QUARTERLY REPORT

JUNE 2019

The 'Great Race' to zero

Negative rates, economic torpor, market highs. Long term opportunities in skewed markets.

p.3 Video insight

PM Capital Global Opportunities Fund Limited

ACN 166 064 875 (ASX Code: PGF)

PM Capital Asian Opportunities Fund Limited

ACN 168 666 171 (ASX Code: PAF)

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A note from the CIO

Paul Moore
CIO & Portfolio Manager of the
Global Opportunities Fund

Dear Investor,

Financial year 2019 witnessed a mini tech blow-off reminiscent of 2000, a pre-Christmas equities implosion on the back of record fund outflows, and a post-Christmas rally that has returned market indices to their highs.

Within all of this it has been about markets being "late cycle" - the latest industry slogan to encapsulate the current short term focus. It has resulted in record valuation disparities within market sectors and a large dispersion in investor outcomes. This can be frustrating for investors in the short term, but these trends are probably largely irrelevant in the context of the long term post-GFC journey. Globally, stocks have produced annualised returns of 12%+ over the last ten years - one of the strongest ten year periods in history.

Investing is all about accumulating capital over the longer term and there are many cross currents and inflection points in markets today. It is critical then that we take a decent step back and carefully assess the framework of the post-Trump environment. Overall, I would say that the beauty of record valuation disparities is that they typically translate to long term opportunity. Assessing those opportunities is priority number 1.

About the current framework.

The most important and fascinating issue in investment markets today is the "Great Race" to zero interest rates.

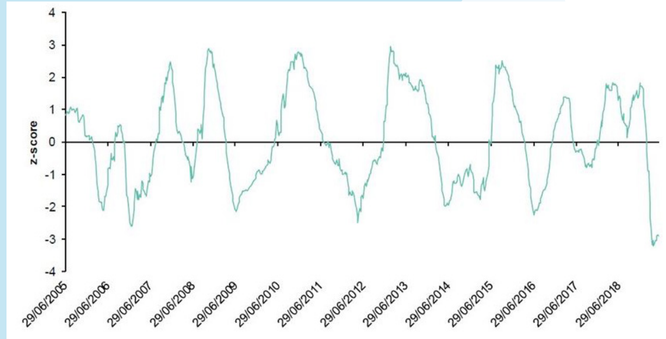
Record low government bond yields, record negative yielding debt, record short term bond fund inflows and the biggest investment crowd of all - bond investors. Investment 101 says the bigger the crowd, the bigger the risk.

It brings to mind the classic book - *Extraordinary Popular Delusions & the Madness of Crowds.* It was written back in 1841 but is just as relevant today. Who knows if we are witnessing one of the great manias of all time? Many would argue it is the 'new norm', but combined with the process-dominated passive and ETF investment world in which we now live, it is going to make for an interesting Wall Street cocktail over the next decade.

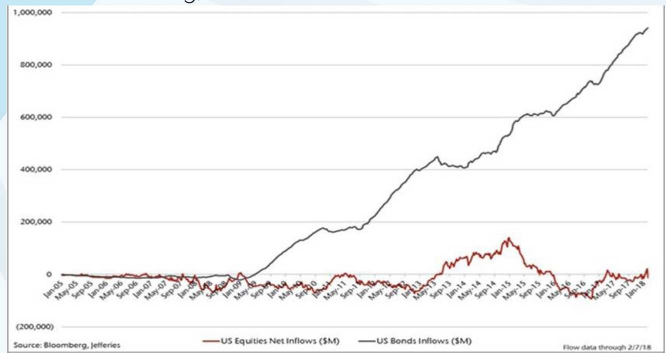
We will only know with the benefit of hindsight, but if low rates are the new norm, it creates a huge dilemma. Consider a net present value calculation of future cashflows with zero rates. If that is the case, then equities are extraordinarily cheap.

This great dilemma and the valuation dispersions driven by quantitative easing and process investing are highlighted by comparing Bank of America and Greece.

