QUARTERLY REPORT

JUNE 2018

Riding the cycles

What 30 years of investing tells you about markets now

p.1 Video insight

PM Capital
GLOBAL OPPORTUNITIES FUND LIMITED

PM Capital Global Opportunities Fund Limited

ACN 166 064 875 (ASX Code: PGF)

PM Capital
ASIAN OPPORTUNITIES FUND LIMITED

PM Capital Asian Opportunities Fund Limited

ACN 168 666 171 (ASX Code: PAF)

CONTENTS

Quarterly video update

In this in-depth video update, Paul Moore, Chief Investment Officer and Portfolio Manager, Global Strategies, discusses:

- Where we are in the cycle and how it compares with other cycles
- Specifics on what we need to be looking for right now (and what to avoid)
- New ideas

Paul also gives an insight into what has helped shape his investment philosophy and approach.

Access the video **here.**

“You’re always going to have fits and starts, but we still think [the market] is OK. The market is very much debating that now…but that is throwing up opportunities. There’s some really interesting areas that have become very, very cheap.”

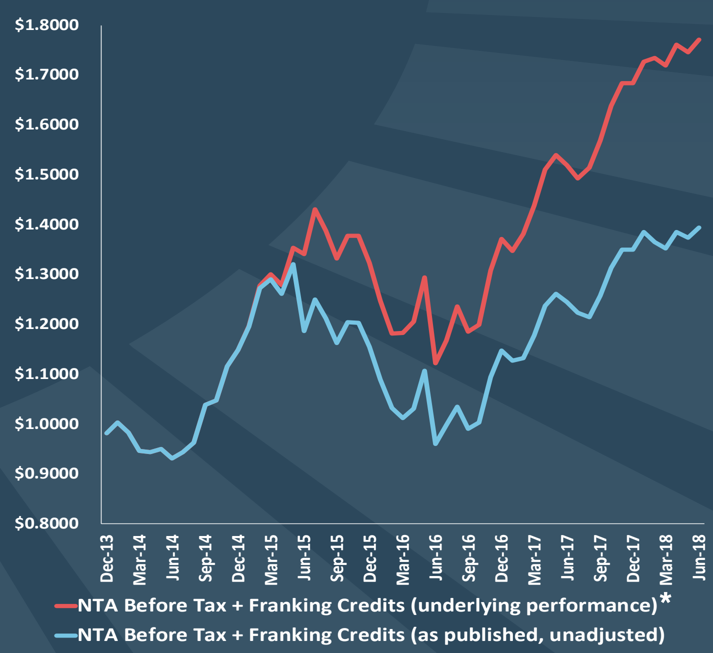
Listed Company Overview

	PM Capital Global Opportunities Fund Limited	PM Capital Asian Opportunities Fund Limited
Asset Class	Global equities	Asian (ex-Japan) equities
Listing Date	11 December 2013	21 May 2014
Suggested Time Frame	Seven years plus	Seven years plus
Shares on Issue	350,909,977	56,313,902
Share Price[1]	$1.330	$1.130
Market Capitalisation	$ 466.7 million	$ 63.6 million
NTA before tax accruals + franking credits (per share, ex-dividend)	$1.3938	$1.2580
Company Net Assets before tax accruals + franking credits	$ 489.1 million	$70.8 million

PM Capital Global Opportunities Fund Limited

- **The Company** aims to create long term wealth through a concentrated portfolio of 25-45 global companies that we believe are trading at prices different to their intrinsic values.
- **The Company's investment objective** is to provide long-term capital growth overa seven-year plus investment horizon through investment in a concentrated portfolio of undervalued global (including Australian) equities and other investment securities.

NTA performance since inception[2]



ASX Code	PGF
Category	Global equities (long/short)
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 25-45 stocks
Shares on issue	350,909,977
Suggested investment time	7 years +
Listing date	11 December 2013

*Excludes the impact of: Changes in ordinary share capital (i.e., option exercise, DRP); Dividends; and Tax paid. After all costs and expenses, including (but, not limited to): management fees; listing fees; registry costs; audit costs; and directors' fees.

