

QUARTERLY UPDATE

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At PM CAPITAL, we are basically a group of individuals looking for opportunities to invest our capital at a satisfactory **after tax** rate of return. We emphasise tax, as in Australia, long term capital gain is taxed at half the rate of short term gains. Anyone who understands their compounding tables will be aware of how significant a difference this can be to one's wealth creation efforts over a long period of time.

Our objective is to find businesses that we believe are selling at a discount to their intrinsic worth, the price that a rational business person would pay under normal circumstances. Why a rational businessperson? Because in the end it is the businessperson, the real owner of a business, that will arbitrage any differential that persists between a stock market valuation and inherent business valuation. Over what period of time that value will be realised is hard to determine, but as long as the intrinsic worth of the business continues to compound at a satisfactory rate, one can afford to be patient.

Most of our efforts are focused on understanding the dynamics of how an individual business works, what makes it unique and thus what will determine the returns it will make and the valuation that one should be willing to pay for it. Management is an issue, but to demonstrate the significance of the qualities of the business versus the importance of management, we always like to refer to our favourite Warren Buffett quote;

"Find a business so simple an idiot could run it, because in all likelihood one day an idiot will be running it."

We believe that you can only value what you understand and thus, it is illogical to try and know everything. You will not find us invested in all markets and every industry sector. We try to avoid popular stocks (value is seldom found in popular stocks), and we do not follow the Noah's Ark approach to diversification i.e. buy two of everything and end up with a zoo not a portfolio.

We would also like to highlight a Peter Lynch quote with which we concur;

"I spend about fifteen minutes a year on economic analysis. I also spend fifteen minutes a year on where the stock market is going."

Above all, we remind ourselves that the stock market is far more volatile than the underlying businesses that it represents. Thus, it is our view that the key to successful investing is good business judgment in combination with the ability to control your emotion.

In our minds it is a simple story and a story that we have stuck to for over twenty years. We hope to stick to it for another twenty years.

The Funds at a glance

	Absolute Performance Fund	Australian Opportunities Fund	Enhanced Yield Fund
Fund Category	Global Equity Fund	Australian Equity Fund	Yield Fund, Balanced Fund (excl Property)
Investment Objective	To provide positive investment returns over a 3 to 5 year investment horizon by investing in a concentrated portfolio of global equities.	To provide positive investment returns over a 3 to 5 year investment horizon by investing in a concentrated portfolio of Australian equities.	To provide positive investment returns in excess of the Reserve Bank of Australia's (RBA) cash rate with a low degree of volatility and minimal risk of capital loss.
Inception Date	28 October 1998	20 January 2000	11 February 2002
Minimum Suggested Timeframe	3 Years +	3 Years +	1 Year +
Total return since inception to 31 March 09	Fund 26.4% MSCI -17.8%	Fund 84.8% MSCI 68.1%	Fund 55.4% MSCI 48.3%
Potential Volatility	High	High	Low

	Unit Price	Inception ^{1,2}	9 Yrs ¹	7 Yrs ¹	5 Yrs ¹	3 Yrs ¹	1 Yr	March Qtr
Absolute Performance Fund	\$0.7626	2.3%	-2.8%	-6.1%	-10.5%	-23.3%	-41.6%	-10.6%
Australian Opportunities Fund	\$0.8014	5.8%	5.1%	1.8%	-1.1%	-13.1%	-36.8%	-1.1%
Enhanced Yield Fund	\$1.0336	6.4%	-	6.1%	5.2%	4.1%	1.4%	1.0%

Returns do not come in a straight line

Financial Years	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Absolute Performance Fund	46.8% ³	14.9%	14.7%	-13.8%	8.6%	26.7%	0.6%	17.1%	8.5%	-38.0%	-30.6% ³
Australian Opportunities Fund	N/A	31.0% ³	18.5%	0.0%	-2.0%	33.9%	13.8%	25.2%	21.6%	-29.8%	-25.4% ³
Enhanced Yield Fund	N/A	N/A	N/A	4.0% ³	10.7%	6.9%	5.7%	7.2%	7.5%	3.0%	0.6% ³

1. Annualised return 2. Return since inception 3. Not a full financial year. Calculations are based on exit price to exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax and adviser service fees (if applicable). Past performance is no indication of future performance.

