SEPTEMBER 2017

PM Capital

Quarterly Report

A GPS for the new world

Navigating the changing interest rate environment.

PM Capital Global Companies Fund
ARSN 092 434 618
APIR Code PMC0100AU

PM Capital Asian Companies Fund
ARSN 130 588 439
APIR Code PMC0002AU

PM Capital Australian Companies Fund
ARSN 092 434 467
APIR Code PMC0101AU

PM Capital Enhanced Yield Fund
ARSN 099 581 558
APIR Code: PMC0103AU

CONTENTS

Quarterly video update

Chief Investment Officer Paul Moore gives his views on why:

- We're in the first innings of a transition to a rising interest rate environment
- Focussing on risk/ reward criteria is more important than geographical allocations
- The key market driver will be earnings growth

Access the video **here**.

"Another anecdote highlighting how distorted bond markets have become was the issue by Argentina of a 100 year bond at 8% – a country that has a history of default. Back in 1994 we actually made a successful investment in Argentine bonds at a yield to maturity of approximately 65%."

Total returns since inception[1]

Fund		Benchmark	
PM Capital Global Companies Fund	396.1%	MSCI World Net Total Return Index (AUD)	115.9%
PM Capital Asian Companies Fund	304.8%	MSCI AC Asia ex Japan Net (AUD)	108.8%
PM Capital Australian Companies Fund	507.2%	S&P / ASX 200 Accum. Index	285.2%
PM Capital Enhanced Yield Fund	149.6%	RBA Cash Rate	90.5%

[1]Past performance is not a reliable indicator of future performance. See page 15 for Important Information. As at 30 September 2017.

Global Companies Fund

- **The Global Companies Fund** aims to create long term wealth through a hand-picked, concentrated portfolio of 25-45 global companies trading at prices that we consider, after extensive research, to be trading at prices different to their intrinsic values and will 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
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 25-45 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	28 October 1998
Unit trust FUM	$345.8m as at 30 September
Global equities FUM	$963.5m as at 30 September

Global Companies Fund

Paul Moore
Global Portfolio Manager

Fund performance (net of fees)	Inception Date	Exit Price ($)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Since inception - total
Global Companies Fund	**10-1998**	**2.7261**	**3.2%**	**8.6%**	**31.3%**	**12.6%**	**21.1%**	**8.8%**	**396.1%**
MSCI World Net Total Return Index (AUD)			2.5%	6.0%	15.2%	11.7%	17.4%	4.2%	115.9%
Outperformance by the Fund			0.7%	2.6%	16.1%	0.9%	3.7%	4.6%	280.2%

KEY POINTS

Strong performance from alternative asset managers, payment networks and home builders.

Global interest rates starting to rise late in the quarter.

Credit-related investment theme largely played out.

PERFORMANCE

The portfolio had a solid quarter on the back of strong gains from our exposure to alternative asset managers, payment networks and homebuilding stocks. A rally in the value of the Australian Dollar versus the US Dollar detracted from some of the portfolio's gains.

PORTFOLIO ACTIVITY

We significantly reduced our exposure to our credit theme during the quarter as we believe the dislocation in credit markets has largely played out. The background to this theme was that the Global Financial Crisis gave rise to a major dislocation in credit markets and what we thought was a once in a lifetime opportunity to invest in credit securities.

Subsequent bouts of volatility created by the European debt crisis and the Chinese growth scare in 2016 gave us further - albeit smaller - opportunities to take advantage of this theme and the portfolio clearly benefited from that belief.

Looking at credit markets today, we believe the opportunity has now passed and our remaining small exposures are in run off. Credit securities will likely be a very small part of the portfolio in the medium term. We are pleased to have made equity-like 10% returns on our credit positions over the past eight years.

We also increased our position in Allied Irish Bank. We believe our Irish banking exposures should improve over the medium term as demand for mortgages continues to rise. Allied Irish Bank is the number one Irish domestic banking franchise and it operates in a consolidated market in a strengthening economy.

OUTLOOK

Our Irish homebuilding stock, Cairn Homes, continues to perform strongly as the economic recovery accelerated and demand for residential property in Ireland strengthened. Over the past year the housing market supply-demand imbalance has become more acute, resulting in double-digit rises in house prices. Cairn Homes is benefiting significantly from this as over the past two years it completed the purchase of a 10-year land bank.