PM Capital Global Opportunities Fund

Paul Moore
Global Portfolio Manager

Net Tangible Asset (NTA) backing per ordinary share (all figures are unaudited)[1]	March 2018	June 2018	Change[4]	Perf. since inception p.a.[5]	Perf. since inception total[5]
NTA before tax accruals plus franking credits[2]	**$1.3523**	**$1.3938**	**+3.07%**	**+ 13.4%**	**+ 77.2%**
NTA after tax[3]	**$1.2510**	**$1.2812**	**+2.41%**		

1. Past performance is not a reliable indicator of future performance. 2. 30 June 2018 includes $0.016 of franking credits. 3. Net Tangible Assets (NTA) refers to the net assets of the Company after the accruals for net current and deferred tax liabilities/assets. 4. Change calculated on an ex-dividend basis. 5. Performance adjusted for capital flows associated with the payment of dividends, share issuance as a result of the dividend reinvestment plan, and including the value of franking credits.

PGF and it subsidiary GO 2025 announced the offer of PTrackERS, the next-generation of LIC Securities. To find out more visit: www.pmcapital.com.au/p25

KEY POINTS

- KKR & Co. converts from a publicly traded partnership structure to an ordinary corporation
- M&A activity in the European hotel sector
- The Australian Dollar continues to weaken against the US Dollar

PERFORMANCE

The portfolio benefited from our investments in the payment networks, Visa and Mastercard. KKR & Co also assisted, as did our exposure to the US Dollar which appreciated versus the Australian Dollar.

PORTFOLIO ACTIVITY

We sold our position in casino operator SJM Holdings after it rose approximately 45% in May. Macau has continued to surprise to the upside this year with gross gaming revenue up 20% year on year. The market was pricing in strong growth for 2018-19 and valuations by the end of May were catching up with medium term prospects. In light of this we have been reducing our Macau gaming exposure over 2018 and sold out of SJM Holdings completely.

We also sold out of our position in Hispania after a takeover offer by Alzette Investments (a vehicle owned by firms advised by affiliates of Blackstone). Hispania was established in 2014 with its main objective to acquire and manage real estate assets in Spain. Its business plan involved buying undermanaged real estate assets with a focus on hotels. Our exit crystallised a profit of over 80% since our initial investment back in 2014.

OUTLOOK

KKR & Co. was both our largest individual position in the quarter and contributor to performance. KKR converted from a publicly traded partnership to an ordinary corporation on the 1 July 2018. The conversion has the potential to significantly expand the investor base and lead to a higher valuation over time. KKR is the first large private equity business to convert to a corporation, following the smaller ARES Management (also a portfolio holding) which converted in early 2018.

KKR's shares rose over 15% from when they announced the conversion plans on 3 May 2018 to the end of the quarter, outperforming peers and the broader financial sector by a wide margin. We continue to hold KKR as it is a prime beneficiary from the tailwinds occurring in the alternative fund management industry while being on a reasonable 11 times 2019 earnings multiple. Blackstone and Apollo, other investments in the alternative manager space, have said they want to wait to see how the market responds to conversions before they make any move.

PM Capital Global Opportunities Fund

Figure A: KKR closing stock price

Our US homebuilders had a weak quarter as investors, nervous over US interest rate rises, began to price in a late cycle discount that we feel on balance to be unwarranted. While an increase in rates is a bit of a shock to a new generation of buyers used to only falling mortgage rates, the mortgage payment burden remains in affordable territory. A large deficit in housing supply, a strengthening job market and improving demographics as millennials move into prime buying age should create sufficient tightness in the market for homebuilders to grow earnings over the next few years.

Our European banking positions were also weak over the quarter. While the European Central Bank (ECB) announced in June that its quantitative easing (QE) program will finish by the end of the year, the market pushed out ECB rate hike expectations into late 2019, and if this was to occur this would put pressure on bank net interest margins and profitability. We believe this is now priced into stocks with banks trading at a substantial discount to the wider market.