Introduction

The market certainly tested our resolve in the month of February. In last quarter's update we highlighted our thoughts for the banking system and our belief that the authorities were finally catching up with the market and what needed to be done. We also highlighted the price action of a number of different businesses, suggesting that we may be near the end of the panic liquidation that was occurring in the markets. Fear had driven record inflows into cash at record low yields in contrast to historically low valuation metrics for equities and record high credit spreads for debt securities. It was a lonely feeling as that divergence continued to widen into early March; the market was calling our (and every other investor's) bluff.

The drive to cash has been astonishing (refer to the chart on page 6), not only amongst investors, but also amongst corporations. Investment banks are having a field day selling the easiest story in town; raise equity and reduce debt. The CEO'S, like investors, feel much more comfortable in a crowd and are blindly following the music much like the children followed the Pied Piper. The irony of the fact that two to three years ago they were all clamoring to increase their leverage appears lost. The title of ING's recent presentation to the Bank and Insurance CEO Conference in London at the beginning of April (which I recently attended) sums it up:

“Reducing Risk and Leverage”

It was a common theme throughout all presentations. It was a reflection of how reactive most CEO's are. The further the market declined, the scarier it became and the more convinced they became that they had to be prepared for the very worst. As a result, they have all been liquidating assets at what I suspect will be fire sale prices. They have certainly protected themselves from the prospect of Armageddon, with the CEO of Lloyds Bank admitting that they have probably raised too much equity, and they are absolutely convinced that they have reacted in the right manner as “the environment has changed”.

They are partially correct, but they fail to understand that asset prices have also changed and thus they are probably just compounding their previous mistakes by becoming too risk averse at the very point that risk adjusted returns have exploded. It seemed the only individual at the conference to acknowledge the irony was the CEO of KBC (Belgian Bank) who noted that last year analysts suggested he had too much equity and this year, now that they have increased their equity ratios, are suggesting that they have too little equity.

The conviction in cash was also reflected in questions we received during the quarter in regards to our 110% invested position in our equity funds when most managers were increasing their cash levels due to the “lack of visibility”.

A couple of points to note:

- The best investment opportunities will always occur when visibility is at its worst. When all is clear, there is unlikely to be assets that are undervalued;
- Visibility can often depend on your time horizon. The realities of the global investment world that we live in today is that the herd is bigger, and thus even more volatile when stampeding, exaggerating both peaks and troughs. I have previously highlighted the microsecond concentration span of the financial community thanks to the “productivity” of mobile communications (refer to page 4 of the September quarterly update where I commented on the inattentive blackberry society we live in). I was again reminded of this phenomenon as I observed how many of those attending each and every presentation at the Bank and Insurance CEO Conference spent most of their time monitoring their stock quotes or reading their emails on wireless connected portable PC's. If you actually step back from the “noise” of the current environment, you may agree that there are a number of observations that are clearly visible;

