

# Quarterly report

## September 2024

PM Capital Global  
Companies Fund  
ARSN 092 434 618  
APIR Code PMCO100AU

PM Capital Enhanced  
Yield Fund  
ARSN 099 581 558  
APIR Code: PMCO103AU  
APIR Code: PMC4700AU (Class B)

PM Capital Australian  
Companies Fund  
ARSN 092 434 467  
APIR Code PMCO101AU

### CONTENTS

Video Insight	1	Enhanced Yield Fund	7
Global Companies Fund	2	Important Information	9
Australian Companies Fund	5		

# Quarterly video updates

## Global Companies Fund update

Kevin Bertoli - Co-Portfolio Manager  
John Whelan - Co-Portfolio Manager



This update includes:

- How did interest rates, China stimulus announcements and oil markets impact the portfolios?
- What were the drivers behind the strong performance of the European homebuilders?
- What are some of the key insights following recent research trips?

Watch the video [here](#).

## Enhanced Yield Fund update

Jarod Dawson - Portfolio Manager



This update includes:

- How did central bank actions and inflation trends impact the Fund's performance?
- What changes were made to the portfolio, and how did they affect the Fund's yield?
- What is the outlook for the portfolio, and how is the Fund positioning itself for future opportunities?

Watch the video [here](#).

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

Fund		Benchmark	
PM Capital Global Companies Fund	1210.8%	MSCI World Net Total Return Index (AUD)	410.5%
PM Capital Australian Companies Fund	1128.9%	S&P / ASX 200 Accum. Index	638.2%
PM Capital Enhanced Yield Fund*	206.7%	RBA Cash Rate	114.3%

<sup>1</sup>Past performance is not a reliable indicator of future performance. See page 7 for Important Information. As at 30 September 2024. Net of actual fees. Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax.

\*Enhanced Yield Fund (Performance Fee Option).

# Global Companies Fund

## Simple ideas, simple businesses

Building long-term wealth by finding and exploiting investment anomalies around the world

Global Companies Fund	Inception Date	Exit Price (\$/cum)	3 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa
<b>Fund performance</b> (net of fees) <sup>^</sup>	<b>10-1998</b>	<b>7.2030</b>	<b>4.0%</b>	<b>26.1%</b>	<b>18.2%</b>	<b>18.1%</b>	<b>14.9%</b>	<b>14.2%</b>	<b>10.4%</b>
MSCI World Net Total Return Index (AUD)			2.4%	23.2%	10.6%	12.4%	13.1%	12.7%	6.5%

### KEY POINTS

- China stimulus hopes support commodities and gaming positions
- Oil markets were volatile, providing opportunities to adjust positions
- European building companies take advantage of under-supply and scaled platforms
- Diverging FED and RBA interest rate policies buoy the Australian dollar

### PERFORMANCE

Our Irish and Spanish home building companies had a very strong quarter, each rising around 20%. Cairn Homes and Glenveagh Properties are now the two largest operators in an Irish housing sector that is chronically under-supplied of new homes. The move in the stock prices indicates that the market is beginning to realise the value of their scaled platforms. These platforms enable them not just to build on their own landbank, but also to build on state land in a capital-light fashion, materially boosting profitability and return on equity. We continue to believe they are in the early to mid-stage of what should be a very long cycle.

Apollo held a fourth investor day showcasing their best-in-class alternative asset management platform. They talked to the evolving market opportunity, including:

1. The global industrial renaissance and the huge amount of long-term capital required for energy transition, power and utilities, and digital infrastructure.
2. The massive requirement for suitable retirement products giving the rapid aging of western economies.
3. The hugely under-penetrated high-net-worth and mass affluent markets with regard to their ownership of alternative assets.

Their platform is perfectly placed to take advantage of this new paradigm, with private capital much better suited to this compared to traditional bank and public capital markets. They are now the largest financial company eligible for S&P500 index inclusion with full

governance compliance with one share, one vote coupled with a majority independent board and independent chair. Blackstone and KKR added to the index back in September 2023 and June 2024, we believe Apollo will be next.

Commodity positions were mixed, the portfolio's copper holdings Teck Resources and Freeport McMoRan contributed positively to performance, while the oil related positions were a marginal headwind.

