

Monthly Update

31 OCTOBER 2019

Fund commentary

- We reduce our position in the domestic banks to 0% - current valuations are not capturing risks to future dividend levels

The Fund provided a 2.8% return in October, versus a slightly negative result for the broader market, as BigTinCan (+16.7%) and iCar (+5.5%) rose. Selling our bank positions also helped relative performance as domestic banks were down between 6-8%.

BigTinCan reported its Q3 cashflow numbers showing cash receipts increased by 56%. It finished with net cash on hand of \$17.6 million, implying substantial headroom for further acquisitions and growth. Management also reiterated FY20 guidance of 30-40% revenue growth. We believe the company is on track to achieve cashflow breakeven in FY21 if it follows its current trajectory. However, we believe management is more likely to make acquisitions and therefore the cashflow breakeven time may push out.

We continue to believe BigTinCan is poised to win market share in the sales enablement market. Nevertheless, we have reduced our position in the stock as we think acquisition-led growth increases its business risk.

We reduced our position in the domestic banks to 0% during the month. They are currently trading on a ratio of between 12.5 to 14.5 times FY20 earnings. The current business environment suggests that earnings growth for the banks will be minimal and with potential increases in capital imposts (from finalisation of regulations in New Zealand), we believe there is more downside than upside risk to dividends, which underpin bank valuations.

Fund performance ¹ (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
Australian Companies Fund	01-2000	2.0609	2.8%	6.1%	9.9%	15.6%	7.2%	7.6%	10.7%	9.1%	10.1%	570.2%
S&P/ASX 200 Accumulation Index			-0.4%	-0.9%	7.6%	19.3%	12.6%	8.5%	10.4%	8.3%	8.4%	392.0%
Outperformance by the Fund			3.2%	7.0%	2.3%	-3.7%	-5.4%	-0.9%	0.3%	0.8%	1.7%	178.2%

Portfolio investments	Weighting
International Banks	13.2%
Non Bank Financials	4.7%
Internet	17.6%
Industrials	9.4%
Technology	6.3%
Property	5.0%
Other	0.9%
Long Equities Position	56.5%
Short Equities Position	-2.4%
Net Invested Equities	54.1%
Total holdings	23

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

Currency exposure*	
AUD	99.7%
USD	0.3%
Total exposure	100.0%

*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 178% since inception.*¹ 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

\$25.8 Million

Strategy size

\$25.8 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 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 570% compared to the S&P/ASX 200 392%.

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
Fund performance (actual)	01-2000	2.0609	2.8%	6.1%	9.9%	15.6%	7.2%	7.6%	10.7%	9.1%	10.1%	570.2%
S&P/ASX 200 Accumulation Index			-0.4%	-0.9%	7.6%	19.3%	12.6%	8.5%	10.4%	8.3%	8.4%	392.0%
Outperformance (actual)			3.2%	7.0%	2.3%	-3.7%	-5.4%	-0.9%	0.3%	0.8%	1.7%	178.2%

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*¹:

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
Fund performance (pro forma)²	01-2000	2.0609	2.8%	6.1%	9.9%	15.6%	8.3%	8.9%	12.4%	10.5%	12.1%	859.0%
S&P/ASX 200 Accumulation Index			-0.4%	-0.9%	7.6%	19.3%	12.6%	8.5%	10.4%	8.3%	8.4%	392.0%
Outperformance (pro forma)			3.2%	7.0%	2.3%	-3.7%	-4.3%	0.4%	2.0%	2.2%	3.7%	467.0%

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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