

Monthly Update

Fund commentary

- Thai hotel giant covets NH Hotel’s Spanish hospitality.
- Moody’s likes what it sees at Tesco.
- Plenty of places to invest new capital – both domestically and offshore.

NH Hotel Group performed well as Thai hotel giant, Minor, indicated its intention to acquire the business after purchasing Chinese firm HNA’s minority stake.

Moody’s placed Tesco on positive outlook for an upgrade back to investment grade. We expect this investment to appreciate further once the upgrade comes through and a considerably larger universe of funds are able to own the name.

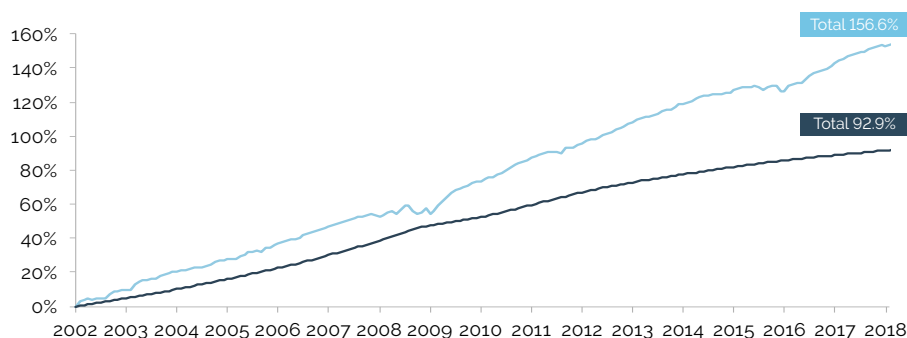
We added 1% to our NextDC exposure, investing in its new 4 year deal at 3m Bills +375bp (~5.70% yield), as well as adding to our existing holding in their 3 year bond at a similar yield. NextDC can redeem both of these bonds prior to their maturity, considerably increasing their return.

We also took a 1% position in ANZ’s heavily discounted USD floating rate subordinated debt at 3m Bills +~200bp. We originally bought a position in this bond several years ago, divesting it in 2017 at a considerable profit. It recently fell by ~15% on a potential change to UK capital rules which we think are less likely to impact Australian banks, but even if they did, we believe the bonds are now factoring in the change and are happy to re-initiate.

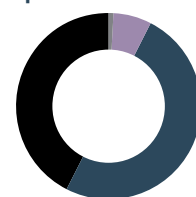
Finally, we added to our holding in UK pub company Enterprise Inns, taking a position in their 7 year senior secured debt at 3m Bills +~400bp (~6% yield).

Fund performance (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	Total Return
Enhanced Yield Fund*	02-2002	11196	0.2%	0.8%	1.2%	3.1%	3.8%	3.8%	4.3%	5.1%	5.9%	156.6%
RBA cash rate			0.1%	0.4%	0.7%	1.5%	1.7%	2.0%	2.5%	3.0%	4.1%	92.9%
Excess			0.1%	0.4%	0.5%	1.6%	2.1%	1.8%	1.9%	2.0%	1.8%	63.7%
Enhanced Yield Fund (Class B units)**	05-2017	11360	0.2%	0.8%	1.3%	3.4%					4.6%	4.6%
RBA cash rate			0.1%	0.4%	0.7%	1.5%					1.8%	1.8%
Excess			0.1%	0.4%	0.6%	1.9%					2.8%	2.5%

Enhanced Yield Fund: Total return since inception



Effective exposure



Cash	41.8%
Corporate Bonds	50.5%
Hybrid Securities	6.8%
Equity Income Strategies	0.9%

Yield security maturity profile	
0-1 Year	48.2%
1-2 Years	18.1%
2-3 Years	8.1%
3-4 Years	10.8%
4 Years +	14.8%

Risk/return	
Standard deviation (1 year)	0.64%
Maximum drawdown	3.26%
Percentage of positive months	86.8%

Portfolio investments	Current stock example
Domestic Banking	ANZ
Domestic Property	Dexus
Global Asset Backed	Enterprise Inns
Global Property	Lar Espana
Domestic Infrastructure	Sydney Airport
Domestic Gaming & Wagering	Tabcorp
Global Banking	Wells Fargo

^These numbers are estimates and should be used as a guide only. ^^Excludes cash.

Regional allocation	
Australia	32.0%
Europe	10.3%
United Kingdom	7.8%
North America	6.3%
New Zealand	1.8%
Cash	41.8%

Duration^	
Interest rate	0.17
Average term to maturity	2.40

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

Investment philosophy

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

Our experience has shown us that while the market is largely efficient, it can, and regularly does, misprice a small proportion of companies. This mispricing can arise as a result of any number of reasons, but is most often associated with disruptive or cyclical change, new information which is misunderstood by the market as having a permanent impact when it is in fact transitory, or just because they are operating in a sector out of favour with investors.

Our unique process is based on scanning the world for those companies (hence the radar in our logo), discovering the associated valuation anomalies and extracting value from them. We buy good businesses at a good price; businesses that we believe are being valued differently to their long term intrinsic value, but will return to their correct value over time.

Who manages the investment?

Jarod Dawson is the Portfolio Manager and has been managing the portfolio since 2004. Assisted by John Whelan, together they have over 35 years' combined industry experience. Jarod and John are also supported by the broader investment team, with Paul Moore as CIO who has over 30 years' experience in successfully managing investment funds.