It was a particularly eventful quarter for oil markets with investors having to weigh up the impact of a slowing global economy on oil demand, war in the Middle East, as well as signs of a policy shift from the world's largest oil producer Saudi Arabia. A Financial Times article published in September claimed that the Saudi government was "ready to abandon its unofficial price target of \$100 a barrel for crude" and were committed to returning curtailed production from December, even if it leads to a prolonged period of lower prices. This caused a selloff in crude oil as well as the share price of oil-linked companies, as it potentially represents a structural shift in the oil market. Crude oil is not short of supply and the Saudi decision to curtail production over the past 12-24 months has been a major support to crude oil prices.

In the short term however, the negative reaction has been short-lived. An escalation in the Middle East war diverted investor attention and provided support for crude oil, as the market factored in potential disruption to Iranian oil supply in the event of an Israeli attack. This gives us an opportunity to reweight our positions lower.

Announcements from the Chinese government aimed at providing support to the country's economy acted as a positive catalyst for all things China, including the portfolio's copper holdings Freeport McMoRan and Teck Resources, and its Macau gaming holdings Wynn Resorts, Sands China and MGM China. While the measures are a step in the right direction, we do not see any panacea in what has been announced and believe more will be required to have a prolonged positive impact.

That said, for the first time this year it feels like there is a sense of urgency from the Central Government when it comes to recognising the state of the economy and its challenges. This was particularly evident in the

commentary coming out of the Politburo meeting – chaired by President Xi – which was far more assertive than prior announcements, notably what was communicated post the Third Plenum earlier this year. We believe the violent upwards move in Chinese equities is being driven by a view that these announcements are just the beginning of China's stimulus measures and investors are repositioning for this. China has been a consensus underweight amongst most global investors we spoke to over the past year.

Lastly, the Australian dollar was buoyed by a divergence in interest rate policies by the FED and RBA. The FED turning dovish and cutting rates by 50bps in September, with the market expecting further large cuts in the months ahead. In comparison the RBA held interest rates firm and while interest rate cuts are expected in the future. It will likely be a slower pace to the US. This resulted in the Australian dollar appreciating over the quarter. We continue to see the Australian dollar as undervalued and thus are predominately hedged.

### PORTFOLIO ACTIVITY & OUTLOOK

Over the quarter we added to our positions in Macau gaming names (prior to their sharp rise on Chinese stimulus measures) along with Airbus and Apollo Global Management. We also took advantage of the volatility in the iron ore market by adding a position in BHP at an attractive valuation.

Portfolio investments	Weighting
Domestic Banking - Europe	23%
Commodities - Industrial metals	15%
Commodities - Energy	12%
Industrials	12%
Domestic Banking - USA	10%
Gaming	10%
Housing Ireland & Spain	5%
Alternative Investment Managers	4%
Other	9%
<b>Long Equity Position</b>	<b>100%</b>
Direct Short Position	-2%
Index Short Position	-8%
Net invested equities	90%
Total holdings	47

Current stock example	
ING Groep	
Freeport-McMoRan	
Shell	
Siemens AG	
Bank of America	
Wynn Resorts	
Cairn Homes	
Apollo Global Management	
<b>Currency exposure*</b>	<b>100%</b>
AUD	74%
USD	7%
GBP	6%
EUR	6%
Other	7%

\* Stated at effective value.

**The Fund** aims to create long-term wealth through a hand-picked, concentrated portfolio of generally 25-45 global companies trading at prices we consider, after extensive research, different to their intrinsic values and have the potential to provide attractive future returns.

**The Fund's investment objective** is to provide long-term capital growth and outperform the greater of the MSCI World Net Total Return Index (AUD) or RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

**Fund category:** Global equities    **Minimum investment:** \$20,000    **Suggested investment time:** 7 years+

# Australian Companies Fund

Applying global insights to profit from anomalies in the Australian market

Australian Companies Fund	Inception Date	Exit Price (\$, cum)	3 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa
<b>Fund performance (net of fees)^</b>	<b>01-2000</b>	<b>3.5200</b>	<b>4.6%</b>	<b>10.0%</b>	<b>8.8%</b>	<b>13.5%</b>	<b>10.6%</b>	<b>10.4%</b>	<b>10.7%</b>
S&P/ASX 200 Accumulation Index			7.8%	21.8%	8.4%	8.4%	9.7%	8.9%	8.4%

## KEY POINTS

- Gold achieves all-time high supporting Newmont
- Iron ore and lithium rollercoasters, opportunities present
- China stimulus hopes support commodities and gaming positions
- Apollo sells stake in Challenger despite underlying momentum in its annuity business continuing

## PERFORMANCE

Materials and Energy positions accounted for 46% of the portfolio as at the end of September. Performance of the underlying holdings were mixed over the period with Newmont and BHP contributing positively while Woodside Group was the main detractor.