Global equity- Bond flows (26 week average) z-score
Source: EPFR, Bernstein research



Cumulative inflows to US FI and Equity Mutual Funds and ETFs ($M): 2005 - 2017
Source: Bloomberg, Jefferies



Global government bond yields racing to zero?
Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg, Global FInancial Data. Chart shows single average 10 year yield

A note from the CIO

Disparity of yields
Source: Factset, PM Capital

Bonds at 1% (Germany < 0, Greece 2.4%)

Equities at 6%+ (Bank Europe 14%, Visa 3%)

	Coupon	Growth
Japan	-0.2%	0
Germany	-0.3%	0
Ireland	0.2%	0
Italy	2.1%	0
Greece	2.4%	0
Visa	3.2%	10%+
McDonalds	4.0%	~5%?
Bank of America	13.7%	~5%

Bank of America June 2019		
Market value	$	268 bn
Buybacks Net	$	30 bn
Cash Dividends	$	6.8 bn

Total yield = 13.7%

German bond yields are negative - investors are paying to give their money to others. Argue right or wrong, but Germany does have credibility when it comes to price stability and it has a significant trade surplus.

What about Greece? Back in the 4th century BC, 13 Greek city-states borrowed from the Temple of Delos. According to records of the day, most of the borrowers never made good on the loans and the temple took an 80% loss on its principal. It could be argued that not much has changed. Greece has defaulted five times in modern history and spent half of the last 90 years in financial crisis. Bond investors are lending it money, at 2.4%, for the next ten years!

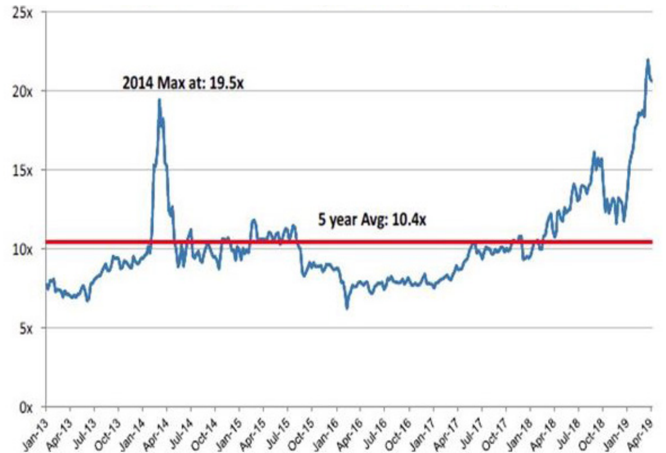
Greece is benefitting from the shortage of yield-producing securities. But if you are short of yield, then take a look at Bank of America. Domestic banking is a wonderful business if you do not do anything stupid. Pre-GFC, American banks, including Bank of America, did do stupid things. However, post-GFC, Bank of America's management has re-focused on its core banking business, dramatically de-risked the balance sheet and significantly increased its capital reserves. Its brand is excellent.

Over the next 12 months, Bank of America's effective yield - cash dividends and buybacks - is expected to be around 13+% on its current share price as at the time of writing. So - Bank of America at around 13% or Greece at 2.4%? I am going to pass on Greece and stick with Bank of America.

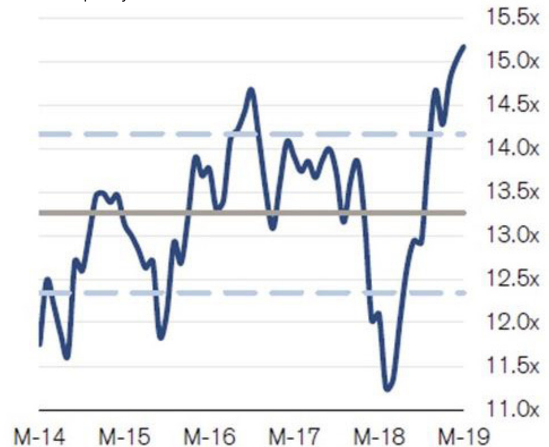
Another interesting observation - if bonds are signalling deflation, why did the classic inflation asset, gold, rally so hard in June? Maybe one reflects short term sentiment and the other long term sentiment. Maybe it highlights just how confused the market is on the direction of the global economy.

Record low yields have also driven record valuation dispersions within the equity market. The valuation of high growth and/or high safety businesses are turbo-charged by low interest rates. Investors have crowded in. The risk/ reward proposition is skinny at best. An interesting anecdote: one could sell Apple and Disney and use the cash to buy all of the companies in the German index! It simply highlights how stretched valuations are in both directions.