Our US exchange positions in CME Group and Intercontinental Exchange (ICE) also continue to perform. CME reported better than expected results as interest rate volume activity drove revenue. ICE benefited from volatility in the energy markets that drove up oil trading activity. ICE is selling off Trayport (an energy trading platform that it acquired in 2015) because of competition concerns from regulators. This will undoubtedly have a slight negative impact on earnings, but the market had factored that in over the first half of the year when regulators announced their decision.

The alternative asset managers, including KKR and Apollo, maintain the growth in their businesses at the expense of traditional asset managers. We believe a valuation anomaly exists as they trade on much lower multiples versus their traditional asset management counterparts. Increased activist investors' interest is drawing attention to this pricing anomaly, prompting strong stock price appreciation.

We trust this anomaly will close over time but could be expedited if tax reform facilitates their conversion from partnership structures to corporation status. This would bring them into the indices and greatly widen their appeal to a broader range of investors.

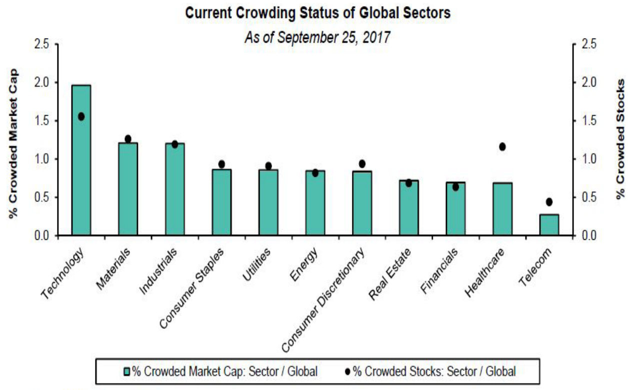
Our positions in Visa and Mastercard also performed strongly over the quarter as they continue to see volume growth in the low 'teens, resulting in high 'teen earnings per share growth. Mastercard held an investor day in September where it upgraded its earnings per share growth guidance from mid-'teens to 20%+ over the next three years. We expect to see similar growth in Visa.

These companies continue to benefit from the recognition of the importance of the payment networks, the structural tailwind of cash to credit and an abatement in global competition.

With long term interest rates starting to rise and the US Federal Reserve beginning to phase out its asset purchase program (QE), our banking positions performed well over the quarter. Investors now anticipate that rising interest rates will lead to an increasing yield spread between new loans written and consumer deposit rates. This net interest margin expansion would improve any bank's profitability.

Investors seem to look at banks as risky investments although the Financial sector is the least crowded sector in the S&P 500 now (Technology being the most crowded - refer to figure A). It should be noted that today banks have multiples of equity capital compared to before the crisis, and significantly lower balance sheet risk. Therefore, we believe their forward beta will be very different to their historic position. The inflection point in interest rates should provide a tailwind for banks for some time yet.

Figure A: Current Crowding Status of Global Sectors



Source: Factset, MSCI, Bernstein Analysis.

Portfolio investments	Weighting
Global Brewing	2.5%
Post GFC Housing Recovery - US	14.4%
Post GFC Housing Recovery - Europe	9.7%
Global Domestic Banking	36.6%
Service Monopolies	19.4%
Pharmaceuticals	4.6%
Gaming - Macau	5.1%
Alternative Investment Managers	11.6%
Other	5.0%
Long Equity Position	**108.9%**
Short Equity Position	-16.3%
Net Invested Equities	**90.7%**
Total holdings	41

Current stock example
Heineken
Howard Hughes Corporation
Cairn Homes
Bank of America
Alphabet
Pfizer
Wynn Macau
KKR & Co L.P.

Currency exposure*	
USD	72.1%
EUR	18.7%
GBP	7.0%
AUD	2.2%
Total exposure	100.0%

* Stated at effective value.

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

Asian Companies Fund

- **The Asian Companies Fund** aims to create long term wealth through a concentrated portfolio of 15-35 hand-picked companies within Asia ex-Japan that we believe are trading at prices different to their intrinsic values.

