contributed materially to performance – rising 71% and 196% – since our initial purchases in 2015 and 2016 respectively.

We also exited long held positions in Chinese employment classified businesses 51Jobs and Zhaopin. We exited 51Jobs after an extended period of strong performance – 95% over the past year – saw it reach our target price while Zhaopin was exited through the privatisation process communicated last year.

Capital released from the above sales was recycled into new positions in Samsung Electronics (preferred shares) and Hite Jinro. The investment in Samsung Electronics represents our second investment in Korean preferred shares which is a growing thematic in the portfolio.

OUTLOOK

Over the past year we have realised a large portion of our portfolio – positions totalling 31% of the Fund were exited completely. Some capital has been rotated into new positions but as communicated we have found it increasingly harder to identify pockets of anomalies where we can deploy meaningful capital. We do not shy away from the recent volatility in markets as we believe it will give us the opportunity to deploy our cash positions.

Portfolio investments	Weighting
Consumer - Breweries	9.9%
Consumer - Other	9.8%
Financials	17.9%
Online Classifieds & Ecommerce	14.4%
Capital Goods & Commodities	9.5%
Gaming - Macau	4.9%
Gaming - Other	4.5%
Oil & Gas Infrastructure	9.1%
Other	5.4%
Long Equity Position	**85.4%**
Net invested position	85.4%

Current stock example
Heineken Malaysia
Dali Food Group
HSBC Holdings
Baidu
Turquoise Hill Resources
MGM China Holdings Ltd
NagaCorp
Sinopec Kantons

Currency exposure*	
USD	49.0%
HKD	41.2%
AUD	6.6%
SGD	1.8%
Other	1.4%
Total exposure	100.0%

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	$37.2m as at 31 March 2018
Australian equities FUM	$37.2m as at 31 March 2018

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**	**1.9088**	**-7.0%**	**-2.9%**	**-0.5%**	**4.7%**	**9.3%**	**10.2%**	**489.5%**
S&P / ASX 200 Accumulation Index			-3.9%	3.5%	2.5%	3.8%	7.7%	7.9%	298.6%
Outperformance by the Fund			-3.1%	-6.4%	-3.0%	0.9%	1.6%	2.3%	190.9%

KEY POINTS

- Increased global volatility was reflected in a negative domestic market performance in the quarter.
- Downgrade of FY18 guidance for PMP and EML Payments detracted from the Fund's performance.
- We expect to use market volatility to selectively increase our net invested position.

PERFORMANCE

The domestic market had its worst quarter since June 2015 as volatility returned to global markets. Threats of a US/ China trade war, rising interest rates and a mini-correction in the tech sector contributed to the sentiment change. The S&P/ ASX200 Volatility index, which had fallen to 8.8% at the start of the quarter (compared to a 10 year low of 7.9% and a low 'teen average over the past three years), finished the quarter at roughly 16%, reflecting heightened risk aversion among investors.

The domestic index fell 3.9% with all sectors barring healthcare and technology falling. The financial sector was the biggest drag on the index, down 6.9%, as the market reacted to the start of the banking royal commission, despite bank quarterly earnings coming in broadly in line with expectations.

In the risk averse environment, stocks that disappointed against their guidance were punished. The Fund had material positions in some of these stocks and as a result overall Fund performance was under the index.

PORTFOLIO ACTIVITY

Against a backdrop of a spike in volatility and risk aversion, earnings certainty became the theme for the results season. Companies that missed earnings guidance by even small amounts were severely penalised by investors. Although the Fund's largest positions, NextDC and Macquarie, contributed to performance following their better than expected results, PMP, EML Payments and Donaco detracted from performance.

PMP has been the biggest detractor of performance both in the last quarter and 12 months. The operating performance of the business deteriorated significantly versus management's guidance given at its results presentation in August 2017. Our thesis for the past three years has been that following the closure of the merger with IPMG, PMP management team could exercise rational pricing and improve the profitability of the business. However, we have learnt since that instead of exercising rational pricing, key contracts were re-signed at discounts to previously agreed pricing - contrary to our investment thesis and management communications. This development, combined with a delay in plant closures in Victoria that have set back the timeline for the realisation of merger synergies, has meant that the earnings for the business will be ~40% lower than forecast in August, 2017. Although some of this decline is a timing issue, we think the management team may not be able to mitigate the structural challenges. As a result, we have been reducing our position in PMP.