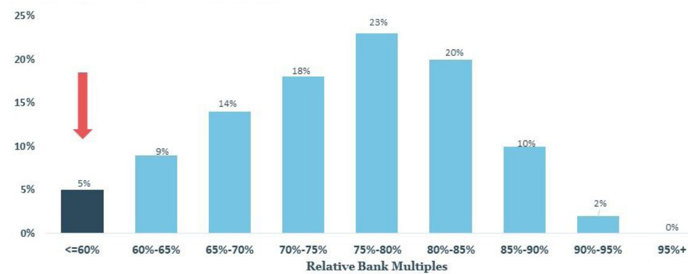
Average of the top 5 most expensive EV/Sales multiples in software
Source: Morgan Stanley Research, Thomson Reuters, Company data



Procter & Gamble - Five- Year NTM EV/EBITDA
Source: Company data, Credit Suisse estimates



Frequency of Bank P/Es relative to S&P500 P/Es (Since 1978) - Excluding Financial Crisis Years
Source: Factset, Bernstein Quant Team
Note: Excludes 2008-09 financial crisis years due to unreliable multiples



A note from the CIO

Valuation dispersion in practice
Source: Factset, PM Capital

	Annual EPS growth: 3-year compound	2019 PE
McDonald's	17%	26
Visa	22%	31
Bank of America	26%	10

Software companies, consumer brands, cosmetics, spirits and many other businesses have never been more expensive. On the other hand, Financials' business models and relative valuations are squeezed by ultra-low rates.

A final, general, point. It's amazing how often - if one has patience - the conventional wisdom proves to be wrong.

The next ten years will be very different to the last ten years. At some point in the future, I suspect we will look back and realise the magnitude of the abnormality presented by zero rates.

If such low bond rates are the "new norm" it would suggest that equities are not expensive, offering superior yield plus growth. But with markets back to their highs, I suspect it is more an environment where parts of the market are overvalued but parts are also undervalued - most likely in the so-called late cycle businesses. That is where our attention is focused.

Paul Moore - Chief Investment Officer

Quarterly video update

A video version of Paul Moore's commentary can be found on our website here.

Listed Company Overview

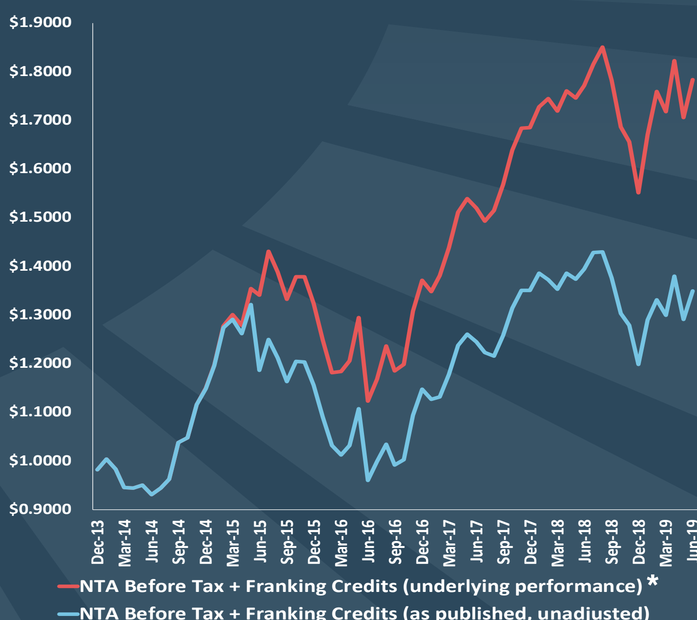
	PM Capital Global Opportunities Fund Limited	PM Capital Asian Opportunities Fund Limited
Asset Class	Global equities	Asian (ex-Japan) equities
Listing Date	11 December 2013	21 May 2014
Suggested Time Frame	Seven years plus	Seven years plus
Shares on Issue	352,020,714	56,892,865
Share Price[1]	$1.10	$0.95
Market Capitalisation	$ 387.2 million	$ 54.0 million
NTA before tax accruals + franking credits (per share, ex-dividend)	$1.3493	$1.1115
Company Net Assets before tax accruals + franking credits	$ 475.0 million	$63.2 million

See page 8 for Important Information. As at 30 June 2019.

