

# Monthly Update

31 JULY 2019

## Fund commentary

- EML continues to be the biggest contributor to fund performance amid a broadly positive market
- Donaco makes significant board changes

Nufarm and EML Payments made the largest contributions over the month, while Donaco was a detractor.

EML outperformed the market although there was no new company-specific information. However, large wagering operators in UK, customers of EML, did report their earnings during the month and they indicated they will be looking to close a number of their outlets going forward because of changes in minimum betting regulations in the UK. A decline in wagering outlets is positive for EML as it will drive more customers to bet online and take up EML's card product.

Nufarm announced on 1 August it had raised \$97.5 million via a placement of preference shares to its largest investor, Sumitomo Chemicals. The possibility of this deal, which increases Nufarm's financial flexibility, may have driven the outperformance in the share price in the lead up to the announcement.

Donaco was a detractor during July. However, the company had its EGM where Joey and Ben Lim were removed as directors. We believe this is a positive development for the company that will allow the reconstructed board to take the company forward.

We reduced our positions in Janus Henderson Group and EML during the month.

Fund performance <sup>a</sup> (net of fees)	Inception Date	Exit Price (\$, cum)	1 Month	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
<b>Australian Companies Fund</b>	<b>01-2000</b>	<b>1.9423</b>	<b>2.6%</b>	<b>3.5%</b>	<b>15.0%</b>	<b>0.2%</b>	<b>7.3%</b>	<b>6.6%</b>	<b>10.7%</b>	<b>10.2%</b>	<b>9.9%</b>	<b>531.6%</b>
S&P/ASX 200 Accumulation Index			2.9%	8.6%	18.7%	13.3%	11.7%	8.5%	11.7%	9.6%	8.6%	396.5%
Outperformance by the Fund			-0.3%	-5.1%	-3.7%	-13.1%	-4.4%	-1.9%	-1.0%	0.6%	1.3%	135.1%

Portfolio investments	Weighting
Domestic Banks	12.9%
International Banks	12.7%
Non Bank Financials	10.4%
Internet	17.2%
Industrials	11.3%
Technology	6.4%
Property	4.8%
Other	1.5%
<b>Long Equities Position</b>	<b>77.2%</b>
Short Equities Position	-2.7%
<b>Net Invested Equities</b>	<b>74.5%</b>
<b>Total holdings</b>	<b>28</b>

Current stock example
ANZ
Bank of America
EML
iCar Asia
Brambles
NextDC
Centuria Industrial

Currency exposure <sup>a</sup>	
AUD	84.6%
USD	9.3%
EUR	6.1%
<b>Total exposure</b>	<b>100.0%</b>

<sup>a</sup>Stated at effective value.

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

### Investment philosophy

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

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

### Who manages the investment?

Uday Cheruvu is the Portfolio Manager, who has over 15 years' industry experience and is supported by a team of investment analysts. The investment team is led by founder and CIO Paul Moore. We believe in being a patient investor, one that has conviction, one that finds opportunities where others can only see risk. We only invest in what we know, deeply, via our fundamental research.

### Why the Australian Companies Fund?

**Focused:** The Fund's process has been shown to be effective, based on a philosophy developed by Paul Moore, over 32 years. This has produced attractive long term capital growth.

**Unrestricted:** The concentration of

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

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

### Global Expertise and value add:

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

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

**Outperformance:** The Fund *has outperformed the relevant market index by 135% since inception.*<sup>1</sup> The Fund is managed from an Australian investor's perspective with consideration for tax and currency outcomes.

**\*Note:** Effective 1 December 2018 the payment of a performance fee was changed, becoming subject to the outperformance of both the RBA cash rate and the S&P/ASX 200 Accumulation Index.

