June 2014

Quarterly Report

PM CAPITAL Absolute Performance Fund

PM CAPITAL Emerging Asia Fund

PM CAPITAL Australian Opportunities Fund

PM CAPITAL Enhanced Yield Fund

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PMCAPITAL

Quarterly video links:

Click here for June 2014 Quarterly Report Investment Overview video (5:41 mins)

Click here for June 2014 European Property: Sector in focus video (3:21 mins)

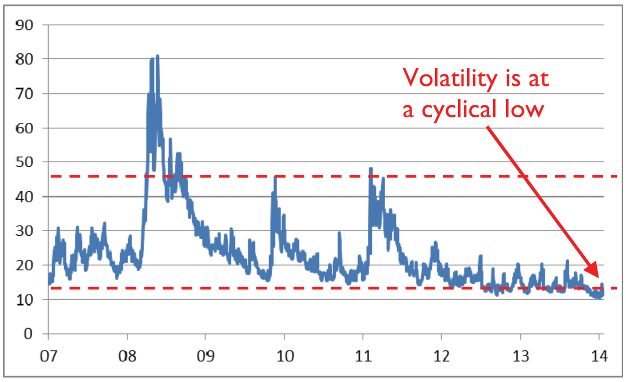
Click here for June 2014 Emerging Asia Fund update (5:31 mins)

Investment overview

Fund Description						
Fund	**Asset Class**	**Inception Date**	**Suggested Timeframe**	**Fund FUM**	**Total Return Since Inception[1]**	
Absolute Performance	Global Equities	28 October 1998	7 Years +	$202 million	**Fund 209.4%**	MSCI AUD 46.9%
Emerging Asia	Asian Equities (ex-Japan)	1 July 2008	7 Years +	$11 million	**Fund 174.9%**	MSCI Asia (ex Japan) 21.0%
Australian Opportunities	Australian Equities	20 January 2000	7 Years +	$39 million	**Fund 344.4%**	S&P/ASX 200 218.0%
Enhanced Yield	Yield Securities	1 March 2002	2 Year +	$398 million	**Fund 122.6%**	RBA Cash Rate 79.2%

Probably the most surprising aspect of the 2014 Financial Year has been the maintenance of the status quo in markets; historically low government bond and property yields, equity prices that continue to edge higher impervious to any geopolitical news and a local currency that sustains itself at high levels despite a significant fall in key commodity export prices. It is also reflected in historically low volatility, I suspect that monetary authorities have becalmed the markets (refer chart below and charts overleaf).

CBOE Volatility Index (VIX) 2007-2014



However, there is no doubt in my mind, that the tide is at a turning point and that the price action of different asset classes and industry sectors will be very different over the next 5 years. This thought process is reflected in the composition of our equity portfolios where we have sold down a number of positions over the last twelve months, with a view that opportunities to redeploy capital would be provided at some future point in time.

Our research framework still views the risk/reward proposition of owning a business as generically far more favourable than the alternatives of cash, bonds or property. How much more favourable is difficult to assess, given the current abnormally low level of global interest rates. We also believe that valuation discrepancies in Australia are limited, which combined with the elevated currency and the minimal offshore diversification by domestic investors, would favour the perusal of international equity opportunities.

Our current portfolios are dominated by the following investment themes:

1. The evolving recovery in domestic property prices that were decimated by the Global Financial Crisis. Originally Las Vegas, but recently we have also made investments in Ireland and Spain;

2. Domestic banking franchises; and

3. Financial intermediaries; specifically futures dominated exchanges that are monopolistic in nature and that will benefit from any future uptick in cyclically depressed trading activity.

Valuations afforded these specific investment themes have no doubt recovered, but industry activity levels are still below normalised levels and thus there is a strong prospect of solid earnings growth looking forward, which will drive further valuation expansion. Our expectation, without guarantee, is that such dynamics can meet our long term requirement for equity ownership of 10% annualised returns.

We also have positions in a number of globally branded consumer businesses; Heineken, Anheuser-Busch InBev and Google. We would like to add additional consumer franchises to the mix and are working on a number of possibilities, but price action has not yet afforded us the opportunity to include them in the portfolio. Hopefully, patience will reward us.