PM Capital Global Opportunities Fund Limited

- **The Company** aims to create long term wealth through a concentrated portfolio of 25-45 global companies that we believe are trading at prices different to their intrinsic values.
- **The Company's investment objective** is to provide long-term capital growth over seven-year plus investment horizon through investment in a concentrated portfolio of undervalued global (including Australian) equities and other investment securities.

NTA performance since inception[2]



ASX Code	PGF
Category	Global equities (long/short)
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 25-45 stocks
Shares on issue	352,020,714
Suggested investment time	7 years +
Listing date	11 December 2013

* Excludes the impact of: Changes in ordinary share capital (i.e., option exercise, DRP); Dividends; and Tax paid. After all costs and expenses, including (but, not limited to): management fees; listing fees; registry costs; audit costs; and directors' fees.

PM Capital Global Opportunities Fund

Paul Moore
Global Portfolio Manager

Net Tangible Asset (NTA) backing per ordinary share (all figures are unaudited)[1]	March 2019	June 2019	Change	Perf. since inception p.a.[4]	Perf. since inception total[4]
NTA before tax accruals plus franking credits[2]	$1.2995	$1.3493	+3.8%	+ 11.0%	+ 78.3%
NTA after tax[3]	$1.2173	$1.2533	+3.0%		

1. Past performance is not a reliable indicator of future performance. 2. 30 June 2019 includes $0.031 of franking credits. 3. Net Tangible Assets (NTA) refers to the net assets of the Company after the accruals for net current and deferred tax liabilities/assets. 4. Performance adjusted for capital flows associated with the payment of dividends, share issuance as a result of the dividend reinvestment plan, and including the value of franking credits.

KEY POINTS

- US banks pass the Federal Reserve stress tests leading to increased shareholder payouts
- Alternative asset manager conversion from partnerships to corporations increases awareness
- Howard Hughes considering its options

PERFORMANCE

The portfolio produced an attractive return over the quarter on the back of strong performances from the alternative asset managers, US banks, Visa and Mastercard.

PORTFOLIO ACTIVITY

We added to our copper exposure in May, taking advantage of the short term weakness in a range of copper names. We used a similar strategy to increase our position in Facebook when it temporarily weakened over the quarter on the back of regulatory concerns. We also continued to reduce our exposure to Intercontinental Exchange as our thesis continues to play out.

The Federal Reserve's 2019 Comprehensive Capital Analysis & Review (CCAR) test results were announced in June. The biggest upside versus expectations came from JP Morgan and Bank of America, which both substantially increased their buyback and dividend authorisations. JP Morgan will return US$40.5 billion which equates to ~11% of its market capitalisation and Bank of America will return US$36.8billion, equating to ~13% of its market capitalisation. The CCAR results reinforce our thesis that the banks are well-capitalised and increasingly focused on shareholder returns – an approach that should lead to higher valuations.

The European Central Bank's (ECB) attitude to share buybacks is in complete contrast to the Fed. Back in the depths of the global financial crisis in 2009, the Fed quickly dealt with the fallout through the Troubled Asset Relief Program (TARP), removing a substantial proportion of toxic assets from bank balance sheets. The ECB failed to act as decisively which resulted in a banking system hobbled by prohibitive non-performing loan (NPL) balances. Over time, European bank NPL ratios have reduced materially but the ECB continues to limit most payout ratios to circa 50%, in stark contrast to the Fed, which is allowing payout ratios above 100%. We believe this is one of the primary drivers of the share price underperformance of the European banks compared to US banks. Given the capital build-up at the European banks since the crisis, we now believe we are close to the inflection point for the European banks to increase their payout ratios. This should lead to a re-rating over time.

Blackstone converted from a publicly traded partnership to a corporation on 1 July and Apollo is due to follow later this year. The conversion to C-corps will likely increase demand for the stocks as they enter various indices and be bought by passive mutual fund and ETF investors. All four of our alternative asset manager positions have now made the conversion to corporations.

One of our long term holdings, US real estate developer Howard Hughes Corporation, performed well on news the firm has hired an adviser to consider possible alternatives to try and close the significant gap between its share price and net asset value. This may include creating a spinoff or joint venture group, recapitalising, or selling the company entirely.