## Key Fund Details

### Fund category

Australian equities

### Investment style

Fundamental, bottom-up research intensive approach

### Inception date

20 January 2000

### Fund size

\$26.0 Million

### Strategy size

\$26.0 Million

### Number of stocks

As a guide, 15-25 stocks

### Minimum direct investment

\$20,000

### Recommended investment time

Seven years plus

### Fees (pa)

Mgmt fee: 1.09% Perf. fee: 20% (subject to a high water mark) of the excess above the greater of the RBA cash rate and the S&P/ASX 200 Accumulation Index

### Buy / sell spread

0.5% (Round trip)

### Investor profile

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

## Important Notice

This Report is issued by PM Capital Limited ABN 69 083 644 731 AFSL 230222 as responsible entity for the PM Capital Australian Companies Fund (ARSN 092 434 467, the 'Fund'). It contains summary information only to provide an insight into how we make our investment decisions. This information does not constitute advice or recommendations, and is subject to change without notice. It does not take into account the objectives, financial situation or needs of any investor which should be considered before investing. Investors should consider a copy of the current Product Disclosure Statement which available from us, and seek their own financial advice prior to investing. The PDS explains how the Fund's Net Asset Value is calculated. Past performance is not a reliable guide to future performance and the capital and income of any investment may go down as well as up due to various market forces. The investment objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term.

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

## Further Information

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## A higher standard in performance fee hurdles

From 1 December 2018, PM Capital has implemented an additional performance fee hurdle for the Australian Companies Fund.

In doing this, the net effect is that performance fees on the Fund will be reduced, given performance of the Fund must now exceed the greater of the two (dual) benchmark hurdles as opposed to the previous single hurdle.

*While the prior RBA cash rate performance fee benchmark must still be exceeded, a second benchmark, the S&P/ASX 200 Accumulation Index ("S&P/ASX 200"), must also be exceeded before a performance fee can be paid.*

Rather than choosing between an "absolute" (ie, the RBA cash rate) and "relative" (ie, the S&P/ASX 200) hurdles, PM Capital is providing investors the best of both worlds.

[More information from our CIO](#)

[Pro-forma ICR](#)



### The benefit for our co-investors

We believe the Fund's dual performance fee hurdle will provide a meaningful future net performance benefit for our co-investors, as performance fees on the Fund will be reduced.

Even prior to the fee change, the Fund has registered attractive long term outperformance, having delivered a total return since inception of 532% compared to the S&P/ASX 200 397%.

The Fund's actual performance has been:

Australian Companies Fund performance (net of fees)	Inception Date	Exit Price (\$)	1 Month	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
<b>Fund performance (actual)</b>	<b>01-2000</b>	<b>1.9423</b>	<b>2.6%</b>	<b>3.5%</b>	<b>15.0%</b>	<b>0.2%</b>	<b>7.3%</b>	<b>6.6%</b>	<b>10.7%</b>	<b>10.2%</b>	<b>9.9%</b>	<b>531.6%</b>
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Outperformance (actual)			-0.3%	-5.1%	-3.7%	-13.1%	-4.4%	-1.9%	-1.0%	0.6%	1.3%	135.1%

To give a tangible indication of the benefits of the fee structure change, the table below provides the historic adjusted performance of the Fund *assuming the new dual hurdle fee structure had been in place since inception*<sup>1</sup>:

Australian Companies Fund pro forma illustrative performance (net of fees)	Inception Date	Exit Price (\$)	1 Month	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa	Since inception - total
<b>Fund performance (pro forma)<sup>2</sup></b>	<b>01-2000</b>	<b>1.9423</b>	<b>2.6%</b>	<b>3.5%</b>	<b>15.0%</b>	<b>0.2%</b>	<b>8.5%</b>	<b>7.9%</b>	<b>12.4%</b>	<b>11.6%</b>	<b>11.9%</b>	<b>803.8%</b>
S&P/ASX 200 Accumulation Index			2.9%	8.6%	18.7%	13.3%	11.7%	8.5%	11.7%	9.6%	8.6%	396.5%
Outperformance (pro forma)			-0.3%	-5.1%	-3.7%	-13.1%	-3.2%	-0.6%	0.7%	2.0%	3.3%	407.3%

1. These returns do not represent the actual net Fund performance, but, are provided to indicate impact on past investment returns if they were adjusted to take into account the new fee structure. 2. Pro forma Fund performance has been calculated based on the new fee structure (implemented 1 December 2018), assuming it had applied from the Fund's inception. These returns do not represent the actual net Fund performance and are included for illustrative purposes only.

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