Otherwise, the focus of our research efforts is very much on investment opportunities that are outside of our existing positions in financials and property related equities. I still expect the portfolios to be fully invested by the end of the calendar year.

Paul Moore, Chief Investment Officer

[1.] The above returns are calculated from exit price to exit price from the inception date of each Fund up until 30 June 2014. Detailed performance figures for other periods can be found on pages 6, 7, 8, 9, for each Fund within this report.

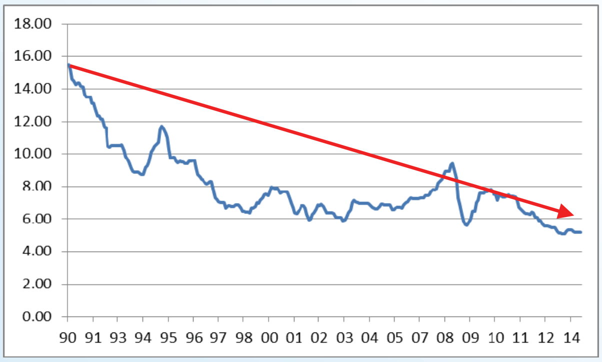
Overview — reference charts

Yields are at historical lows

Japanese 10 year Bond Yield (1986-2014)

Source: FactSet

Australian home loan rates* (1990-2014)



Source: Credit Suisse

*3 year fixed rate

Equity markets are at post-GFC highs

ASX 200 (2009-2014)

Source: FactSet

S&P 500 (2009-2014)

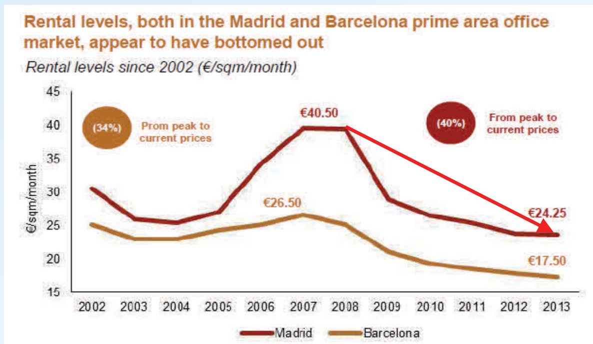
Source: FactSet

Activity levels are still below "normal"

New home sales USA (1963—2014)

Source: http://www.calculatedriskblog.com/

Spanish office rents per sqm (2002-2013)



Source: Hispania

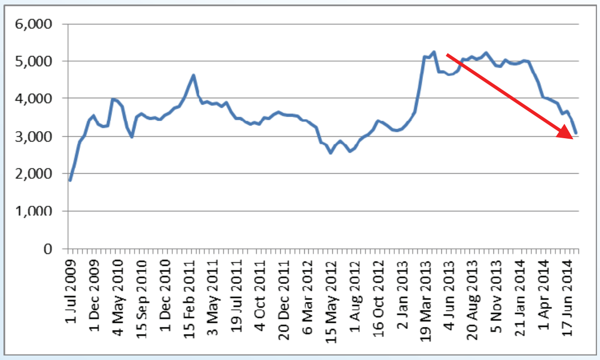
Overview — reference charts

Elevated currency despite commodity prices down approximately 40%

Iron Ore (USD per DMT) 2010-2014

Source: FactSet

Milk prices (USD per MT) 2009-2014



Source: Global Dairy Trade

Exchanges' trading activity still depressed, global banks with greater upside

Trading activity on NYSE

Source: NYSE

Global v domestic banks

	ROE	P/B	Future?	Potential variance
CBA	16.8%	2.7x	2.5x	-10%
Wells Fargo	15%+[1]	1.7x	2.2x	+30%
Lloyds Bank	15%+[1]	1.3x	2.2x	+70%
ING	13-15%[1]	0.9x	1.8x	+100%