PM Capital Global Opportunities Fund

Facebook (+16%) continues to focus on creating value beyond digital advertising where its strong duopoly position continues to garner regulatory concern. Instagram recently launched a Checkout feature on Instagram, currently in beta phase, with 23 brands including Adidas and MAC cosmetics. The initial results have been well received with Adidas highlighting the feature as one of two key drivers behind their double-digit e-commerce growth. This is an encouraging development for brands using Instagram as a means to leverage their ecommerce footprint while reducing the cost of customer acquisition.

The main focus for investors this quarter was the unveiling of Facebook's Libra, a digital currency and financial infrastructure supported by a consortium of founding members including Visa, MasterCard and PayPal. While still in a development phase, the creation of Libra has the potential to significantly reduce friction associated with the movement of money globally. Libra is intended to be cheaper, more flexible and accessible when compared to credit cards. This is particularly attractive for users that exist in developing markets where credit card penetration is significantly lower. While the opportunity is significant, we continue to monitor the significant execution and regulatory risks surrounding the product and Facebook as a whole.

Visa and Mastercard also had a strong quarter. The current valuation multiple is reasonably high at mid-20s x earnings. However, we believe this multiple is sustainable given the quality of the business models, competitive position and growth profiles.

Oracle reported a better than expected result in June with revenue growth accelerating and gross margin expanding. Oracle is executing its long-term roadmap well. It has already re-written its enterprise suite to be totally cloud native and it is in a good position to take market share as enterprises consider migrating their enterprise applications to the cloud. Further, Oracle is again leading the database industry – it is the leading Enterprise Applications vendor in North America, ahead of SAP and Salesforce (per IDC research). We are optimistic that Oracle has turned the corner and will grow steadily in the coming years.

The only significant detractors of performance over the quarter were the Irish banks and homebuilding companies. These stocks continue to be driven by short term sentiment around Brexit. While no one knows exactly how Brexit will be resolved, we believe these stocks are structurally mis-priced given their underlying fundamentals and free cash flow generation.

With regard to the currency, while commodity prices, especially iron ore, strengthened over the quarter, the negative spread between Australian and US interest rates remains at elevated levels which resulted in the continued weakness in the Australian Dollar versus the US Dollar.

OUTLOOK

Please see the CIO report for a detailed view on our global market outlook.

Portfolio investments	Weighting^^
Post GFC Housing Recovery - US	11.7%
Post GFC Property Recovery - Europe	6.4%
Global Domestic Banking	32.4%
Service Monopolies	18.9%
Gaming - Macau	7.0%
Alternative Investment Managers	18.4%
Materials	4.8%
Other	8.7%
Long Equities Position	108.4%
Short Equities Position	-19.7%
Net Invested Equities	88.7%
Total holdings	52

Current stock examples
Howard Hughes Corporation
Cairn Homes
Bank of America
Alphabet
MGM China Holdings
KKR & Co L.P.
Freeport-McMoRan Copper

Currency exposure*	
USD/ HKD	52.6%
EUR	18.6%
GBP	6.5%
AUD	19.7%
Total exposure	100.0%

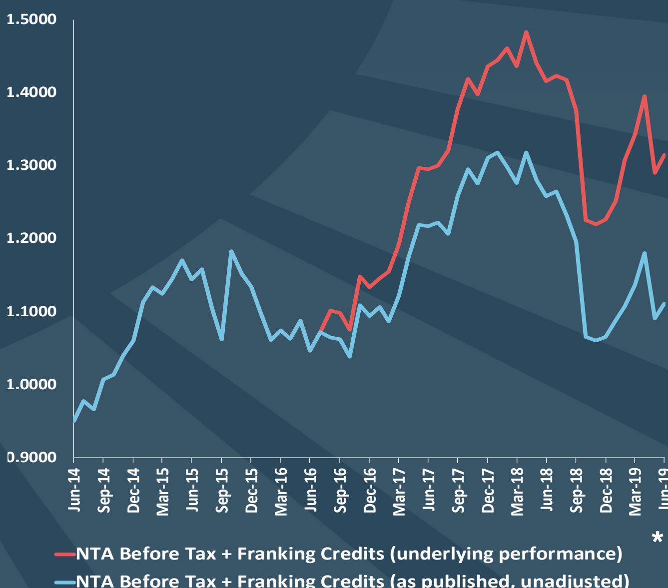
* Stated as effective exposure.