- **The objective of the Fund** is to provide long term capital growth and outperform the greater of the MSCI All Country Asia (ex-Japan) Net Index (AUD) or RBA cash rate over rolling seven year periods. The Fund is not intended to replicate the index.

Fund category	Asian (ex-Japan)[2] equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-35 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	1 July 2008
Unit trust FUM	$23.9m as at 30 September
Asian equities FUM	$89.5m as at 30 September

Asian Companies Fund

Kevin Bertoli
Asian Portfolio Manager

Fund performance[1] (net of fees)	Inception Date	Exit Price ($, cum)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Since inception - total
Asian Companies Fund	**7/2008**	**1.8857**	**5.6%**	**15.7%**	**25.4%**	**11.1%**	**16.9%**	**16.3%**	**304.8%**
MSCI AC Asia ex Japan Net Total Return Index			4.2%	12.3%	19.6%	11.9%	13.7%	8.3%	108.8%
Outperformance by the Fund			1.4%	3.4%	5.8%	-0.8%	3.2%	8.0%	196.0%

KEY POINTS

The Asian region's equity markets advanced over the period, led by Hong Kong.

The portfolio's positive performance was partly offset by currency movements.

Patiently redeploying capital.

PERFORMANCE

The portfolio rose in value by 5.6% in the September quarter, following on from its June quarter gains.

Strong performances from several larger positions drove relative outperformance over the period. Of note were Baidu, Dali Foods and Sinopec Kantons which advanced 38%, 25% and 22% respectively. All three companies reacted positively to strong earnings results and guidance which comfortably exceeded current market expectations.

Baidu, the biggest contributor to performance also benefited from management's decision to reduce its investment spend, particularly in the online-to-offline business. The recently announced disposal of Baidu Food Delivery is confirmation of the decision to refocus on businesses where the group has a much clearer market leadership position. We believe this was the right decision and should support margin growth going forward.

Currency offset some of the positive performance from the equities portfolio. Despite retreating from its recent highs at the end of the quarter, the Australian Dollar gained 2.3% against the US Dollar over the period.

This had a negative impact on portfolio performance given the predominate currency exposures remain the USD and HKD.

PORTFOLIO ACTIVITY

Having crystallised several investments prior to June 30th last financial year, activity in the quarter was relatively quiet. The only notable sale during the quarter was the completed exit of our Autohome position.

The ecommerce and classified theme has now been reduced from a high of 30% in Financial Year 2017 to 14% as at the end of the current period when adjusting for the recently completed privatisation of Zhaopin. Starting with an initial investment in South East Asian employment classifieds company Jobstreet in 2009, this investment thematic has been a cornerstone of the portfolio, consisting of nine investments in total.

Given the long term nature of the structural evolution underpinning these investments we had always envisioned these holdings being an integral part of the portfolio for many years to come. However, strong performance and further M&A overtures over the past year - in total three of the nine portfolio holdings have been the subject of M&A activity - has meant we have realised, or will soon realise, several of these investments earlier than originally anticipated.

We have been patiently waiting to redeploy this capital into new opportunities. While we continue to investigate several new areas of potential interest we remain steadfast in waiting for anomalies to eventuate. Two new investments that were made during the quarter, Kunlun Energy and Singapore Exchange, are businesses that we have followed for several years waiting for the right opportunity to invest.

A member of the PetroChina Group, Kunlun Energy operates several businesses across the natural gas supply chain in China.

Asian Companies Fund

Natural gas transmission pipelines and LNG regasification terminals contribute approximately 85% of pre-tax profits. While the strong market position of these quasi monopoly assets is widely accepted, the Chinese government's recent tariff reform in the natural gas pipeline industry has acted as a major concern for investors. In recent months tariff reform has been addressed culminating in the announcement of better than expected tariff rates being applied to Kunlun's primary pipeline assets.

Kunlun is ideally placed to benefit from growing gas demand in China. The Chinese Government remains steadfast in its desire to reweight its energy mix away from coal with natural gas one of the preferred replacements longer term. The official target is for natural gas to account for 10% of China's energy consumption by 2020, up from 5.9% in 2015. Now that a formal tariff mechanism has been introduced providing greater certainty around the returns Kunlun's assets can earn we believe investors will refocus their attention on the long term structural drivers underpinning the business's growth.