Gold continues to perform well in the current macro-economic environment with the bullion price setting a fresh all-time high in September, supported by increased geopolitical tensions and easing monetary policy in the United States with the Federal Reserve cutting rates by 0.50%. Consequently, Newmont advanced 23% over the quarter. With gold prices at records and production costs stabilising, coupled with a balance sheet that is strengthened by asset sales, we expect Newmont to return excess cash to shareholders via a sizeable buyback program.

Woodside underperformed as the market reacted negatively to lower global oil prices as well as the announcement of two acquisitions by the company – the Driftwood LNG project and a clean ammonia project, both of which are situated on the US Gulf Coast. Global oil prices fell 17% in the third quarter on global growth concerns and reports that Saudi Arabia, the de-facto leader of OPEC, was preparing to abandon its unofficial price target of \$100 per barrel as it prepares to increase output. Oil prices have since bounced on concerns that Iran may be directly drawn into a widening Middle East conflict.

While our metallurgical coal holdings Stanmore Resources and Coronado Resources finished the quarterly broadly flat, this obscured the sharp volatility seen intra-quarter.

In early July, both miners' stock prices bounced as the shutdown of two competitor underground mines, one in Queensland and the other in the United States, led to speculation of surging met coal prices. The surge never eventuated, and the coal stocks retraced and continued their downward trend. Late in the quarter they both recovered on China's economic stimulus announcements.

Coronado and Stanmore are among the lowest valuation steelmaking coal mining stocks globally per tonne of productive capacity. However, both produce medium grade coal so neither has best-in-class operating margins, which leaves them more exposed at times of low coal prices – particularly for Coronado. With the current benchmark premium hard coking coal price around US\$200 per tonne (and lower grades priced at a discount), a significant part of the industry is operating with limited or no profitability.

Stanmore has excellent operational management and is moderately profitable at current levels, but we believe Coronado is hovering around free cashflow breakeven. With clean balance sheets and plenty of liquidity we believe both can withstand low coal prices for considerable time and will recover well when the commodity cycle inevitably turns.

Centuria Industrial REIT also added to the performance over the September quarter. We initially bought the stock back in early 2024 as it de-rated on the back of strongly rising interest rates. Centuria owns a collection of high-quality last mile industrial assets on triple net leases. Key long-term tailwinds include increased ecommerce adoption, onshoring of production & assembly and increased data centre demand. We estimate the assets are currently circa 20% under-rented in addition to trading at a discount to net asset value. We believe the stock will continue to perform on the back of the normalisation of interest rates coupled with strong rental growth.

The portfolio's international sleeve also contributed positively to performance, standouts over the period were Apollo and Sands China. In late September Apollo held a Capital Markets Day where management spent time detailing the business' best-in-class alternative asset management platform as well as outlining the key market opportunities the company is looking to exploit. Apollo's platform is perfectly placed to take advantage of this evolving opportunity with private capital much better

suiting to this new paradigm compared to traditional bank and public capital markets. While Apollo's valuation has eroded this year we continue to see upside, including the benefit of likely S&P 500 index inclusion in the near future.

In a similar vein to the portfolio's commodity holdings Sands China reacted positively to policy announcements in China aimed at stimulating the economy. Sentiment surrounding the company was also helped by an earlier than expected reopening of its Londoner casino which launched prior in September, before Golden Week and well ahead of management initial guidance of "the end of 2024". Despite the strong quarter, Sands China and Macau's gaming sector as a whole remains depressed, from both an earnings and valuation perspective, and remain comfortable holding.