1. WFC, LLY, ING is a forecast of PM CAPITAL internal estimates of 2016 and beyond

Source: PM CAPITAL

Absolute Performance Fund

Investment Performance[2]	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Absolute Performance Fund	**10/1998**	**$1.7180**	**-2.7%**	**-4.8%**	**12.5%**	**19.4%**	**14.6%**	**7.5%**	**209.4%**
MSCI World ($A)			*3.0%*	*0.6%*	*20.3%*	*16.6%*	*11.5%*	*2.5%*	*46.9%*

Portfolio's Invested Position	
Long Equity Exposure	90%
Short Equity Exposure	-13%
Net Equity Exposure	**77%**
Debt / Hybrids	26%
Cash	-3%
Total Exposure	**100%**

Long Equity Composition	
Banks ING Groep, Barclays PLC, Lloyds, BB&T	48%
Services Google Inc, 51Job Inc, BM&F Bovespa SA, CME Group Inc	18%
Property RE/MAX, Realogy, Howard Hughes Corp	17%
Global Brewing Heineken Holdings, Anheuser-Busch Inbev	7%
Technology Oracle	3%
Other Turquoise Hill Resources, Pfizer	7%
Total Long Equity Exposure	**100%**

The Fund's performance for the quarter was largely influenced by the US banking sector's underperformance of the broader market.

Barclays fell 10.4% after a securities fraud lawsuit was filed against it by the Attorney General of New York. This crowded out the positive news that they will reduce their investment banking activities by 30%.

Bank of America underperformed after management revealed a miscalculation of their capital requirements during stress testing, with the board putting their return of capital plans on hold, in the short term. We do not believe that this reflects broader issues and have maintained our position in BAC.

Anheuser-Busch InBev (8.7%) and Comcast (9.1%) had strong quarters, reflective of the momentum in the broader consumer sector for the quarter. We have reduced our position in Comcast on a valuation basis.

Over the last quarter we closed our positions in Applied Materials, Microsoft and Norfolk Southern. We initiated positions in BM&F Bovespa (Brazilian Stock Exchange), Kennedy Wilson Europe, Hispania REIT (European Property) and RE/MAX (US based real estate agency business).

European Property: sector in focus

When we find a sector out of favour, it usually plays out over a number of years and via various stocks in the sector. Long term investors in our funds would know all about our investments in the US housing market, as we have highlighted them periodically over the last few years. Our global sector focus has led us to the European property market with particular focus on the Irish and Spanish markets. We have observed a similar opportunity to that of the Las Vegas property sector 3-4 years ago, with deeply depressed markets and assets selling well below replacement cost.

We recently visited Europe to take a closer look, viewing a wide range of commercial and residential properties in Dublin, Madrid and Barcelona. In addition, we met with the management of various European property firms to test our thesis of undervaluation in Irish and Spanish real estate.

The fall in property values was virtually ubiquitous and it was evident that prime commercial and residential real estate had over-corrected. Rents were at significant lows with yields at their highs, resulting in asset prices down between 40-70% from their peak values. The market remains dysfunctional with a growing supply/demand imbalance due to new construction being virtually non-existent, as developers are either bankrupt or severely constrained by the banks.

We acquired stakes in newly issued real estate companies, namely Hibernia, Kennedy Wilson Europe, Hispania and LAR Espana in late 2013/early 2014 either through their IPO's or shortly after listing. These new real estate companies will concentrate on buying select European commercial real estate and residential property on 8-10% yields with a focus on Irish, Spanish and regional UK properties. They are structured as REIT's, with a payout ratio close to 100%. Hence, over time shareholders should obtain a regular income stream and capital appreciation, given the underlying assets are trading well below their new build costs.

Ashley Pittard, Portfolio Manager

[2] Returns are calculated from exit price to exit price for the period as stated and represent the combined income and capital return for the Fund. For more details, the Product Disclosure Statement (PDS) provides an explanation of how returns are calculated.