The strong US Dollar was also a positive contributor to the portfolio over the quarter. With the US Federal Reserve increasing rates and the Reserve Bank of Australia on hold, the interest rate differential between Australia and the US continues to widen, lending strength to the US Dollar.

Portfolio investments	Weighting^^
Post GFC Housing Recovery - US	12.9%
Post GFC Property Recovery - Europe	10.6%
Global Domestic Banking	34.7%
Service Monopolies	20.8%
Pharmaceuticals	3.6%
Gaming - Macau	2.9%
Alternative Investment Managers	15.1%
Other	3.2%
Long Equities Position	103.8%
Short Equities Position	-11.2%
Net Invested Equities	92.7%
Total holdings	37

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

Currency exposure*	
USD/ HKD	71.3%
EUR	18.4%
GBP	6.6%
AUD	3.7%
Total exposure	100.0%

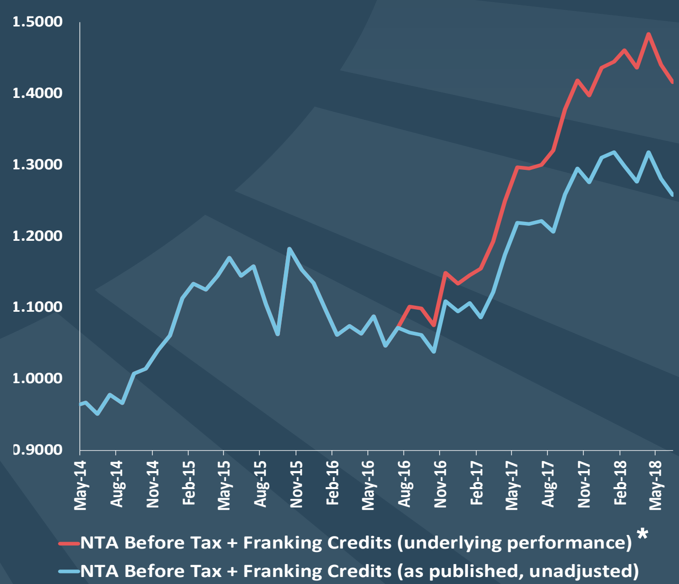
* Stated as effective exposure.

Paul Moore - Chief Investment Officer & Global Portfolio Manager
John Whelan - Contributing author

PM Capital Asian Opportunities Fund Limited

- **The Company** aims to create long term wealth through a concentrated portfolio of typically 15-35 Asian centric companies that we believe are trading at prices different to their intrinsic values.
- **The objective of the Company** is to provide longterm capital growth over a seven-year plus investment horizon through investment in a concentrated portfolio of predominantly undervalued listed Asian equities and other investment securities in the Asian Region (ex-Japan).

NTA performance since inception[2]



ASX code	PAF
Category	Asian (ex-Japan)[6] equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-35 stocks
Shares on issue	56,313,902
Suggested investment time	7 years +
Listing date	21 May 2014

*Excludes the impact of: Changes in ordinary share capital (i.e., option exercise, DRP); Dividends; and Tax paid. After all costs and expenses, including (but, not limited to): management fees; listing fees; registry costs; audit costs; and directors' fees.

PM Capital Asian Opportunities Fund

Kevin Bertoli
Asian Portfolio Manager

Net Tangible Asset (NTA) backing per ordinary share (all figures are unaudited)[1]	March 2018	June 2018	Change[4]	Perf. since inception p.a.[5]	Perf. since inception total[5]
NTA before tax accruals plus franking credits[2]	**1.2670**	**1.2580**	**- 0.71%**	**8.8%**	**41.5%**
NTA after tax[3]	**1.1880**	**1.1818**	**- 0.52%**		

1. Past performance is not a reliable indicator of future performance. 2. 30 June 2018 includes $0.039 of franking credits. 3. Net Tangible Assets (NTA) refers to the net assets of the Company after the accruals for net current and deferred tax liabilities/assets. 4. Change calculated on an ex-dividend basis. 5. Performance adjusted for capital flows associated with the payment of dividends, share issuance as a result of the dividend reinvestment plan, and including the value of franking credits.

