



# *Stock valuations*

The buffer against macro headwinds

p.1 Video insight

PM Capital Long Term Investment Fund  
(Unregistered)

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# Quarterly video update



In his video update, Paul Moore, Chief Investment Officer and Portfolio Manager, Global strategies explains:

- How the rotation towards more value-oriented stocks is occurring, but in 'fits and starts'
- How 'bond vigilantes' are hibernating for now, but not forever
- How considering stock valuations helps protect investors from macro headwinds

Access the video [here](#).

Access all market updates and insights [here](#).

“Ultimately, long term returns are determined by valuations. That’s why we keep highlighting just how significant the current valuation dispersion in the market is, and therefore the opportunity to take advantage of it.”

## Total returns since inception<sup>1</sup>

Fund		Benchmark	
PM Capital Global Companies Fund	426.0%	MSCI World Net Total Return Index (AUD)	195.5%
PM Capital Long Term Investment Fund <sup>2,3</sup>	408.9%	MSCI World Net Total Return Index (AUD) <sup>3</sup>	221.5%
PM Capital Asian Companies Fund	263.6%	MSCI AC Asia ex Japan Net (AUD)	163.9%
PM Capital Australian Companies Fund	574.7%	S&P / ASX 200 Accum. Index	343.3%
PM Capital Enhanced Yield Fund	166.9%	RBA Cash Rate	96.9%

See page 5 for Important Information. As at 30 September 2020.



# Long Term Investment Fund

- **The Long Term Investment Fund** aims to create long term wealth through a hand-picked, concentrated portfolio of 25-35 global companies trading at prices that we consider, after extensive research, to be trading at prices different to their intrinsic values and may provide attractive future returns.
- **The Fund's investment objective** is to deliver returns through selective and concentrated long-term investments in undervalued businesses over a 5-7 year investment horizon.

<b>Fund category</b>	Global equities	<b>Minimum investment</b>	Closed Fund
<b>Investment style</b>	Fundamental, bottom-up research intensive approach	<b>Suggested investment time</b>	7 years +
<b>Number of stocks</b>	As a guide, 25-35 stocks	<b>Strategy date<sup>3</sup></b>	1 July 2012
		<b>Unit trust FUM</b>	\$129.9m as at 30 September 2020
		<b>Global equities FUM</b>	\$942.0m as at 30 September 2020

# Long Term Investment Fund

Paul Moore  
Global Portfolio Manager



Investment Performance <sup>1,2,3</sup>	Strategy Date	Exit Price (per unit) <sup>4</sup>	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since strategy Inception pa	Total Return
<b>Long Term Investment Fund</b>	<b>07/2012</b>	<b>\$1.8518</b>	<b>3.6%</b>	<b>15.3%</b>	<b>-8.1%</b>	<b>4.6%</b>	<b>6.6%</b>	<b>17.2%</b>	<b>271.3%</b>
MSCI World Net Total Return index (AUD)			3.7%	10.0%	3.9%	11.0%	10.0%	15.2%	221.5%

## KEY POINTS

- Strong quarter for mining companies
- The Australian Dollar rises on stronger commodity prices
- KKR another strong performer

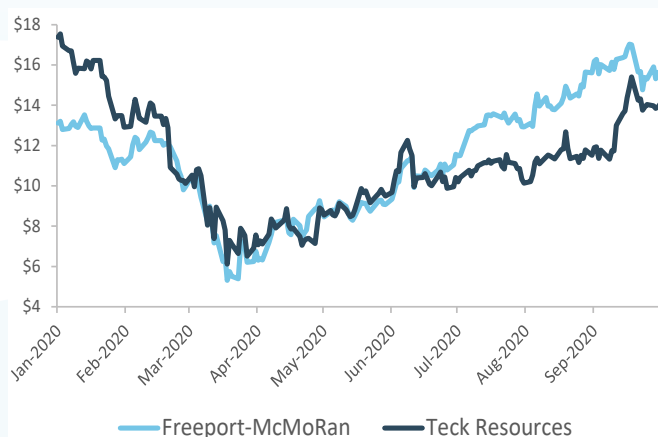
## PERFORMANCE

The portfolio appreciated 3.6% over the quarter, with our materials and commodity names the best performers (see below).

## ACTIVITY AND OUTLOOK

Freeport-McMoRan, our largest portfolio holding, was the best performer, up over 35%. As mentioned previously, in times of both stronger commodity prices and stronger commodity currencies (the two tend to accompany one another), Freeport has the advantage of having substantial amounts of its production and cost base in the United States. Stronger commodity prices therefore flow through to Freeport's bottom line to a greater extent than some of its commodity company peers.