The investment in Kunlun may sound familiar to readers of our commentary. It displays many of the same characteristics to our existing holding in Sinopec Kantons that operates comparable assets in the oil and gas space. Combined, the two positions account for 10% of the portfolio.

Singapore Exchange is a business we have followed closely for many years given similar investments within the exchange sector held by our Global strategies. Relative to its regional and global peers, Singapore Exchange has been a material underperformer since the Financial Crisis essentially treading water since the middle of 2009. Lacklustre share price performance since the Financial Crisis has been warranted given the low single digits earnings growth achieved by the business over this period. Management has been unable to offset the earnings impact of weak equity trading volumes despite the rapid growth displayed by the lower margin derivatives business. Growth has been well below market expectations, particularly those projected prior to 2009. Consequently, market valuations being placed on the company have fallen considerably. We now deem its absolute valuation as attractive while valuation relative to global peer group is at an extreme. While fears around competition persist, particularly given the increasing interconnectivity across the region, we believe Singapore Exchange's position remains defendable and there are opportunities to grow the business as South-East Asia develops.

OUTLOOK

A marked improvement in sentiment towards China continues to underpin the positive direction of markets. Government policy announcements in the lead up to this year's National Congress have been broadly favourable. Notably China's reform agenda, specifically that relating to its commodity industries, continues to dominant newswires. The promise of large scale reform has prompted investors to increasingly focus on the positive 'what if' outcomes. Sentiment has also been buoyed by a robust results season as well as data releases which indicate that positive economic trends are persisting. A combination of these factors has muted the arguments from China critics, at least for now.

Portfolio investments	Weighting
Consumer - Breweries	6.0%
Consumer - Other	7.0%
Online Classifieds & Ecommerce	17.7%
Gaming - Macau	8.7%
Gaming - Other	6.0%
Financials	17.7%
Capital Goods & Commodities	10.0%
Oil & Gas Infrastructure	10.3%
Other	3.1%
Long Equity Position	**86.5%**
Total holdings	27

Current stock example
Heineken Malaysia
Dali Foods
Baidu
Wynn Macau
Nagacorp Limited
HSBC Holdings
Turquoise Hill Resources
Sinopec Kantons

Currency exposure*	
USD	45.2%
HKD	45.2%
AUD	6.9%
Other	2.7%
Total exposure	100.0%

* Stated at effective value.

Portfolio Manager Kevin Bertoli talks more about the opportunities emerging in Asian financial stocks here.

Kevin Bertoli - Asian Portfolio Manager

Australian Companies Fund

- **The Australian Companies 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 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
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-25 stocks

Minimum investment	$20,000
Suggested investment time	7 years +
Inception date	20 January 2000
Unit trust FUM	$35.3m as at 30 September
Australian equities FUM	$35.3m as at 30 September

Australian Companies Fund

Uday Cheruvu
Australian Portfolio Manager

Fund performance[1] (net of fees)	Inception Date	Exit Price ($, cum)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Since inception - total
Australian Companies Fund	**1/2000**	**1.9662**	**-1.0%**	**2.5%**	**14.4%**	**10.0%**	**13.7%**	**10.7%**	**507.2%**
S&P / ASX 200 Accumulation Index			0.7%	-0.9%	9.2%	7.1%	10.1%	7.9%	285.2%
Outperformance by the Fund			-1.7%	3.4%	5.2%	2.9%	3.6%	2.8%	222.0%

KEY POINTS

FY17 earnings reporting drove the broader market performance.

New positions in Altium and Adacel were among the best performing stocks in the quarter.

Low wages growth is putting pressure on consumer spending and the economic outlook.

PERFORMANCE

The Fund recorded a -1.0% return for the quarter, with the positive performance of new portfolio holdings counteracted by falls in QBE and Donaco. The Fund has returned 14.4% in the past year.

PORTFOLIO ACTIVITY

FY17 earnings results, rather than any broad macro news, dominated the action of stock prices during the quarter. The benchmark index was broadly flat for the quarter but one consistent theme we saw in these results was that the market reacted severely to any perceived shortfall in reported earnings versus consensus expectations. Although a majority of the stocks in the Fund met or exceeded consensus expectations, negative performance by QBE and Donaco caused an overall drag on the Fund's performance.