KEY POINTS

- Headline performance relatively subdued despite escalation of trade fears.
- Portfolio weighting to Macau increased after recent sell off in regional gaming companies.
- Continue to hold a positive view on Asia despite growing macro concerns.

PERFORMANCE

Headline performance was relatively subdued for the quarter. While the underlying equities portfolio was impacted by the broad-based selling witnessed across Asian markets, currency positioning offset a large part of the negative impact.

Asian equity markets experienced some of their sharpest declines since the start of 2016, which was the height of 'China hard landing' and 'oil crisis' fears, as net capital outflows returned to the region. Ongoing US/ China trade tensions acted as a headwind as investors contemplated the economic impact if negotiations are unable to be resolved amicably. China's Shanghai Composite declined 10% while the Korean KOSPI, dominated by industries linked to global trade, fell 9%.

The impact of rising US interest rates and a strengthening US Dollar also had a negative impact, particularly on some peripheral Asian markets. Hardest hit were the Philippines' PSEi which declined 10% and Vietnam's Ho Chi Minh Index down 18%, albeit after recording very strong returns since the start of 2016. The performance of both the Philippines and Vietnam markets highlight the role foreign capital flows have on emerging market performance. A strong US Dollar, rising interest rates and commodities have put pressure on many emerging market economies. This phenomenon is not just being felt in Asia, with Argentina, Turkey and Brazil also in the spotlight in recent months.

PORTFOLIO ACTIVITY

Pax Global, Baidu and Malaysian brewing holdings, Heineken Malaysia and Carlsberg Malaysia, provided positive contributions to performance. Baidu advanced 9% after first quarter earnings comfortably beat expectation and their US listed video stream subsidiary iQIYI performed strongly post-IPO. We expect the robust momentum being displayed in Baidu's core search and video stream businesses will continue in the foreseeable future, irrespective of China's macro conditions.

Heineken Malaysia rose 5%, buoyed by the surprise general election result that saw a change of government for the first time since the foundation of Malaysia in 1957. One of the first actions of the newly elected Pakatan Harapan ('Alliance of Hope') coalition was to eliminate the goods and services tax which, it is hoped, will boost consumption.

Positions sensitive to economic growth and regional trade were among those sold lower. Of note were KB Financial and Industrial and Commercial Bank of China which both fell 13% over the quarter despite confirmation of a rising interest rate environment globally, which will benefit our financial holdings initially through expanding net interest margins.

Investments in the gaming sector also detracted from performance. MGM China declined 10% while Nagacorp fell 12% over the quarter. Several factors have prompted investors to temper near-term growth expectations, most notably the prospects of a slowing Chinese economy and recent depreciation of the Chinese Yuan (lowering the purchasing power of the Chinese gambler). Macau's casino operators were also impacted by notably tighter monitoring of illegal UnionPay point-of-sale terminals (POS). The portfolio's gaming exposure, Macau in particular, was reduced materially at the beginning of 2018. During the latter stages of the June quarter we increased our exposure to Macau again initiating a position in Wynn Resorts.

PM Capital Asian Opportunities Fund

OUTLOOK

The factors impacting markets in the first six months of this year are likely to remain throughout 2018. These will act as near-term headwinds for regional markets as investors try to gauge the flow-on effects to economic activity.

Trade, and more accurately fair trade, is not a new topic, however investor reactions this time have been far more pronounced. There are several reasons for this, most obvious being that negotiations involve the world's two largest economies, but also because trade issues between the two countries have long been glossed over causing significant imbalances which need to be addressed. Overlay this with the fact that negotiations are seemingly being played out as much on Twitter, or in front of the camera, as they are at the negotiating table has investors on edge. Market participants are not used to the level of hyperbole President Trump brings to the table and this heightened rhetoric inevitably changes how we view the topic. The strong performance of markets over the last several years and high market valuations also means the margin for error is small.