Introduction

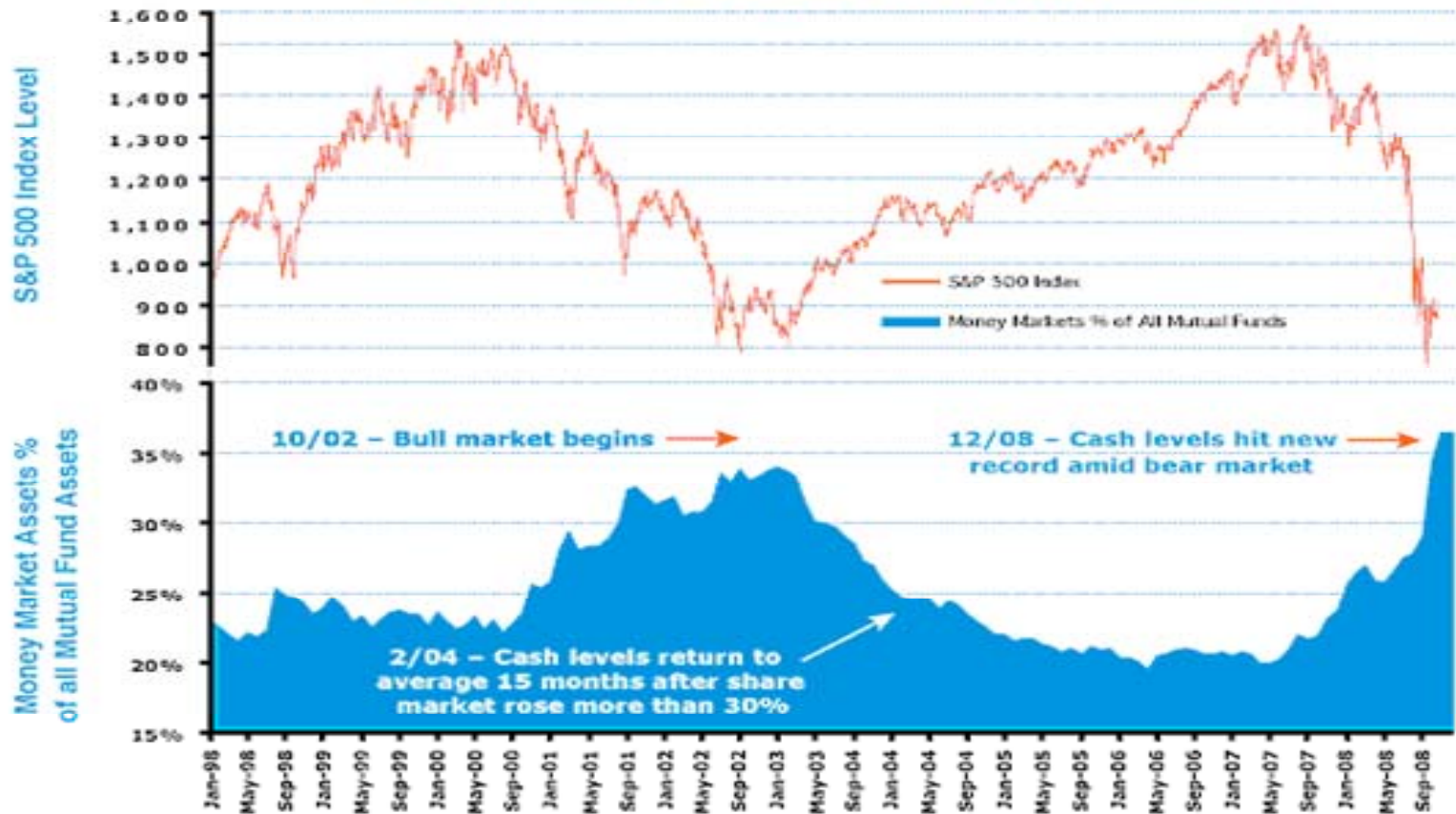
- Many businesses are being valued in the bottom decile of historical valuation ranges and there has been record selling of shares;
- Cash reserves of investors and corporations have never been higher when the yield on those cash reserves has never been lower;
- We are witnessing the greatest globally co-ordinated effort to stimulate economies with lower interest rates combined with record government spending. This is very likely to be more favourable for equities than cash;
- Government bond yields are probably in a bubble just as big as the “TMT” bubble of 2000, the housing bubble of 2006 or any other bubble for that matter. Australian Government bond yields are a good example. The Australian Government has embarked on a record busting spending spree and thus, borrowing binge. They have guaranteed the deposits & wholesale funding requirements of banks and have recently been forced to also guarantee the funding of the State governments. If they were a company they would probably be downgraded to junk status. But investors are clamoring for perceived safety and thus yields are at a record low. In contrast, corporations are reducing their debt obligations as fast as possible. So in theory their credit rating should be improving, yet investors are demanding record premiums to the yield on government bonds.