QBE felt the effects of the market's impatience, falling 13% after management downgraded its expected full year insurance margin by 1%, equating to a consensus downgrade of ~4% for 2017 earnings. Although this is a relatively small downgrade, it represents the third consecutive year of downgraded earnings. Consequently, the CEO (John Neal) was replaced by the CFO (Pat Regan) as the board looks to change the trajectory of the business.

Of more consequence, we think, will be the large insurance losses arising from the devastation caused by hurricanes Harvey, Irma and Marie as well as the Mexican earthquakes. Although these natural disasters will effectively wipe out the majority of QBE's earnings for 2017, because of QBE's relatively solid capital position they should actually have a net positive impact on QBE's US business in the long run. These events are tragic and unwanted but they help insurance companies over the longer run, driving up the price of insurance and improve profitability for insurers in subsequent years. As a result, we remain of the view that QBE is trading at a substantial discount to its intrinsic value.

Donaco (down 27%) became a drag on performance after being a strong contributor in the June quarter. The company announced results which were in line with expectations but also announced that the management contract with the vendor of the Star Vegas casino (that owns 17.8% of Donaco) will be concluded. This has meant that Donaco management has had to replace the management team for the asset and has seen disruption to its VIP business during this transition.

The September earnings update provided by management showed that VIP earnings were down 9%, which we see as a better than expected result given the complexity of the management transition. However, the stock reacted negatively. From an earnings perspective, we think the stated decline in VIP earnings will be more than offset by the savings derived from not paying the US$20m management fee to the previous management team in FY16 and FY17. We believe as the new management team builds out the VIP business and attracts new junkets, the market's focus will return to the underlying earnings power of the assets.

In the quarter we exited our position in Asia Pacific Data Centre (AJD), which has been a very good performer for the Fund over the last three years. The stock has risen from our acquisition price of $1.00 to our final exit price of $1.95 (along the way reducing our holding to keep the position size below 10%). The company was subject to a takeover offer from both NextDC and 360 Capital Group, with 360 making the higher offer of $1.95. Although there is a possibility that NextDC may come back with a higher offer, we think the opportunity cost involved does not warrant keeping the position.

We also initiated positions in two new stocks, Altium (ALU) and Adacel (ADA), both of which were among the best performers for the Fund in the quarter. Altium, a leading provider of printed circuit board (PCB) design software, is one of only a few global technology success stories in the Australian market. It has strong market positions with up and coming technology companies across the globe and is positioned to benefit from the growing trend of electronification of industrial processes. Altium rose 20% from our entry price following a very good earnings report where management upgraded its guidance for the next three years and reiterated its expectation that EPS will grow 20% (compound annual growth rate) to 2020.

Adacel sells air traffic control simulation systems and air traffic management systems globally. It is one of the leading providers of these systems in the US and has long term contracts with US regulators, as well as universities. We believe that Adacel's earnings can grow via upselling new products to existing clients and selling products into new geographies outside of the US. Given that its biggest clients are government entities, Adacel always faces the risk that budget constraints and bureaucratic reasons delay contract signings and renewals. As a result, Adacel's revenue profile will be lumpy. We bought into Adacel with a view that the market was overly bearish about the growth capacity of the business because of short term delays in contract signings in the second half of 2017. Post our initial investment, this thesis has started to play out and Adacel management announced both a new contract (to the Sri Lankan government) and a 20% upgrade to its existing contract with the US Federal Aviation Authority (FAA).

OUTLOOK

We remain of the view that domestic macro conditions in Australia are being held back by consumer weakness. Business and corporate sentiment in Australia is near 3-year highs and both business capital expenditure and borrowing have been improving. This has in turn translated to better employment but wage growth remains muted. As a result, Australian households are under pressure due to incomes not growing while at the same time the cost of living, particularly energy and mortgage costs, has continued to rise. We believe under these conditions the domestic economy will struggle to benefit from the improvement in global economic conditions currently under way. As a result, we remain cautious and maintain a net invested position of 73%. Our focus currently is on stocks that have lower exposure to domestic macro conditions.