### Freeport McMoRan and Teck Resources share price



Source: Bloomberg

Teck Resources, which has exposure to copper, zinc and metallurgical coal also had a very strong quarter, being up over 33%. While iron ore and base metal prices recovered shortly after the pandemic lows, metallurgical coal prices remained depressed for longer and only in September did spot buyers re-enter the market with vigour. Fundamentals for metallurgical coal (used to produce steel) appear strong with Indian steel production returning to pre-pandemic levels and Chinese domestic steel consumption particularly strong. At current spot commodity prices, Teck's valuation remains below ten times earnings.

KKR was another strong performer after agreeing to acquire life insurer Atlantic Financial. The transaction gives KKR the ability to manage Atlantic Financial's large asset book (which exists to match Atlantic's long-dated insurance liabilities) and is a low-cost way of raising new assets. KKR follows other alternative managers such as Apollo which have already implemented the same strategy.

Our Spanish homebuilders performed strongly over the quarter as they reaffirmed volume guidance and confirmed new home prices were stable and beginning to rise again as customer enquiries and sales return to pre-COVID levels. The Irish homebuilders did not fare as well due to the fact that they were forced to adhere to much stricter lockdown measures which resulted in being offsite for a couple of months versus just over a week in Spain. While in the short term the stocks will react to market sentiment, the long term demand for high quality new housing is increasing with very limited supply.

The European banking sector continued to weaken as considerable uncertainty remains around required credit loss provisions due to the pandemic. Our UK and Irish bank holdings were most impacted as little progress in the Brexit talks brings more uncertainty and delays investment decisions in the wider economy.

In relation to our currency positioning, the stronger Australian Dollar partly offset some of the equity gains, although we have actively increased our Australian Dollar exposure in the past six months.

## Long Term Investment Fund

Portfolio investments	Weighting
Housing - Ireland and Spain	8.2%
Global Domestic Banking	29.7%
Service Monopolies	10.3%
Gaming - Macau	7.3%
Alternative Investment Managers	10.7%
Materials	23.8%
Other	8.4%
<b>Long Equity Position</b>	<b>98.4%</b>
Short Equity Position	-1.2%
<b>Net Invested Equities</b>	<b>97.2%</b>
<b>Total holdings</b>	<b>31</b>

Current stock example
Cairn Homes
Bank of America
Visa
MGM China Holdings
KKR & Co.
Freeport-McMoRan

Currency exposure*	
AUD	50.5%
USD	29.2%
EUR	14.0%
HKD	2.8%
GBP	1.5%
Other	2.0%
<b>Total exposure</b>	<b>100.0%</b>

\* Stated at effective value.

# Important information

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

PM Capital Long Term Investment Fund  
(Unregistered)

This Report is issued by PM Capital Limited (ABN 69 083 644 731, AFSL No. 230222) as trustee for the PM Capital Long Term Investment Fund (the 'Fund'). The Fund is currently closed for new investors. Once it is reopened, it will be available for wholesale investors only via an Information Memorandum. The Fund remains open for redemptions. The Report contains summary information only to provide an insight into how and why we make our investment decisions. This information is subject to change without notice, and does not constitute advice or a recommendation (including on any specific security or other investment position mentioned herein). The Report does not take into account the objectives, financial situation or needs of any investor which should be considered before investing. The investment objective is expressed after the deduction of fees and before taxation. The objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term. While we aim to achieve the objective, the objective and returns may not be achieved and are not guaranteed. 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 factors, including market forces. 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 MSCI indices, and [www.rba.gov.au](http://www.rba.gov.au) for further information on the RBA Cash Rate.

1. Past performance is not a reliable indicator of future performance.
  2. These returns are before the impact of any accrued management fees which are not charged to the Fund, but are charged against any distributions or redemption payments from the Fund.
  3. The Fund changed its investment guidelines as at 30 June 2012. The returns on this report reflect the performance of the Fund assuming an inception date from the date of the change in the investment guidelines. 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. Please contact PM Capital for an outline of how the net asset value is calculated, and see [www.pmcapital.com.au](http://www.pmcapital.com.au) for further information. The performance of the Fund since its original date of inception (being 8 December 1999) to 30 September 2020 is 8.1% p.a. and a 408.9% total return.
  4. This is before the impact of any accrued management fees.
- The Fund was formally de-registered effective January 2019.

## TRUSTEE

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