Emerging Asia Fund

Investment Performance[2]	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Emerging Asia Fund	**07/2008**	**$1.5946**	**-5.3%**	**-7.7%**	**13.6%**	**12.3%**	**10.6%**	**18.4%**	**174.9%**
MSCI Asia (Ex-Japan)			*4.3%*	*-0.4%*	*10.3%*	*5.0%*	*5.2%*	*3.2%*	*21.0%*

Portfolio's Invested Position	
Internet Baidu, 51Job Inc., Zhaopin Ltd	19%
Gaming Donaco International Ltd, SJM Holdings	13%
Infrastructure Beijing Capital Int'l Airport	7%
Consumer Carlsberg Malaysia, Guinness Anchor	7%
Media Astro Malaysia Holdings	6%
Commodities Turquoise Hill Resources, IRC Ltd	6%
Retail Sun Art Retail	1%
Other	2%
Cash	39%
Total Exposure	**100%**

Performance in the June quarter was a disappointment in an otherwise strong financial year. The quarterly result highlights the perils of focusing on performance over short time periods. We have been consistent in our approach, focusing on absolute, long term returns and this has paid dividends. For the financial year the Fund managed to provide a strong absolute return while again outperforming the MSCI Asia ex-Japan benchmark.

Quarterly performance was impacted by Donaco International, the Fund's largest position, which declined 37%. The business was negatively impacted by a territorial dispute between China and Vietnam, which culminated in rioting and violence towards Chinese nationals in Vietnam. This is important given Donaco's Aristo casino, which operates on the China/Vietnam border, relies on Chinese gamblers. We believe that long term implications on operations are negligible and continue to hold our position. Performance over the 12 months was markedly better, rising 86% from our average purchase price in the first half of the financial year.

An appreciating Australian Dollar also negatively impacted performance. The Dollar's resilience in the face of weakening economic fundamentals (the Iron Ore price has declined 32% since December 31st) continues to be frustrating. Central bank intervention globally continues to distort capital flows which is artificially inflating the Australian Dollar in the near term. We will continue to position the Fund with minimal Australian Dollar exposure based on what our research suggests is happening on the ground in China which, should negatively impact the AUD longer term.

Holdings within the online classifieds thematic assisted performance after recovering from a first quarter correction which was driven by valuation concerns. Baidu was the largest contributor, advancing back towards its all-time high. This thematic was a major contributor to performance over the financial year, with iProperty Group the standout rising 266%. We are comfortable with the outlook and valuation of our holdings, however remain cautious of the valuation of the wider internet space.

We added two new positions to the online classifieds theme over the quarter, 51Job and Zhaopin which completed its Initial Public Offering on the NYSE. Respectively these are the number one and two players in the online employment classifieds space in China. We believe 51Job and Zhaopin are best placed to capture the growth in demand for formal recruitment services within China. Unlike markets such as Australia, formal paid recruitment services are a relatively new concept in China. Consequently China is not a substitution story from print to online, like that which has occurred in Australia over the last decade. Rather, it is a transition from non-formal advertising to paid advertising. Online classified advertising is already the main recruitment channel in China with print being bypassed given the large expense associated with it.

Conversely we exited positions in AAC Technologies, Puregold Price Club, Wumart Stores and Dalian Ports. The standout amongst these names was Puregold Price Club, which appreciated 277% since our purchase in its October 2011 Initial Public Offering.

Looking forward our message has not changed from those in previous quarters. We continue to take a cautious approach when adding new names to the portfolio, waiting patiently for genuine opportunities to present themselves, as opposed to just being invested in the market. A number of potential investments are currently trading 10-15% from where we would be adding positions.

Despite the poor performance of the Chinese market, which traded within 15% of its post GFC lows over the past twelve months, we have still managed to produce decent returns investing in Chinese businesses i.e. online classifieds and gaming. This reinforces our focus on buying individual business that meet our criteria and not getting caught up in the short term thinking of the market which is typically centred around the macro noise.