It is for these reasons that we have maintained our 110% invested position in equities and also invested a further 17% of the portfolio in corporate debt, which we believe to be a unique risk reward proposition.

One should also remember that it is darkest just before dawn and if our instincts are correct, the magnitude of the recent recovery in stock prices is hopefully a sign that such an inflexion point for financial markets has in fact been reached.

From the lows of March the 6th, the APF unit price has increased by approximately 50% (at the time that I write this report) and that recovery would have been heavily diluted if we had sought the comfort of cash at our darkest hour. We fully understand that the percentage move is a function of the magnitude of the decline, but our desire to be fully invested into equities at this point in time is driven by a belief that there is significant upside potential over the next three, five, ten years and further. Investors who have moved to cash recently may look back in years to come with regret and wish they had not followed the herd.

Money market assets as a percentage of all US fund assets compared to the performance of the S&P 500 Index, as at 31 December 2008



Source: Lexis Nexis, Strategic Insight, FMRCo (MARE) as at 31 December 2008

RECORD FISCAL STIMULUS

US Congress approves \$787 bn stimulus plan

An economic stimulus package worth \$787 billion is headed to President Barack Obama's desk after Congress passed the plan that Democrats say is critical to helping pull the US economy out of recession.

Susan Collins and Olympia Snowe, both of Maine.

February 15, 2009 / Business Standard

Giant Stimulus Plan Proposed for Europe

BRUSSELS — Seeking to revive the region's rapidly deteriorating economy, the European Commission on Wednesday proposed a stimulus package totaling 200 billion euros, or \$256.22 billion.

Stephen Castle and David Jolly / November 26, 2008 / The New York Times

Bank of England set to pump cash into economy to avoid deflation

The Bank of England is set this week to begin "printing money" in a groundbreaking move that will mark its most forceful action yet to curb the slump in the economy.

Gary Duncan / March 2, 2009 / The Times

Senate passes Kevin Rudd's \$42bn stimulus package

THE \$42 billion stimulus package has passed the Senate after a week of drawn-out negotiations between the Government and crossbenchers.

Christian Kerr / 13 February, 2009 / The Australian

RECORD LOW INTEREST RATES

Reserve Bank cuts interest rates to lowest since 1960

A PESSIMISTIC Reserve Bank has cut interest rates by 25 basis points to levels not seen in 49 years, resuming the most aggressive easing cycle on record.

Allison Jackson / April 7, 2009 / The Australian

US Fed drops rates to 'zero to 0.25pc'

The US central bank has effectively cut interest rates to zero to help keep the country's recession from worsening.

Kim Landers and Adrian Thirsk / December 17, 2008 / ABC News

European Central Bank Continues Slashing Interest Rates

The ECB's Governing Council lowered the bank's benchmark interest rate 25 basis points to 1.25%

Mike Caggese / April 3 2009 / Money Morning

By Kenneth D. Lewis

The story of our economic crisis mirrors every great market bubble in history. Clearly, banks were key participants, but they were not alone. Mortgage lenders, borrowers, regulators, policy makers, appraisers, rating agencies, investors and investment bankers all played a role in pushing economic excesses forward. The institutions that gave in completely to the frenzy are no longer with us. Those that balanced the need to compete with the need to lend prudently survive today and are helping to stabilize the system.

Amid the turmoil, it has become clear that banks need to make changes in the way they run their business, from risk management to expense control to compensation practices. Most banks are making these changes in a good-faith effort to adjust to new economic realities.

And what role should government play in this? Speculation is rife about whether banks need more capital assistance from the government or whether they need to be nationalized. Unfortunately, our current debate has been riddled with misinformation that will not help us understand our current reality, or help us decide on a sensible path forward.

I would like to provide some clarity on a few key claims that have been repeated so often they are now taken to be fact. They are not.

- The banks aren't lending. This claim is simply not true. Yes, banks have tightened lending standards after a period in which standards were too lax. But, according to Federal Reserve data, bank credit has actually increased over the course of this recession, and business lending is trending up modestly so far in 2009. Also, mortgage finance volume is booming as a result of low interest rates. What's gone from the system is the easy credit that got us into this mess, as unregulated nonbank lenders have disappeared, and the market for many asset-backed securities has all but dried up. Most banks are making as many loans as we responsibly can, given the recessionary environment.