We built a position in EML Payments (EML) over the December and March quarter. EML provides loadable and reloadable debit cards in Australia, the US, UK and Europe as well as providing virtual payment solutions to businesses in the US. The company has been experiencing significant growth, with total transaction volumes rising from under $1 billion in FY16 to $4.5 billion in FY17 and an estimated ~$7 billion in FY18. Transaction volume is the biggest driver of revenues for EML and we expect as their products are rolled across existing customer network and new customers, the operating leverage of the business will improve and thus their earnings will improve in line with transaction volume growth.

However, EML's growth is unlikely to be linear and we saw evidence of that in the last half. For 1H18, EML guidance for transaction volumes was between $6.7 – $7.0 billion versus previous guidance of $7.0 – 7.5 billion as client onboarding (for contracts already singed) was slower than anticipated. The market's reaction to this downgrade was severe; the stock fell ~38% over the quarter. We think this miss does not represent a symptom of structural limitations for the business. We expect over the next two to three years that the growth in transaction volumes and operational leverage in the business model will eventuate in significant earnings growth from current levels. Under our forecast scenario, earnings will grow from the current consensus expectation of ~$0.03 per share to $0.11 per share when transactions grow from the current expected $7 billion to our normalised forecast of $10 billion. This would put the stock on 10x normalised Price to Earnings Ratio (PE) versus the current FY18 consensus PE of ~33x. As a result, we increased our position in EML following the share price decline.

NextDC continues its strong operational performance as management upgraded its guidance for FY18 at its first half results. As per its upgraded guidance, management expects revenues for FY18 to be between $152 million - $158 million (versus the previous range of $146 million - $154million) and EBITDA to be $58 million - $62 million (versus the previous range of $56 million - $61 million). This upgrade was on the back of higher utilisation and interconnect revenues which more than compensated for higher operating costs needed for further business growth. The stock rose 17% over the quarter before closing up 9%, giving up some of the upside on the back of a global correction among technology stocks in March.

Over the quarter, we sold out of QBE and reduced our position in BigTinCan while adding to our position in Brambles and EML.

OUTLOOK

The performance for the quarter was disappointing given the drag from a small number of stocks. However, the performance of the broader market has been in line with our previous expectations of a low single digit total return for FY18 and supports our decision to have a net invested position of 74%. We believe that the market is likely to face a period of increased volatility on the back of further global uncertainties. We expect this will present more opportunities to invest capital over the coming months.

Portfolio investments	Weighting
Domestic Banks	14.5%
International Banks	14.4%
Non Bank Financials	13.0%
Property	5.4%
Industrials	7.2%
Technology	10.0%
Internet	7.0%
Resources	0.9%
Other	2.0%
Long Equity Position	**74.4%**
Short Equity Position	0.0%
Net Invested Equities	74.4%
Total holdings	22

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

Currency exposure*	
AUD	83.4%
EUR	9.4%
USD	7.2%
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	$480.9m as at 31 March 2018
Fixed Income FUM	$709.7m as at 31 March 2018

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**	**0.4%**	**1.6%**	**3.9%**	**3.7%**	**3.9%**	**6.0%**	**153.7%**
RBA cash rate			0.4%	0.8%	1.5%	1.7%	2.1%	4.1%	91.9%
Excess			0.0%	0.8%	2.4%	2.0%	1.8%	1.9%	61.8%
Enhanced Yield Fund (Class B units)**	**05-2017**	**1.1435**	**0.4%**	**1.9%**					**3.3%**
RBA cash rate			0.4%	0.8%					1.3%
Excess			0.0%	1.1%					2.0%

*Enhanced Yield Fund (Performance Fee Option). **Enhanced Yield Fund - Class B units (Management Fee Option)..

KEY POINTS

- Credit markets take a breath and give back some of last years gains.
- Tattersalls a better bet than Crown.
- Tesco on track to regain its investment grade rating.
- Hispania catches the eye of private equity.

PERFORMANCE

The Fund comfortably preserved capital over the quarter, in what was a reasonably turbulent short term period for credit markets. Performance for the March quarter was +0.4%, taking the 1 year return to +3.9%, compared to the RBA cash rate at +1.5%.

Credit spreads were broadly wider over the quarter. Amid divergent views on the magnitude and direction of global interest rates, as well as speculation about a potential global trade war led by the US (after it announced a range of tariffs to protect industries such as steel, industrial technology, transport and medical products), investors were kept on their toes.

Market participants were also left to decipher mixed earnings season reports, as well as stronger wages and jobs data - particularly in the US - which appear to be signalling higher inflation to come.

As expected, the US Federal Reserve increased its official cash rate to a target range of 1.50% - 1.75% in March. Interestingly, the Fed Funds rate is now at a minimum equal to the RBA cash rate for the first time in over 15 years.

Tesco performed well as it reported the strongest sales of all the major supermarket chains for the quarter to December 17, and appears to be on track to regain its investment grade credit rating.