Kevin Bertoli, Portfolio Manager

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Australian Opportunities Fund

Investment Performance[2]	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Australian Opportunities Fund	**01/2000**	**$1.5514**	**1.6%**	**5.1%**	**13.9%**	**11.4%**	**15.8%**	**10.8%**	**344.4%**
S&P / ASX 200 Index			*0.9%*	*3.0%*	*17.4%*	*10.4%*	*11.2%*	*8.3%*	*218.0%*

Portfolio's Invested Position	
Long Exposure	70%
Short Exposure	-1%
Net Equity Exposure	**69%**
Debt / Hybrids	28%
Cash	3%
Total Exposure	**100%**

Long Equity Composition	
Property Asia Pacific Data Centre, Devine	37%
Banks ANZ, NAB	14%
Media PMP Limited	11%
Insurance QBE Insurance, Suncorp Metway	10%
Consumer JB Hi-Fi	9%
Other NextDC, Donaco International Ltd	19%
Total Long Equity Exposure	100%

The old adage of "sell in May and go away" seemed to be resonating in 2014, with a flat June quarter in Australian equities. While positions such as Devine rewarded us in the quarter, positions such as QBE, NextDC and Donaco proved to be more challenging.

We invested in QBE in 2010 after the stock had fallen from its peak of ~$26 to ~$16 dollars. Our thesis at the time was based on the premise that the decline in earnings was due to cyclical rather than structural factors. Although, we remain convinced that investment earnings can rise ~30% when interest rates in US and Europe normalize, we now have lower conviction that QBE's insurance margins can return to the historic peak of ~18%. Improved disclosure from management in the last 12 months regarding areas of underperformance have reduced our expectations in regards to the total return from QBE. However, we believe the current share price does not reflect our updated earnings forecast, as we expect the cost cutting and rationalisation programs initiated over the last fiscal year will be the catalysts for future performance.

NextDC is a business we invested in with a view that over the long term, growth in cloud computing and a shift to hosted/ managed services will drive earnings for the business. In the last quarter, the Sydney data centre became fully operational. However, the anticipated ramp up in profitability has not yet materialised, as the rate of fill out has been slower than expected. We believe that any increase in occupancy will be non-linear and maintain confidence in the long term profitability of NextDC.

Devine was the best performing stock in our portfolio, up ~62%. During the quarter there were two major events. Firstly, management upgraded their earnings forecasts for FY14 from prior guidance of $7m to $10m, to new guidance of $12m to $14m. The lift in guidance was a result of a number of delivery and transactional milestones that moved forward substantially. The second event was news that Leightons was looking to offload its 50.6% position in Devine. Leightons selling the full stake to a strategic investor would result in the buyer needing to launch a full takeover of the business. If on the other hand Leighton's were to sell the stake to a number of investors, liquidity for the stock is likely to increase. We invested in Devine when the stock was trading significantly below its NTA, as the market was uncertain about the true value of the development assets on its balance sheet. We believe the events of the last quarter are reducing this market uncertainty - we continue to hold the stock.

Donaco is a casino operator with its main assets based in Vietnam, with Chinese gamblers representing the largest and most important customer segment. Our view is that over the next 3 years, earnings will be driven by increasing table numbers and development of assets. Over the last 3 months the share price has fallen 37%, due largely to political uncertainty and potential impact of tensions between Vietnam and China. While it is almost impossible to forecast the outcome of these tensions, we are comfortable that the long term implications for Donaco are minimal. As a result we increased our position in Donaco over the last quarter.

We reduced a number of our short positions over the last quarter. Post the May budget, retailer stocks fell 5-10% as the market interpreted the spending reductions in the budget as harbingers of reduced retail spending. We took this opportunity to close out our shorts in Myer and Metcash. The budget also included a potential GP co-payment which negatively impacted sentiment towards the healthcare sector. As a result, we also closed our short in Primary Health Care. We believe the downgrade cycle for the mining services companies is also approaching its last phase and as a result we closed our short position in Cardno.

Uday Cheruvu, Portfolio Manager

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Enhanced Yield Fund

Investment Performance[2]	Inception Date	Exit Price	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Enhanced Yield Fund	**03/2002**	**$1.1119**	**1.4%**	**2.5%**	**5.5%**	**5.4%**	**6.3%**	**6.7%**	**122.6%**
RBA Cash Rate			*0.6%*	*1.2%*	*2.5%*	*3.4%*	*3.7%*	*4.8%*	*79.2%*

	%	Avg. Yield (gross)	Avg. Spread to RBA (gross)
Cash	**47%**	3.2%*	0.7%*
Corporate Debt	**31%**	4.6%*	2.1%*
Fixed Floating	0% 31%		
Hybrids	**20%**	5.2%*	2.7%*
Fixed Floating	0% 20%		
Equity Income Strategies	**2%**		
Total Exposure	**100%**		

Maturity	
0-1 year	57.2%
1-2 years	9.6%
2-3 years	11.7%
3-4 years	2.7%
4 years +	18.8%

Regional	
Australia	86%
UK/Europe	13%
US	1%

Duration	
Interest rate	0.15 Years*
Average term to maturity	2.40 Years*

* These numbers are an estimate and should be used as a guide only.