- The banks are insolvent. In the past 18 months, we've seen fewer than 50 bank failures. That compares to about 2,000 failures or closings of commercial banks or savings institutions between 1986 and 1991. There may be more to come, but the vast majority of banks will weather this economic storm.

-The Troubled Asset Relief Program (TARP) hasn't worked. Not true. Last October, when the TARP was enacted, systemic risk threatened our entire financial system and economy. The point of the program was to stabilize surviving banks, prevent a total meltdown, and enable banks to lend more. The TARP and other government programs have worked, and banks are making more loans as a result.

- Taxpayers have given the banks billions and won't get their money back. TARP funds are not charity. Banks that received TARP funds will make about \$13 billion in dividend payments to the U.S. Treasury this year. TARP funds are loans yielding anywhere from 5% to 8% interest. This is a win-win: Banks are getting the capital they need, and taxpayers are getting a strong return on their investment.

- The banks that caused this mess must be held accountable. In fact, while all banks participated in the bubble economy to some degree, the companies that did the most to cause this mess are gone. The managers and shareholders of those institutions have been held accountable by the toughest, most unforgiving master of all: the free market.

- The only way to fix the banks is to nationalize them. This is a misguided premise. The announcement of nationalization would undermine confidence in the financial system and send shudders through the investment community. Politicizing lending decisions and the credit allocation process would be destructive for the economy. Nationalization also would give the false impression that all banks are insolvent. We agree with Federal Reserve Chairman Ben Bernanke's statement that nationalization of banks is not necessary to stabilize the banking system.

Getting our facts straight as we debate the important issues will help us rebuild a healthy financial services sector that can better support economic growth. I have two thoughts to help us get started.

First, our industry must continue to work in partnership with the government to solve our toughest problems. Congress and the administration have already taken several very positive steps. The Fed is providing sufficient liquidity and has helped lower mortgage rates. The \$787 billion stimulus package will help boost economic activity. The Term Asset-Backed Securities Loan Facility (TALF) will help liquefy the credit markets. And the administration's housing and foreclosure relief plan will be very helpful to both homeowners and banks as we work to stabilize housing markets across the country.

Second, one of our greatest challenges is balancing the need to extend credit with the need of households to pay down excessive debt. In an economy that became too dependent on debt-driven consumption to create growth, the prospect of household deleveraging is sobering. The answer, in my view, is to let competitive forces lead us back to responsible lending practices, not the type of indiscriminate lending that has created so many problems.

Mr. Lewis is chairman, Chief Executive Officer and President of Bank of America.

BANKS STILL THE FOCUS

Better late than never!

"The Basel Committee on Banking Supervision (BCBS) should look to strengthen the capital framework so that the quality and level of capital in the banking system increases during strong economic conditions and can be drawn down during periods of economic and financial stress".

Bloomberg

Wells Fargo chair flays TARP, "asinine" stress test

Wells Fargo & Co's (WFC.N) chairman lambasted the U.S. government for imposing new curbs on lenders that receive federal bailout money, and called the federal plan to subject big banks to stress tests "asinine."

In remarks after a speech Friday at Stanford University, Chairman Richard Kovacevich said the fourth-largest U.S. bank should not be lumped with weaker rivals in being forced to adhere to new rules governing such matters as lending and pay.

Wells Fargo took \$25 billion of capital last year from the government's Troubled Asset Relief Program at the behest of regulators including then-Treasury Secretary Henry Paulson, but has said it did not need the money. It was one of nine original TARP recipients.

Like a growing number of rivals, the San Francisco bank is now complaining about TARP, including a provision that lets Congress unilaterally impose new restrictions on recipients.