Portfolio investments	Weighting
Domestic Banks	12.2%
International Banks	16.6%
Non Bank Financials	12.1%
Property	3.6%
Industrials	8.1%
Technology	4.6%
Internet	12.4%
Other	4.1%
Long Equity Position	73.7%
Short Equity Position	-1.0%
Net Invested Equities	**72.7%**
Total holdings	20

Current stock example
ANZ
Bank of America
QBE Insurance
Centuria Industrial
PMP Limited
Adacel Technologies
iCar

Currency exposure*	
AUD	82.9%
EUR	8.5%
USD	5.9%
GBP	2.7%
Total exposure	100.0%

*Stated at effective value.

Uday Cheruvu - Australian Equities Portfolio Manager

Enhanced Yield Fund

- **The Enhanced Yield 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 objective of the Fund** 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
Investment style	Fundamental, bottom-up research intensive approach
Investor profile	The Fund may be suitable for investors who seek a steady source of income, with a low degree of volatility, and an emphasis on capital preservation

Minimum investment	$20,000
Suggested investment time	2 years +
Inception date	1 March 2002
Unit trust FUM	$444.2m as at 30 September
Fixed Income FUM	$657.7m as at 30 September

Enhanced Yield Fund

Jarod Dawson
Portfolio Manager (Income Securities)

Fund performance (net of fees)	Inception Date	Exit Price ($, cum)	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Enhanced Yield Fund	**02-2002**	**1.1280**	**0.7%**	**2.2%**	**5.4%**	**3.6%**	**4.3%**	**6.0%**	**149.6%**
RBA cash rate			0.4%	0.8%	1.5%	1.9%	2.2%	4.2%	90.5%
Excess			0.3%	1.4%	3.9%	1.7%	2.1%	1.8%	59.1%

KEY POINTS

Markets take a breath.

Farewell to one of the best.

Discipline and patience - select investing the key from here.

PERFORMANCE

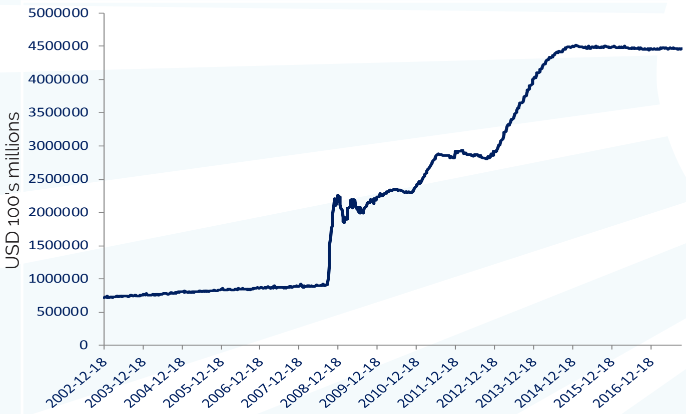
Performance for the September quarter was +0.7%, taking the Fund to +5.4% after fees for the year. This compares well to the 1-year RBA cash rate return of 1.5%.

Credit markets were generally quiet leading up to September. Investors appeared to sit on the sidelines, perhaps pondering the implications of the Federal Reserve's plans to reduce their significant balance sheet, and the ever-changing timing of the US rate hike cycle. Additionally, increasing tensions between the US and North Korea also distracted investors.

The reduction in size of the Federal Reserve's balance sheet will be of particular importance to markets in the coming years. As a result of their extensive quantitative easing program it has swollen to unprecedented levels since the GFC (Refer to Figure B), and thus their ability to reduce it to more normalised levels in an orderly fashion will be closely monitored.

Figure B: Federal Reserve Total Assets over time

Source: https://www.stlouisfed.org/



Between John Whelan and myself we spent time in England, Ireland, Spain, France and Germany during the quarter, meeting with companies across numerous sectors, as well as a number of industry bodies and independent organisations with unique perspectives on the region. In general, we were encouraged by how advanced the European recovery seems to be, particularly in Spain where tourism is driving meaningful growth.

The improving health of the major European economies has provided a tailwind for property prices in Europe, with our UK senior secured debt holdings in Tesco and Taurus benefitting notably this quarter.