Challenger Financial Group declined just over 5% over the quarter. While it produced a strong set of results for FY24 with profit increasing 16%, the sell-down by minority holder Apollo Global Management who roughly halved their position to 9.9% impacted the stock price. Our thesis on Challenger has not changed and is based around the cyclical earnings uplift from the normalisation of interest rates coupled with the structural tailwind from the growing requirement for guaranteed income in the Australian retirement market. We see continued momentum for the business into FY25 and believe 10x earnings is too cheap for a company that dominates the annuity market in Australia.

## PORTFOLIO ACTIVITY & OUTLOOK

The net equity position at the end of September stood at 79% with long positions of 81% and shorts of -2%. Additionally, the portfolio had credit positions equating to 15%. In a rising equity market environment experienced over the past three months a less than fully invested portfolio acted as a drag on overall performance.

During the quarter we added to positions in Challenger, Centuria Industrial REIT, BHP and Mineral Resources. Conversely, we exited Fletcher Building in full.

Volatility in the iron ore price allowed us to add to the BHP position, while also building a position in Mineral Resources. During the quarter, iron ore spot prices fell to a two-year low on the back of weakness in global steel demand and declining steel production in China, exacerbated by strong growth in iron ore supply. Prices have since rallied as high-cost production has come offline, and further supported since quarter end by potential Chinese stimulus. As a tier-1 operator with the lowest cost of production, we viewed the sell-off in BHP as overdone and took the opportunity to add to the position.

While Mineral Resources declined 3% during the quarter, the headline number significantly masks the wild ride over the quarter with the stock at one point down 45% during the quarter. The volatility reflects Mineral Resource's leveraged balance sheet at a time when its key commodities, iron ore and lithium, are at multi-year lows. This however discounts the company's Mining Services income stream as well as the potential sell-down of assets (haulage roads and gas field acreage) that became evident during the quarter. Combined with our view on the cost structure of the lithium market (read our Insight ['Unloved lithium powers valuation opportunity'](#)) and our outlook for the iron ore market, it allowed us to take advantage of the volatility by increasing our equity position during the sell-off, while also maintaining our bond position paying a 9.25% coupon. Despite the stock price declining over the quarter, attribution was positive for the quarter.

Fletcher Building was sold following our initial investment thesis failing to eventuate due to operational and litigation issues, management disorganisation, and a deteriorating construction cycle. While Fletcher is exposed to longer-term structural growth in housing and infrastructure in New Zealand and Australia, we no longer have conviction Fletcher can take advantage of the opportunity.

Portfolio investments	Weighting
Commodities - Industrial Metals	30%
Commodities - Energy	16%
Diversified Financials	9%
Real Estate	8%
Industrials	5%
Banking	4%
Gaming	3%
Online Classifieds & Internet	2%
Other	4%
<b>Long Equities Position</b>	<b>81%</b>
Short Equities Position	-2%
<b>Net Invested Equities</b>	<b>79%</b>
Corporate Debt & Bonds	15%
<b>Net Invested</b>	<b>94%</b>
<b>Total holdings</b>	<b>21</b>

Current stock example	
BHP	
Woodside Energy	
Apollo Global Management	
Centuria	
Siemens AG	
ING Groep	
Sands China	
Frontier Digital Ventures	
Currency exposure*	100%
AUD	99%
EUR	1%

\*Stated at effective value.

**The Fund** aims to create long-term wealth through a hand-picked portfolio of 15-25 predominantly Australian companies that we believe are trading at prices different to their intrinsic values.

**The Fund's investment objective** is to provide long-term capital growth and outperform the greater of the S&P/ASX 200 Accumulation Index or the RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