"Is this America, when you can do what your government asks you to do and then retroactively you also have additional conditions put on?" Kovacevich said. Wells Fargo and 18 other large companies are being subjected to stress tests to determine which can withstand a particularly severe recession. Those that cannot will need to raise more capital. Results are due by the end of April. "We do stress tests all the time on all of our portfolios," Kovacevich said. "We (have) shared those stress tests with our regulators, forever. It is absolutely asinine that somebody would announce we're going to do stress tests of banks and we'll give you the answer in 12 weeks."

Kovacevich said press reports that Wells Fargo acted purely out of self-interest in resisting regulators' demand that it accept TARP money were misleading.

Items of interest

"They felt that if they gave it to everybody, whether they needed it or not, that the consequence would be that everyone would be raised up equally, and people would not know who was swimming naked and who wasn't swimming naked," he said. Reuters / New York

Warren Buffet – Berkshire Hathaway Annual Report

"I made some other already-recognizable errors as well. They were smaller, but unfortunately not that small. During 2008, I spent \$244 million for shares of two Irish banks that appeared cheap to me. At year end we wrote these holdings down to market: \$27 million, for an 89% loss. Since then, the two stocks have declined even further. The tennis crowd would call my mistakes "unforced errors."

HSBC plunge brings commentator to tears (Monday March 9, 2009)

A veteran Hong Kong stock commentator burst into tears during a live television broadcast as she saw HSBC's shares plunge dramatically, seconds before the end of Monday's trading. Agnes Wu's comments on the recent volatility of the banking giant's Hong Kong-listed shares trailed off as she saw its price slump to 33 Hong Kong dollars (\$US4.23) after a last-minute sell order, a clip on Cable News showed.

The order almost doubled the size of Monday's fall for shares in HSBC, which ended down 24.1 per cent, its largest one-day fall on the Hong Kong bourse. Wu and the anchor of the show were both wide-eyed and they shouted out the closing price in surprise. She was unable to continue talking and shook her head for a few seconds.

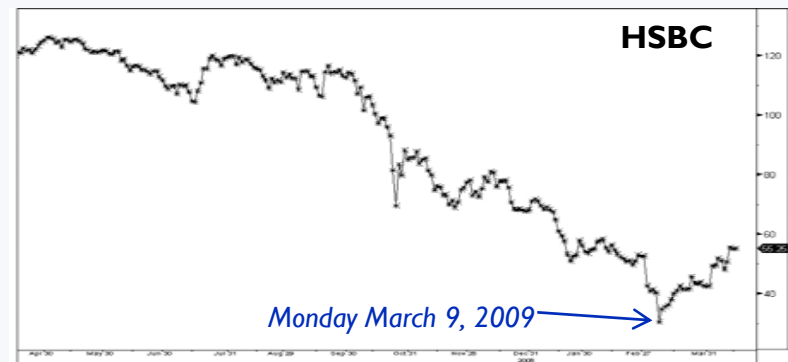
The normally tough commentator then started to sob and said: "It's a heart-wrecking fall." She then wiped her right eye, but remained silent until the live show ended.

Wu later told *The Standard* newspaper she does not hold shares in the financial heavyweight. She explained she could not help bursting into tears because she felt it was unfair for big players to bully small investors. It is believed the shares were dumped by short-sellers hoping to buy them back after the bank completes a \$US17.8 billion (\$A28.21 billion) rights issue. Hong Kong's securities watchdog, the Securities and Futures Commission (SFC) said it was looking into the transaction, which reportedly saw 4.7 million shares dumped in the final seconds before the close.

"The SFC is aware of what has happened in the closing auction session in relation to the movement of HSBC's share price and we are making inquiries," a spokesman for the regulator told AFP.

HSBC closed at 33 Hong Kong dollars on Monday, its lowest level since May 1995. Last week, the bank announced worse-than-expected annual results and said its rights issue was needed for future investments and not to shore up its balance sheet.

The bank reported a 70 per cent tumble in annual net profit, mainly due to the dire performance of its US unit, where it has written off a huge chunk of its debt. The very next day bank stocks began their recovery.....