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

PM Capital Asian Opportunities Fund Limited

- **The Company** aims to create long term wealth through a concentrated portfolio of typically 15-35 Asian centric companies that we believe are trading at prices different to their intrinsic values.
- **The objective of the Company** is to provide longterm capital growth over a seven-year plus investment horizon through investment in a concentrated portfolio of predominantly undervalued listed Asian equities and other investment securities in the Asian Region (ex-Japan).

NTA performance since inception[2]



ASX code	PAF
Category	Asian (ex-Japan)[6] equities
Investment style	Fundamental, bottom-up research intensive approach
Number of stocks	As a guide, 15-35 stocks
Shares on issue	56,892,865
Suggested investment time	7 years +
Listing date	21 May 2014

*Excludes the impact of: Changes in ordinary share capital (i.e., option exercise, DRP); Dividends; and Tax paid. After all costs and expenses, including (but, not limited to): management fees; listing fees; registry costs; audit costs; and directors' fees.

PM Capital Asian Opportunities Fund

Kevin Bertoli
Asian Portfolio Manager

Net Tangible Asset (NTA) backing per ordinary share (all figures are unaudited)[1]	March 2019	June 2019	Change	Perf. since inception p.a.[4]	Perf. since inception total[4]
NTA before tax accruals plus franking credits[2]	1.1281	1.1115	-1.5%	5.5%	31.5%
NTA after tax[3]	1.0874	1.0763	-1.0%		

1. Past performance is not a reliable indicator of future performance. 2. 31 December 2018 includes $0.0723 of franking credits. 3. Net Tangible Assets (NTA) refers to the net assets of the Company after the accruals for net current and deferred tax liabilities/assets. 4. Performance adjusted for capital flows associated with the payment of dividends, share issuance as a result of the dividend reinvestment plan, and including the value of franking credits.

KEY POINTS

- Trade-related volatility hurts absolute and relative performance
- Copper and Asian casino holdings affected by short term economic fears
- Banking positions sold to make way for new opportunities

PERFORMANCE

30 June marks the end of a difficult year for the portfolio. After some respite in Q1 of CY2019, the US/ China trade tensions abruptly took centre stage again in May as negotiations between the two countries broke down. The severity of declines in that month matched those of October 2018 as the debate shifted from a broad focus of general tariff increases, to restrictions and outright bans on individual companies (Huawei & Hikvision most notably).

Baidu was the largest detractor of portfolio performance after providing weak Q2 guidance. Management described seeing a soft advertising environment across both search and news feed businesses as well as video streaming service iQiyi. Other negative contributors included the portfolio's copper and gaming holdings, which retraced their year to date gains as investors positioned for a slowing Chinese economy in the event of a draconic outcome to the ongoing trade dispute.

Noteworthy during the quarter were the reports in the local press that two of our gaming holdings, Wynn Resorts and Melco Entertainment, were in discussions with Crown Resorts and James Packer. When news of a potential transaction between Wynn and Crown was announced we were initially left scratching our heads - we have viewed Wynn's culture of organic development as a key strength and differentiator over its peers. However, it does point to the importance of the region in the eyes of global gaming operators.

Wynn's CEO Matt Maddox made reference to regional M&A during Wynn's first quarter conference call, saying that Asia will continue to grow faster than the west and if there are opportunities there that fit with its profile, will be accretive and capture long-term growth then Wynn will look at them.

It has now been confirmed that Melco Entertainment will acquire a 19.99% stake in Crown from James Packer. We see the acquisition as neutral for Melco in its current form with dividends from the investment covering interest costs. While Melco has shown interest in taking control of Crown long term, a full takeover of minorities is not likely to be imminent. Management's priority remains bidding for one of the licenses in Japan, which will require a substantial investment.

Positive contributors to performance included Donaco International and Frontier Digital Ventures.

Donaco reacted positively to the appointment of Paul Arbuckle as new CEO. Paul, who has over 30 years' industry experience, including senior roles at Star Entertainment in Australia and Genting in Singapore, will be based on the ground in Poipet, Cambodia. Donaco will also hold an extraordinary meeting in late July to remove Joey and Benjamin Lim, the previous controlling shareholders, from the board. As stated in our most recent monthly comments, we intend to support the resolutions to remove both individuals. We believe this would leave the board and new CEO unencumbered to move the business forward.