**Fund category:** Australian equities    **Minimum investment:** \$20,000    **Suggested investment time:** 7 years+

**Paul Moore** - Chief Investment Officer

**Kevin Bertoli** - Co-Portfolio Manager

**John Whelan** - Co-Portfolio Manager

# Enhanced Yield Fund

## Regular income, low volatility

Fund performance (net of fees)*	Inception Date	Exit Price (\$cum)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	7 Years pa	10 Years pa	Since Inception pa
<b>Enhanced Yield Fund*</b>	<b>02-2002</b>	<b>1.1448</b>	<b>1.6%</b>	<b>2.9%</b>	<b>6.3%</b>	<b>3.7%</b>	<b>3.1%</b>	<b>3.0%</b>	<b>3.2%</b>	<b>5.1%</b>
RBA cash rate			1.1%	2.2%	4.4%	2.8%	1.8%	1.7%	1.8%	3.4%
Excess			<b>0.5%</b>	<b>0.7%</b>	<b>1.9%</b>	<b>0.9%</b>	<b>1.3%</b>	<b>1.3%</b>	<b>1.4%</b>	<b>1.7%</b>
<b>Enhanced Yield Fund (Class B units)**</b>	<b>05-2017</b>	<b>1.1812</b>	<b>1.7%</b>	<b>3.1%</b>	<b>6.7%</b>	<b>3.8%</b>	<b>3.3%</b>	<b>3.2%</b>		<b>3.2%</b>
RBA cash rate			1.1%	2.2%	4.4%	2.8%	1.8%	1.7%		1.7%
Excess			<b>0.6%</b>	<b>0.9%</b>	<b>2.3%</b>	<b>1.0%</b>	<b>1.5%</b>	<b>1.5%</b>		<b>1.5%</b>

\*Enhanced Yield Fund (Performance Fee Option). \*\*Enhanced Yield Fund - Class B units (Management Fee Option).

### KEY POINTS

- Fund delivers a solid result for the quarter, amid a volatile bond market environment
- Stock picking as important as ever in order to successfully navigate the corporate cycle

### PERFORMANCE

Central banks across many developed nations – including the US and Australia – appear increasingly to have put the brakes on inflation, without forcing their economies into recession – at least at this stage.

As a result of the most recent softer inflation data, bond markets rallied significantly during the quarter, with 3 year gov't bond yields falling from ~4% to ~3.5%, and 10 year government yields falling from ~4.4% to ~4%. At one point the 3 year bond was as low as ~3.25% and the 10 year was as low as ~3.80%.

The Fund benefitted meaningfully from its fixed rate bond position over the quarter, in addition to a number of well-performing corporate bond investments.

As a result, the Fund returned ~1.6% for the quarter and over 6% for the past year.

### PORTFOLIO ACTIVITY

After the considerable fall in fixed rate bond yields, we effectively sold the Fund's entire fixed interest rate position and converted it into predominately floating rate investments. While locking in meaningful profit, and protecting the Fund from a potential retracement of these yields, the large difference in yield between say a 3 year fixed rate government bond of ~3.5% and the 90 day bank bill yield which floating rate notes are set off at ~4.4%, meant that we were also able to pick up around 0.5% to 1% in yield on some of these investments moving to floating rate.

On the corporate side, the Fund's best performing sector was Australian major bank subordinated bonds. These bonds performed strongly after Standard and Poors upgraded the credit ratings on these bonds in the prior quarter.

In terms of new additions, we added to the Fund's holdings in the global banking sector, with increases to our investments in ING, HSBC and Wells Fargo at yields of 5-6%.

We also added to some of our defensive holdings, with an investment made in Woolworths new senior bond deal at a yield of ~6%, as well as the senior bonds of Government air traffic control division Air Services Corp, as well as Transurban and local stock exchange business ASX – all at yields well above 5%.

### OUTLOOK

At the end of the quarter, bond markets were pricing in a significant deterioration in economic activity in the form of a substantial rate cut cycle in both the US and Australia – a cycle which we felt was unlikely to materialise over the markets' time frame.

Since shooting our quarterly update video on 4 October, I am pleased to report that our decision to close out our fixed interest rate exposure was a prudent one. As a result of some stronger economic data both domestically and offshore, local bond markets have so far given back a considerable portion of their rally in early October. The Fund's capital was not only well protected, but we have now again begun building our fixed interest rate exposure back up, at what we think are far more attractive yields.

On the corporate side, lower interest rates should ultimately take some pressure off corporate income statements – especially in sectors that traditionally tend to issue bonds and other forms of debt.