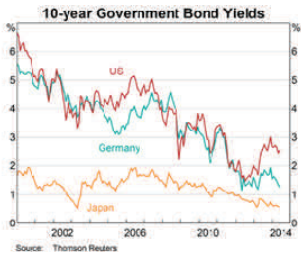
The June quarter rounded out a very good year for the Fund, returning 5.5% v the RBA cash rate at 2.5%. The Fund's return compares well to 1yr term deposits at 3.85%^ and 1yr bank bills at 2.74%^ over the same period.

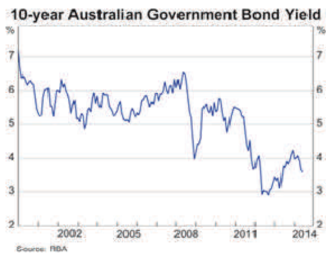
Credit spreads on the whole were tighter over both the quarter and the year. Thus, the decision to hold our material credit spread duration of approximately 2.5 years for the full year, served the Fund well.

In terms of portfolio changes over the quarter, we initiated a new position in the debt securities of Bentham IMF at a yield of Bills +420bp. They are a highly regarded litigation funding business that in essence provides capital to claimants with very strong cases who are not in a position to fund the claims themselves. The business has ~$100m in cash on their balance sheet versus the $50m in bonds that they have issued, along with a case pipeline with the potential to realise significant revenue over the next 3-5 years. Since its initial purchase, this investment has contracted by over 100bp in spread terms, implying a 10%+ return if held for 12 months.

We also increased our positioning in our European property recovery theme, with additional investments made in Spanish and Irish property companies Hispania Activos Inmobiliarios and Kennedy Wilson – both of whom are investing in portfolios of commercial real estate at yields of up to 10%, as outlined in the Absolute Performance Fund update. We have generated a 5-6% return over the past few months from our holdings related to this theme.

The global growth backdrop continues to look favourable over the medium to longer term and, as we have noted in previous quarterly reports, we believe is in stark contrast to the current yields being priced in by global bond markets. For example, 10 year bonds in major European economies are trading at or close to their long term lows, with Germany trading down close to 1%! US 10yr treasuries are trading at ~2.50%, Japan 10 year yields are still well below 1% and even Australian 10yr yields are looking relatively anaemic at ~3.50%. (Refer Charts below).





The key point to consider is that these yields are reflective of weak long term growth assumptions, and indeed imply little positive benefit from what we view as significant stimulatory monetary policy settings currently in place, around the world. Thus, we believe current long term interest rates will not be sustained at these levels over the next few years. Subsequently, we have almost no interest rate exposure in the portfolio, which will not only substantially protect the Fund from material rate rises, but indeed a higher market interest rate environment should provide a positive backdrop for the Fund's returns.

Looking forward, we think it will be more challenging to identify genuine opportunities in global credit markets in the coming year than it was over the past couple of years. Thus, we believe that credit investors should focus more on strategies that centre on selective individual stock picking, rather than taking a more generic approach. With its ample cash holding, the fund is in a strong position to take advantage of any near term pullbacks in valuations.

Jarod Dawson, Portfolio Manager

[2] Returns are calculated from exit price to exit price for the period as stated and represent the combined income and capital return for the Fund. For more details, the Product Disclosure Statement (PDS) provides an explanation of how returns are calculated. ^ 1yr TD and 1yr Bank Bill rates are sourced from Bloomberg as at 30/06/14. The 1yr TD rate represents the average Australian bank TD rate.

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