PM Capital

QUARTERLY REPORT

MARCH 2021

Value most valued

Value stocks (and portfolios) have roared back to life.

p.1 Video insight

PM Capital Long Term Investment Fund

(Unregistered)

CONTENTS

Quarterly video update

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

- The situation one year on from the COVID-19 economic shutdown
- Why most financial or consensus forecasts should be treated with a great deal of scepticism
- The only tools found to be genuinely useful as an investor over time

Access the video **here.**

Access all market updates and insights **here.**

"Crowding has never been higher; most investors are standing on the same side of the ship and probably the most interesting insight I can give you at the moment is that the long term alpha opportunity has never been higher. That is great news for genuine investors…"

Total returns since inception[1]

Fund		Benchmark	
PM Capital Global Companies Fund	639.4%	MSCI World Net Total Return Index (AUD)	232.5%
PM Capital Long Term Investment Fund[2,3]	629.8%	MSCI World Net Total Return Index (AUD)[3]	261.7%
PM Capital Asian Companies Fund	349.1%	MSCI AC Asia ex Japan Net (AUD)	202.5%
PM Capital Australian Companies Fund	773.5%	S&P / ASX 200 Accum. Index	425.5%
PM Capital Enhanced Yield Fund	172.5%	RBA Cash Rate	97.0%

See page 5 for Important Information. As at 31 March 2021..

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.

Fund category	Global equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 25-35 stocks

Minimum investment	Closed Fund
Suggested investment time	7 years +
Strategy date[3]	1 July 2012
Unit trust FUM	$186.2m as at 31 March 2021
Global equities FUM	$1209.1m as at 31 March 2021

Long Term Investment Fund

Paul Moore
Global Portfolio Manager

Investment Performance[1,2,3]	Strategy Date	Exit Price (per unit)[4]	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since strategy Inception pa	Total Return
Long Term Investment Fund	**07/2012**	**$2.6554**	**16.3%**	**43.4%**	**65.3%**	**13.8%**	**17.5%**	**21.1%**	**432.4%**
MSCI World Net Total Return index (AUD)			6.3%	12.5%	23.8%	13.1%	13.6%	15.8%	261.7%

KEY POINTS

- Divergence in alternative asset manager share prices and M&A activity creates an opportunity to focus on Apollo Global Management
- Significant move in interest rates as inflation expectations rise materially

PERFORMANCE

The portfolio had a strong quarter. The major contributors were our banking positions in the US and Europe and our exposure to copper miner Freeport-McMoRan.

PORTFOLIO ACTIVITY

We exited our positions in alternative investment managers Ares and KKR and used the proceeds to increase our position in Apollo Global Management. In early March, Apollo announced its intention to merge with Athene, an insurance company in an all-stock transaction. Apollo already own 27% of Athene and the merger will result in Apollo increasing its share count by roughly 30% while adding circa 70% to earnings as it effectively buys Athene on 7 times earnings. Apollo also intends to complete a full conversion to a corporate (c-corp) with a one share, one vote structure.

The single share class structure combined with a higher market capitalisation and a newly installed fixed dividend policy should bolster Apollo's case for S&P 500 inclusion when the Athene transaction closes early next year. While we acknowledge that insurance is a lower quality business given its capital intensity and balance sheet risk, the merger creates full alignment between Athene and Apollo and allows Apollo to take full advantage of Athene's growth prospects with funds under management growing over 20% per annum over the last five years.

We also took advantage of volatility over the quarter to add to our positions in ING Groep and Teck Resources.

OUTLOOK

Our US and European banking positions had a very strong quarter. This was the result of expectations for higher interest rates in combination with central banks loosening their restrictions on dividends and buybacks and a recalibration of expected loan losses from the pandemic.

Firstly, interest rates moved materially higher in the March quarter. Rates are rising due to the sharp increase in inflation expectations which is being driven by huge fiscal stimulus, higher commodity prices and the likelihood of a sharp rebound in spending as consumers start to spend their excess savings over the pandemic period.

Secondly, during 2020, the pandemic created a very uncertain environment for banks which led them to allocate large amounts of provisions against their lending books. These provisions are becoming increasingly less likely to be required in full given the huge fiscal and monetary assistance.

Lastly, central banks that severely limited dividends and buybacks post COVID are beginning to loosen these restrictions as the economic fallout from the pandemic becomes clearer. The Fed announced in March that as of 30 June it will end for most banks the temporary limits it had imposed on their ability to make dividend payments and buy back their own stock. As expected, the ECB will lag the Fed but it looks like it will also lift its restrictions on paying dividends in September. The Bank of England relaxed its restrictions back in December.

In relation to our exposure to copper, Freeport-McMoRan rose ~26% over the quarter. A sometimes overlooked aspect of our Freeport investment thesis (and that of peer miner First Quantum) is its rapidly improving balance sheet. For much of the past decade

Long Term Investment Fund

Freeport mixed its natural commodity price leverage with substantial financial leverage - a combination highly susceptible to market downturns. Freeport's deleveraging again continued in the quarter, and the balance sheet is heading towards net cash in the next few years. A cleaner balance sheet should drive Freeport's valuation multiple closer to that of peers Southern Copper and Antofagasta.

With regard to the market generally, while value-related stocks have already showed signs of momentum, we believe that this is part of a long-term rotation that will continue to benefit these stocks going forward.

Portfolio investments	Weighting
Housing - Ireland and Spain	6.7%
Global Domestic Banking	35.5%
Gaming - Macau	8.7%
Alternative Investment Managers	6.4%
Materials	21.5%
Energy	7.5%
Other	8.3%
Long Equity Position	**94.6%**
Short Equity Position	-15.7%
Net Invested Equities	78.9%
Total holdings	28

Current stock example
Cairn Homes
Bank of America
MGM China Holdings
Apollo Global Management
Freeport-McMoRan
Royal Dutch Shell

Currency exposure*	
AUD	39.0%
USD	36.8%
EUR	16.5%
HKD	3.1%
GBP	2.7%
Other	1.9%
Total exposure	100.0%

* Stated at effective value.

Paul Moore - Chief Investment Officer and Global 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 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 for further information on the MSCI indices, and 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 for further information. The performance of the Fund since its original date of inception (being 8 December 1999) to 31 March 2021 is 9.8% p.a. and a 629.8% 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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