PORTFOLIO ACTIVITY

We sold our ANZ and Westpac USD subordinated debt during the quarter. As we highlighted in the August monthly report, few investments better highlight the contrarian nature of the Fund than these. Their unusual structure saw them aggressively sold off during the GFC, creating the initial opportunity. Their USD denomination and floating rate nature made them sensitive to rising US interest rates, well aligned with our views. They also reflected a somewhat inefficient security structure under Basel III capital guidelines, and thus we felt the potential for an on-market buyback at some point was meaningful. As rate expectations rose and buyback speculation mounted over the past year, their value appreciated considerably - to the point that they reached our target price. Along with our co-investors, we generated a ~50% return from these bonds, one of the best anomalies we have ever seen.

We also made a new investment during the quarter, in ANZ's $A ~2 year Basel II hybrid. We took advantage of aggressive selling by retail investors rolling their capital into ANZ's new Basel III based security, whose terms we believe are considerably weaker and whose expected maturity is considerably further away – and for little additional yield. This selloff for technical reasons presented a rare anomaly in the bank hybrid space.

A number of our existing investments were also added to over the quarter, including our holdings in UK commercial property investment Taurus, as well as our CBA Euro subordinated debt and the listed NAB income securities, at expected yields of ~4%-6%.

OUTLOOK

Credit markets have rallied considerably over the past couple of years and genuine anomalies are becoming harder to find. We have been selling down some assets with longer credit duration characteristics, and have also been buying some CDS protection.

As evidenced above, with our global research capabilities we are also still finding attractive opportunities to invest.

The bottom line is that different segments within credit markets are moving, in some cases at different speeds, and in other cases in different directions. Successful investing in a market environment like this requires patience and discipline.

We think it is unlikely that a broad exposure to credit markets will deliver investors an acceptable rate of return over the next couple of years, particularly if markets bounce around a little more in response to the Federal Reserve reducing its balance sheet, higher US interest rates, global tax reform, and the fluctuating geopolitical landscape. We would strongly argue that meaningful investments in a portfolio of specific anomalies around the world is the most productive way of maximising returns.

The current credit spread on the Fund's assets sits at ~2% over the RBA cash rate, and with substantial capital available to take advantage of anomalies as they come along, the Fund is in a strong position to deliver on its longer term objectives.

Additionally, with effectively zero interest rate sensitivity, the Fund should be well insulated from the normalisation of global yields. Indeed, it should actually benefit as floating rate yields reset in line with higher rates over time.

Regional allocation	
Australia	30.2%
United Kingdom	10.4%
Europe	9.8%
North America	7.0%
New Zealand	2.1%
Cash	40.5%

Yield security maturity profile	
0-1 Year	43.0%
1-2 Years	12.7%
2-3 Years	12.3%
3-4 Years	6.7%
4 Years +	25.3%

Duration	
Interest rate*	0.15
Average term to maturity*	2.67

Portfolio Investments	Weighting**	Average yield	Average spread to RBA
Cash	**40.5%**	**2.09%***	**0.59%***
Corporate bonds	**47.1%**	**4.10%***	**2.60%***
Fixed	0.0%		
Floating	100.0%		
Hybrids	**10.4%**	**4.53%***	**3.03%***
Fixed	0.0%		
Floating	100.0%		
Equity income strategies	**2.0%**		
Total exposure	100.0%		

* These numbers are estimated and provided as a guide only

** Fixed / Floating proportions are determined after the effect of interest rate swaps.

> "The bottom line is that different segments within credit markets are moving, in some cases at different speeds, and in other cases in different directions. Successful investing in a market environment like this requires patience and discipline."

Jarod Dawson

Jarod Dawson - Portfolio Manager (Income Securities)

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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 Asian Companies Fund
ARSN 130 588 439

PM Capital Australian Companies Fund
ARSN 092 434 467

PM Capital Enhanced Yield Fund
ARSN 099 581 558

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') which is available from us, 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 2016 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. The Index for the Asian Companies Fund 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. The Index for the Australian Companies Fund is the S&P/ASX 200 Accumulation Index. See www.asx.com.au for further information. The Index for the Enhanced Yield Fund is RBA Cash Rate. See www.rba.gov.au for further information.

1. Past performance is not a reliable indicator of future performance.

2. 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).

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