ASEAN property and automotive classifieds company Frontier Digital Ventures (FDV) also contributed to performance positively. FDV's 4C filing and market update in April continued to show the underlying portfolio of classified businesses making solid progress.

PORTFOLIO ACTIVITY

Given the considerable volatility seen during the quarter, several

PM Capital Asian Opportunities Fund

portfolio changes were made as new opportunities presented themselves. Positions were initiated in Freeport McMoRan, the owner of the Grasberg copper and gold mine in Indonesia, and Travelsky, the leading provider of information technology solutions to the Chinese aviation and travel industries.

We also continued building out positions in Indian rating agencies CRISIL and CARE Ratings. Following the close of the quarter we also added positions in Vietnam Dairy Products and China Merchant Ports.

To accommodate these positions we reduced our banking exposure, exiting HSBC and selling down positions in KB Financial, Shinhan Bank and DBS Group. The likelihood of rate cuts in the region has clearly increased. While share prices have corrected from their 2018 highs, rate cuts will put pressure on bank net interest margins and return on equity in the near term. A handful of market anecdotes I have observed also suggest that despite the relatively low interest rate environment in Asia, risks within the loan books of banks have increased as the economy slows.

Most notably, Hong Kong-based lender Bank of East Asia (not owned) announced a profit warning with management expecting a material decrease in profits for the first half after provisioning for legacy loans in China due to "worsening market conditions that have materially impacted the commercial property sector". Developments such as this have given us pause and led to a more cautious positioning in financials.

We also exited Malaysian cement company Lafarge, which received a takeover offer during the period, Baidu and AAC Technologies. In the case of the latter two holdings our investment theses have not played out according to our expectations. While Baidu's result was disappointing our primary concern remains its investment into businesses where they do not have market leadership. Recent investments into their news feed product are reminiscent of the failed O2O strategy of 2-3 years ago. In our opinion this highlights a lack of capital allocation discipline and a desire to compete as a member of 'BAT' (Baidu, Alibaba and Tencent) for the mantle of China's leading internet company - rather than profitability.

OUTLOOK

Over the past three months we witnessed a clear disconnect between equity markets in the region and US indices. We have identified new opportunities to deploy capital and rotate positions. Looking forward, in a reverse of what we saw in mid-2018, lower interest rates in the near term should be positive for Emerging Markets. However, trade negotiations remain the primary sticking point for investors and without a resolution we expect volatility will continue.

We are also cognisant of a second half slowdown. Increasingly we have seen commentary from companies suggesting many have pulled forward orders as a measure to protect themselves from the implementation of tariffs (Best Buy and Huawei are two prominent examples) and this could result in softness if demand weakens.

Portfolio investments	Weighting
Online Classifieds & Ecommerce	17.8%
Consumer - Breweries	7.0%
Consumer - Other	9.6%
Financials	15.5%
Gaming	15.5%
Materials (Copper)	9.4%
Oil & Gas Infrastructure	8.6%
Other	6.5%
Long Equities Position	**89.9%**
Short Equities Position	-1.5%
Net Invested Equities	**94.9%**

Current stock examples	
iCar	
Heineken Malaysia	
Dali Food Group	
DBS Group	
MGM China Holdings Ltd	
Freeport-McMoRan Copper	
Sinopec Kantons	
Total Holdings	26

Currency exposure*	
USD	37.5%
AUD	27.3%
HKD	26.5%
INR	5.9%
Other	2.8%
Total exposure	100.0%

* Stated as Effective Exposure.

Kevin Bertoli - Asian Equities Portfolio Manager

Important information

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

PM CAPITAL Global Opportunities Fund Limited
ACN 166 064 875 (ASX Code: PGF)

PM CAPITAL Asian Opportunities Fund Limited
ACN 168 666 171 (ASX Code: PAF)

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The Index for the PM Capital Global Opportunities Fund Limited is the MSCI World Net Total Return Index in Australian dollars, net dividends reinvested. The Index for the PM Capital Asian Opportunities Fund Limited 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.

See the company announcements platform at www.asx.com.au, and www.pmcapital.com.au, for further information.

1. As at close of market trading Friday 28th June 2019.

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

6. 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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