Absolute Performance Fund

Sector		Example			
Technology – PC & software	26%	Maxim Integrated Products Linear Technology			
Technology – Semiconductor equipment	17%	Applied Materials Novellus Systems			
Banks - Europe	14%	Barclays Lloyds Banking Group			
Banks - Asia	13%	NOMURA Mizuho Financial Group			
Banks - USA	10%	Bank of America JP Morgan			
Beer	26%	Heineken Holdings Grupo Modelo			
Media	12%	Comcast News Corporation			
Resources	6%	Gazprom Cia Vale do Rio Doce			
Other	-12%	Includes all other longs and buy & writes			
Net effective exposure	112%				
Debt / Hybrids	17%				
Cash	-29%				
Total exposure	100%				
Currency					
AUD	23%	GBP	10%	JPY	1%
USD	55%	EURO	8%	OTHER	3%

As highlighted in the December 2008 Quarterly Update, a number of sectors that we have not been involved in over the last two years have started to gain our interest again. One such area is the commodity sector where we have taken positions in selected Russian and Chinese companies over the last few months. As many of our investors are aware, since the inception of the Fund we have held significant commodity exposures at various times (peaking in 2003 at 30% exposure). These holdings were gradually unwound and by early 2007 we no longer held any major commodity positions. Commodity stocks in general have corrected significantly since their peaks in mid-2008 and many are now down 80-90%, which has given us an opportunity to get back into the sector. Our focus is exclusively on the quality ore bodies which should afford us a certain degree of downside support from current levels.

Our core view on the commodity sector is positive, however that view is tempered somewhat because we do not believe we will see prices anywhere near their peaks of mid-2008; we believe they were over-extended at those levels. Supply and demand should be more balanced over the coming five years than the extreme tightness we saw in 2008, and thus we think the maximum positions we are likely to have in the fund for commodities will be around 10% (currently we have a 6% exposure to the sector). From current levels we should see large trading rallies over the coming years as the economy improves.

The companies we have added can be broadly characterised into Chinese and Russian names. The Chinese businesses (Petro China, CNOOC and Shenhua Coal) have no debt and reasonable quality ore bodies, and will all be direct benefactors of Chinese economic growth over the next decade. The Russian names (Gazprom, Norilsk Nickel & Lukoil) undoubtedly have the best ore bodies in the world in their respective commodity.

Absolute Performance Fund

Gazprom, as an example, supplies Europe with 30% of their overall gas needs from a very low cost, established Serbian gas reserve base. We were able to buy the Russian companies due to the extreme negative market sentiment as commodity prices fell, the Rouble collapsed and there was a perceived increase in Russian Government risk following the Georgian War. The Russian businesses trade on an average 3.5x earnings at current commodity prices (i.e. oil at \$50 and nickel at \$5, down from a peak oil price of \$150 and nickel of \$10).

We also recently added to the debt / hybrid position in the Fund. As we alluded to in our December Update, the current dislocation in credit markets is presenting us with a unique risk reward scenario in debt securities. In fact, we believe this is the most mispriced part of the financial markets. As many investors are aware, this recent allocation to debt / hybrid securities has increased our net exposure, however it is important to note that our net exposure to equities is 112%, which has remained fairly constant over the last six months. The 17% allocation to credit securities has a significantly lower risk reward profile to equities and is an opportunistic response to conditions which prevail in credit markets.

During the quarter we also increased the Fund's exposure to the Australian Dollar following the large adjustment from 98 cents into the low 60 cent range. We still have question marks on the Australian economy, hence we have managed the currency by reducing our US Dollar physical cash with bought call options funded by selling put options. Effectively, we are currently 30% Australian Dollars and 50% US Dollars in the Fund, whereas six months ago we were 90% US Dollars. Longer term we still believe the risks are biased to the downside for the Australian Dollar, despite the potential for a near term rally.

The largest sector weighting in the portfolio is technology, with investments spread across a wide variety of companies involved in PC, software, storage and semiconductor equipment manufacturing. This large weighting is reflective of the quality characteristics of these businesses, their current valuations and the opportunities that lie ahead.