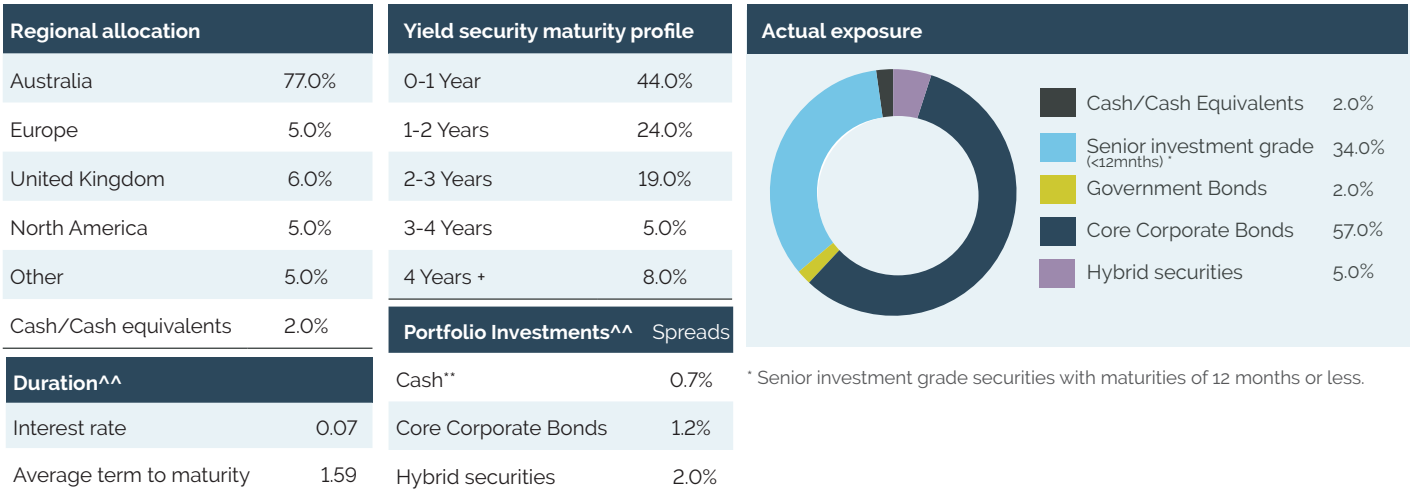


That said, there are quite a number of sectors that have performed very well over the past 6 to 12 months, and are already materially reflecting the prospect of a lower interest rate environment.

In light of this, we are very strongly of the view that stock picking is going to be as important as it has ever been over the next six months or so, as different sectors move at different speeds, and in some cases potentially in different directions.

With the Fund's focus on what we consider in many cases to be defensive names in recent months, particularly those issuers that had underperformed as a result of the rising interest rate environment, we are comfortable with the current corporate exposures we hold.

Additionally, we have significant spare capital available to take advantage of further pockets of market volatility as they come along.



^^ These numbers are indicative and provided as a guide only.

\*\*Cash spread includes short dated bonds <12 months.

**The Fund** aims to create long-term wealth through identifying and profiting from market anomalies predominately in debt, corporate bond and hybrid security markets around the world. Originally developed to invest the portion of PM Capital's own money which would otherwise sit in cash, the Fund was opened to co-investors as we realised our problem – how to produce regular income and attractive returns with low volatility – was shared by many other investors.

**The Fund's investment objective** is to provide investors a return in excess of the Reserve Bank of Australia's (RBA) cash rate. The Fund aims to outperform the RBA cash rate with a low degree of volatility and minimal risk of capital loss.

**Fund category:** Fixed Income **Minimum investment:** \$20,000 **Suggested investment time:** 2 years+

Jarod Dawson - Global Yield Portfolio Manager

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# Important information

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

PM Capital Global  
Companies Fund

ARSN 092 434 618

PM Capital Enhanced  
Yield Fund

ARSN 099 581 558

PM Capital Australian  
Companies Fund

ARSN 092 434 467

**the 'Fund', or collectively the 'Funds' as the context requires.**

The Quarterly 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 Quarterly Report 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 ('PDS') and Target Market Determination which are available from the PM Capital website, and seek their own financial advice prior to making a decision to invest. The PDS explains how the Funds' Net Asset Value is calculated. Returns are calculated from exit price to exit price (inclusive of the reinvestment of distributions) for the period from inception to 30 September 2024 and represent the combined income and capital return. 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 for the Global Companies Fund 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 index. The Index for the Australian Companies Fund is the S&P/ASX 200 Accumulation Index. See [www.asx.com.au](http://www.asx.com.au) for further information. The Index for the Enhanced Yield Fund is RBA Cash Rate. See [www.rba.gov.au](http://www.rba.gov.au) for further information.

<sup>^</sup>Past performance is not a reliable indicator of future performance. Net of actual fees. Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax.