

# Monthly Update

31 AUGUST 2018

## Fund commentary

- Payment service providers rise
- US bank stock prices remain strong, European banks underperform
- The Australian Dollar falls to its lowest level in over 2 years

The portfolio rose over the month on the back of strong performance from exchange operator CME Group, the payment service providers Visa & Mastercard, and continued strength in the US Dollar against the Australian Dollar.

While US bank stock prices have been strong on the back of a strengthening economy, rising interest rates and corporate tax cuts, European banks stock prices have lagged. European banks have finally dealt with the regulatory, compliance and non-performing loan exposures that have dominated their earnings over the last decade. The issue today is profitability due to higher capital requirements and negative interest rates.

The European Central Bank (ECB) initially dropped rates to zero in 2012 and pushed them into negative territory in 2014 to fend off the threat of deflation. Fast forward to today and Euro area inflation is rising, with headline inflation above 1.5% and wage inflation at 1.8%. The ECB has indicated that wage growth is a key driver of future inflation. We therefore believe the ECB will start to normalise rates over the next 12 months, greatly enhancing confidence in the economy and European bank profitability.

The Australian Dollar fell to its lowest level in over two years as the spread between US and Australian interest rates continues to widen.

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>Global Companies Fund</b>	<b>10-1998</b>	<b>3.1089</b>	<b>1.3%</b>	<b>4.8%</b>	<b>5.1%</b>	<b>18.7%</b>	<b>8.2%</b>	<b>13.6%</b>	<b>21.5%</b>	<b>10.3%</b>	<b>9.1%</b>	<b>465.8%</b>
MSCI World Net Total Return Index (AUD)			4.1%	9.2%	11.9%	24.0%	11.2%	14.9%	17.4%	9.0%	4.9%	159.1%
Outperformance by the Fund			-2.8%	-4.4%	-6.8%	-5.3%	-3.0%	-1.3%	4.1%	1.3%	4.2%	306.7%

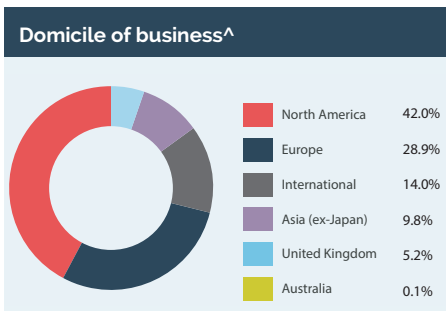
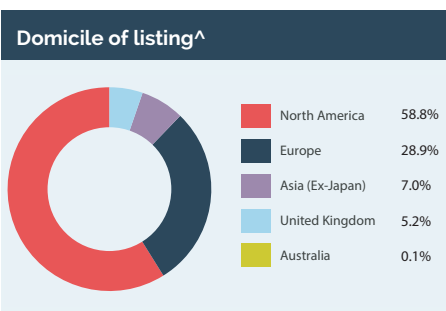
Portfolio investments	Weighting	Current stock example
Post GFC Housing Recovery - US	11.0%	Howard Hughes Corporation
Post GFC Property Recovery - Europe	9.7%	Cairn Homes
Global Domestic Banking	32.3%	Bank of America
Service Monopolies	19.7%	Alphabet
Pharmaceuticals	3.0%	Pfizer
Gaming - Macau	5.8%	MGM China
Alternative Investment Managers	16.0%	KKR & Co L.P.
Other	4.3%	
<b>Long Equity Position</b>	<b>101.8%</b>	
Short Equity Position	-10.4%	
<b>Net invested equities</b>	<b>91.4%</b>	

Currency exposure*	
USD	67.9%
EUR	17.1%
AUD	7.3%
GBP	5.2%
HKD	2.5%
<b>Total exposure</b>	<b>100.0%</b>

\* Stated at effective value.

Total holdings	36
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<sup>^</sup> 'Domicile of Listing' represents the location of stock exchange listing of each entities' head office, whereas 'Domicile of Business' represents the location of the predominant business of those entities.

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. 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?

The investment team is led by founder and CIO Paul Moore who has over 31 years experience in successfully managing investment funds. Paul Moore, the Portfolio Manager for this Fund is supported by a team of experienced investment analysts.

### Further Information

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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 Global Companies Fund?

**Established:** The Fund's process has been shown to be effective, based on a philosophy developed by Paul Moore, over 31 years. This has produced attractive long term capital growth.

**Unrestricted:** We have an authentic investment process where our exposure to industry sectors, geographic regions 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 25 - 45 deeply researched stocks that we believe give the best opportunity to produce strong long term returns.

**Co-investment:** Our co-investors receive access to a unique subset of opportunities to which they would 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 307% since inception*. The Fund is managed from an Australian investor's perspective with consideration for tax and currency outcomes.

### Key Fund Details

#### Fund category

Global equities

#### Investment style

Fundamental, bottom-up research intensive approach

#### Inception date

28 October 1998

#### Fund size

\$456.5 Million

#### Strategy size

\$1,158.0 Million

#### Number of stocks

As a guide, 25-45 stocks

#### Minimum direct investment

\$20,000

#### Recommended investment time

Seven years plus

#### Fees (pa)

Management fee: 1.09%

Performance fee: 20% of net excess above RBA Cash Rate (subject to a high water mark).

#### 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 Global Companies Fund (ARSN 092 434 618, 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 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 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 MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. See [www.msci.com](http://www.msci.com) for further information on the Index.