Predicting the internal machinations of trade negotiations is the most difficult aspect of the current market and the reality is in the short term it is virtually impossible. From a portfolio perspective, decisions based solely on predicting the outcome of such events are similarly likely to result in error.

We have been vocal over the past 12 months in calling out the dramatic shift in earnings expectations and markedly higher valuations which has made it more difficult to uncover genuine anomalies.

Perhaps unsurprisingly, at a Hong Kong conference I attended in March 'synchronised global growth' was the most repeated phrase, suggesting an overwhelmingly positive sentiment. In the space of three months these attitudes have been fundamentally tested. Any meaningful correction in markets driven by fluctuations in these short-term sentiments will give us a chance to put capital to work.

During the quarter Chinese equities were front and centre with the country being granted an increased weighting in MSCI's global indices. The announcement served to highlighted how underweight global investors are when it comes to not only China but Asia more broadly. Approximately 350 new stocks were added to the global MSCI index, over 300 of those additions were Chinese companies (a-shares, US listed ADRs and Hong Kong h-shares). It is rare to see significant changes to indices like this which suggests gatekeepers like MSCI have the mix wrong and are scrambling to catch up. Investors remain under allocated to the main source of global GDP growth – after the recent changes China still accounts for only 3.7% MSCI All Countries World Index compared to the US at 53%.

Our approach to Asia remains very much a long-term one. We continue to believe Asia will remain the epicentre for global growth into the foreseeable future, as it has been better part of the last two decades. While growth in the US and Europe has been largely a function of a recovery from severe cyclical corrections, Asia provides one of the best places with consistent structural growth underpinning GDP. Most of the growth drivers will remain regardless of current debates.

Portfolio investments	Weighting
Consumer - Breweries	11.3%
Consumer - Other	11.4%
Financials	18.6%
Capital Goods & Commodities	15.2%
Online Classifieds & Ecommerce	14.0%
Gaming - Macau	7.5%
Gaming - Other	4.3%
Oil & Gas Infrastructure	9.9%
Other	3.0%
Long Equities Position	**95.2%**
Short Equities Position	-1.0%
Net Invested Equities	**94.2%**

Current stock examples	
Heineken Malaysia	
Dali Food Group	
HSBC Holdings	
Turquoise Hill Resources	
Baidu	
MGM China Holdings Ltd	
NagaCorp	
Sinopec Kantons	
Total Holdings	25

Currency exposure*	
USD	55.3%
HKD	28.2%
AUD	11.3%
INR	3.0%
Other	2.2%
Total exposure	100.0%

* Stated as Effective Exposure.

Kevin Bertoli - Asian Portfolio Manager

Important information

This Quarterly Report is issued by PM Capital Limited (ABN 69 083 644 731, AFSL No. 230222) as investment manager for the:

PM CAPITAL Global Opportunities Fund Limited
ACN 166 064 875 (ASX Code: PGF)

PM CAPITAL Asian Opportunities Fund Limited
ACN 168 666 171 (ASX Code: PAF)

It contains general information only and does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of any securities of either PGF or PAF. The information herein seeks to provide an insight into how and why we make our investment decisions, and is subject to change without notice. The Quarterly Report does not constitute product or investment advice, nor does it take into account any investors' investment objectives, taxation situation, financial situation or needs. An investor should seek their own financial advice, and must not act on the basis of any matter contained in this Quarterly Report in making an investment decision but must make their own assessment of PGF and/or PAF and conduct their own investigations and analysis prior to making a decision to invest. Past performance is not a reliable indicator of future performance and no guarantee of future returns, ASX trading prices, or market liquidity is implied or given. The capital and income of any investment may go down as well as up due to various market forces. All values are expressed in Australian currency unless otherwise stated.

The Index for the PM Capital Global Opportunities Fund Limited is the MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. The Index for the PM Capital Asian Opportunities Fund Limited 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.

See the company announcements platform at www.asx.com.au, and www.pmcapital.com.au, for further information.

Past performance is not a reliable indicator of future performance.

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).

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