Spanish hotel focussed commercial property company Hispania also performed well as the market reacted to its solid earnings report, as well as speculation regarding private equity interest in the business late in the quarter. This speculation was ultimately rewarded, with affiliates of Blackstone announcing a voluntary takeover offer in early April. We are currently evaluating the offer.

The main negative contributor to performance over the quarter was the Fund's exposure to Spanish residential home builders. Spanish regulators have been slow to provide final approvals to some new projects within the sector, which in turn has pushed back project timelines. Longer term however, we are comfortable with the ability of these businesses to generate an appropriate return on capital.

PORTFOLIO ACTIVITY

We sold our position in Crown's subordinated floating rate debt in January. Crown has been selling assets aggressively lately, effectively reducing its debt to zero. While it will have to borrow to fund its Sydney casino over the next few years, we find the extent to which James Packer has de-risked the business odd, and with his recent announcement that he is effectively stepping away from the business for a period, we think the risk/ reward within the business has changed meaningfully. Having generated over a 20% return for the Fund, we were happy to take our chips off the table.

We increased our position in Tattersalls (now Tabcorp) senior unsecured floating rate debt during the month, at a spread of 2.00% over the RBA cash rate (current yield of ~3.50%). With just over a year to maturity, we view this as one of the cheapest investment grade quality bonds in the market.

We also purchased a number of short dated (up to ~1.5yrs) senior unsecured floating rate bank bonds during the quarter at current yields of ~2.50%. Names purchased included Wells Fargo, Bank of America, ANZ, Morgan Stanley and Westpac. While technically not meeting the definition as cash, we effectively view these as cash substitutes.

We reduced some of our Irish and Spanish property investments over the quarter with the market having more fully recognised the true value of their assets. We sold out completely from Irish firm Glenveagh, and partially sold down Spanish investment Lar Espana. Both of these investments have generated double digit returns over their respective holding periods.

Finally, we added a new name to the portfolio in February – US commercial property company Kennedy Wilson (KW). In our view KW's valuation reflects a meaningful discount to the value of its net tangible assets. KW is currently digesting its recent acquisition of Kennedy Wilson Europe, however we believe that once they completely absorb this, the market will start to recognise the real value of the core assets within the combined group. In general we have been reducing our exposure to commercial and residential property companies in the Fund – however we think this investment represents an anomaly to the broader theme.

OUTLOOK

Near term, we expect volatility to remain somewhat elevated within asset markets. We genuinely believe that as investment markets continue to come to terms with the idea that we are in the early stages of a significant longer term move upwards in global interest rates, we will get a chance to take advantage of new investment anomalies as pockets of volatility present themselves. Thus, we think having some cash up our sleeve is prudent at this point.

That said, in general we are comfortable with the fundamental long term backdrop for credit markets. We believe that rates are likely to rise in a reasonably orderly fashion over time, within a backdrop of strengthening global growth which will be positive for corporate earnings.

As we have discussed previously, in the current environment of elevated volatility, we think Fund returns will probably bounce around a little more than normal. Having said this, longer term we are comfortable with the Fund's objective.

NEW UNIT CLASS

PM Capital recently introduced a new unit class within the Enhanced Yield Fund offering. The new class of units (Class B) features a fixed management fee of 0.79%.

With the Funds profile growing significantly in the Australian and New Zealand funds management industries, we are excited to offer investors and their advisers a choice between our original performance based fee structure (with a lower management fee and a performance fee) and our new management fee only option.

If you would like further information regarding the new unit class, please contact your local Sales Director, or pmcapital@pmcapital.com.au.

Duration	
Interest rate*	0.16
Average term to maturity*	2.26

Regional allocation	
Australia	29.5%
Europe	10.1%
United Kingdom	7.5%
North America	7.1%
New Zealand	1.9%
Cash	43.9%

Portfolio Investments	Weighting**	Average yield	Average spread to RBA
Cash	**43.9%**	**2.19%***	**0.69%***
Corporate bonds	**47.9%**	**4.04%***	**2.54%***
Fixed	0.0%*		
Floating	100.0%*		
Hybrids	**6.0%**	**4.66%***	**3.16%***
Fixed	0.0%*		
Floating	100.0%*		
Equity income strategies	**2.2%**		
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.

Yield security maturity profile	
0-1 Year	48.6%
1-2 Years	21.7%
2-3 Years	7.0%
3-4 Years	4.7%
4 Years +	18.0%

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

James Lewis-Williams
Sales Director, NSW

P +61 2 8243 0801
M 0435 591 498
E jlewis-williams@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