Why the Enhanced Yield Fund?

Dependable: A minimum 20% cash position helps the Fund to preserve capital and achieve its return objectives with low volatility. The Fund's process is effective and repeatable, based on a proven philosophy. This Fund has been producing attractive returns for co-investors for more than 15 years, and is one of the longest running yield funds of its kind.

Careful: We have an authentic investment process where our exposure to industry sectors, geographic regions or market capitalisation is determined solely by our conviction in individual risk/reward opportunities that we identify. All holdings within the Fund have been intensively researched by our investment team. No conviction = no investment.

Co-investment: Our co-investors receive access to a unique subset of opportunities which they would otherwise find difficult to replicate. PM Capital and some of its staff have meaningful investments in the Fund - they invest for and with you.

Key Fund Details

Fund category

Fixed income

Investment style

Fundamental, bottom-up-research intensive approach

Inception date

1 March 2002

Fund size

\$519.7 million

Strategy size

\$815.2 million

Minimum direct investment

\$20,000

Recommended investment time

Two years plus

Fees (p.a.)

*Enhanced Yield Fund (Performance Fee Option): Management fee: 0.55%. Performance fee: 25% of net excess above RBA Cash Rate (subject to a high watermark).

**Enhanced Yield Fund - Class B units (Management Fee Option): Management Fee: 0.79%.

Buy / sell spread

0.2% (Round trip)

Investor profile

The Fund may be appropriate for investors seeking capital preservation and potential return in excess of the Reserve Bank of Australia's (RBA) cash rate with a low degree of volatility.

Important Notice

This Report is issued by PM Capital Limited ABN 69 083 644 731 AFSL 230222 as responsible entity for the PM Capital Enhanced Yield Fund (ARSN 099 581 558, the 'Fund'). It contains summary information only to provide an insight into how we make our investment decisions. This information does not constitute advice or a recommendation, and is subject to change without notice. It does not take into account the objectives, financial situation or needs of any investor which should be considered before investing. Investors should consider a copy of the Product Disclosure Statement which is available from us, and seek their own financial advice prior to investing. The PDS explains how the Fund's Net Asset Value is calculated. Past performance is not a reliable guide to future performance and the capital and income of any investment may go down as well as up. The investment objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term.

1. Returns are calculated from exit price to exit price assuming the reinvestment of distributions for the period as stated and represent the combined income and capital return. The Index is RBA Cash Rate. See www.rba.gov.au for further information.

Enhanced Yield Fund*: Monthly Return Series Since Inception

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	CYTD
2018	0.3%	-0.2%	0.3%	0.4%	0.2%	0.3%	0.2%						1.6%
2017	0.7%	0.7%	0.4%	0.4%	0.6%	0.5%	0.4%	0.2%	0.2%	0.5%	0.3%	0.3%	5.3%
2016	-1.1%	-0.3%	1.5%	0.6%	0.3%	0.2%	0.8%	0.7%	0.7%	0.5%	0.2%	0.6%	4.7%
2015	0.0%	0.7%	0.3%	0.5%	0.1%	-0.2%	0.3%	-0.1%	-0.8%	0.8%	0.2%	0.0%	1.7%
2014	0.5%	0.3%	0.3%	0.5%	0.4%	0.5%	0.3%	0.2%	0.2%	0.1%	0.0%	0.3%	3.7%
2013	0.7%	0.4%	0.7%	0.5%	0.5%	-0.1%	0.6%	0.4%	0.5%	0.6%	0.1%	0.7%	5.6%
2012	0.7%	0.6%	0.7%	0.4%	0.1%	0.5%	0.7%	0.5%	0.5%	0.7%	0.4%	0.6%	6.6%
2011	0.4%	0.8%	0.4%	0.6%	0.3%	0.2%	0.1%	0.0%	-0.5%	1.6%	0.2%	0.0%	4.3%
2010	0.5%	0.0%	0.9%	0.8%	0.0%	0.6%	0.9%	0.5%	1.1%	0.7%	0.5%	0.8%	7.5%
2009	1.5%	-2.3%	1.0%	2.5%	1.5%	1.4%	1.6%	1.1%	0.3%	0.6%	0.2%	1.0%	11.0%
2008	-0.4%	-0.6%	0.6%	1.0%	0.5%	-0.7%	1.3%	1.4%	0.2%	-1.9%	-1.0%	0.5%	0.8%
2007	0.6%	0.5%	0.5%	0.6%	0.6%	0.4%	0.5%	0.6%	0.4%	0.4%	0.1%	0.6%	6.0%
2006	1.0%	0.4%	0.6%	0.8%	0.2%	0.5%	0.5%	0.9%	0.5%	0.6%	0.6%	0.8%	7.8%
2005	0.3%	0.6%	-0.1%	-0.4%	1.7%	0.5%	1.3%	0.2%	0.4%	-0.3%	1.3%	0.6%	6.2%
2004	0.8%	0.4%	0.3%	0.1%	1.1%	0.7%	-0.4%	0.2%	0.7%	0.8%	0.9%	0.8%	6.5%
2003	1.0%	0.0%	0.6%	2.1%	1.2%	0.8%	0.5%	0.7%	0.0%	1.1%	0.6%	0.6%	9.5%
2002			2.6%	0.9%	1.0%	-0.5%	0.4%	0.0%	0.2%	2.2%	1.7%	0.0%	8.7%

Further Information

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