The individual stocks that appear in our portfolio (such as Applied Materials, Linear Technology, Oracle, Maxim and Novellus) are substantial cash generators and share a number of common characteristics: they all trade on valuation metrics never seen before; they have all maintained a dominant market position over a very long time, meaning the competitive dynamics of their respective sub-sectors has been fairly static; they have all managed to maintain a positive earnings profile over a depression-like environment for the tech sector since the peak of the 2000 tech boom, which is now nearly a decade ago; and, they all have very low debt levels (in many cases they have large amounts of cash on their balance sheets).

The catalyst for a substantial re-rating of the sector is likely to be an overall increase in technology orders, which will occur in the inevitable economic recovery. The factors mentioned above in respect of balance sheet strength, valuation, and competitive positioning warrant a significant investment in this sector of the market on a two to three year view.

We continue to hold our banking stocks which have been well covered in previous updates. Paul and Uday recently returned from a banking conference in London. The issues that have been addressed in previous updates remain relevant and our views on the sector have not changed.

Ashley Pittard – Global Portfolio Manager

Travel diary

UK Asset Management / Brokers

Aberdeen Asset Management	Martin Gilbert Andrew Laing	CEO Deputy CEO
F&C	Alain Grisay David Logan	CEO CFO
Icap Plc	Stehen McDermott	COO

Banks – Eastern Europe

Bank Pekao	Luigi Lovaglio	COO
Erste Bank	Andreas Treichl	CEO
PKO	Jerzy Pruski	CEO
Raffiesen	Herbert Stepic	CEO

Banks – Western Europe(exc. France)

Banco Popular	Richard Carrion	CEO
Credit Suisse	Paul Calello	President – Investment Banking
ING Group	Koos Timmermans	Chief Risk Officer
KBC	Andre Bergen	CEO
Santander Group	Alfredo Saenz	CEO
Unicredit Group	Alessandro Profumo	CEO

Banks – France

BNP	Baudouin Prot	CEO
Credit Agrcole	Georges Pauget	CEO
Natixis	Dominique Ferrero	CEO

Banks – UK & Ireland

Allied Irish Bank	Eugene Sheehy John O'Donnell	CEO Finance Director
Barclays	Robert Diamond	President
Lloyds	Eric Daniels	CEO

Banks – South Africa

ABSA Bank	Jacques Schindehutte	CFO
FirstRand Bank	Johan Burger	CFO

Retail

Sotheby's	Jennifer Park	VP of Strategic Planning and IR
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China Shenhua Energy

There is no doubt that in future decades China will continue to have an increasing impact on global financial markets. With that in mind, three years ago we dedicated the efforts of Kevin Bertoli (PM CAPITAL Investment Analyst) to increasing our understanding of the Greater China Region with the belief that future investment opportunities would present themselves for our global equity fund.

In the middle of last year, such opportunities did indeed begin to arise, and so, along with purchases for our global equity fund, PM CAPITAL also invested seed capital into a Greater China Fund, which Kevin is responsible for. That fund has recently become 90% invested, spread across 19 stocks, predominantly mainland China domiciled businesses. We expect the Greater China region to represent an increasing portion of our investments in our global equity fund over the medium to longer term. In line with this positive framework for investments in the region we have decided to open the Greater China Fund. If you are an investor seeking dedicated long term exposure to this dynamic geography please let us know and we will send you a copy of the PDS once it is issued.

Following is a brief synopsis of China Shenhua Energy, one of the opportunities which we have recently added to the Greater China Fund and Absolute Performance Fund.

China Shenhua Energy (Shenhua) is the dominant player in China's thermal coal market, a commodity which is primarily used as feedstock in the power generation process. Shenhua is an integrated player with mining, transportation and power generation divisions, but the coal price is the most significant determinant of earnings.

Shenhua has a unique position in that it is one of the lowest cost thermal coal producers globally. This cost advantage originates from their position as the listed arm of China's major state controlled coal group

which injected it with best of breed assets prior to its IPO. We believe these advantages are increasingly hard to replicate and can be sustained longer term. Shenhua's main cost advantages are derived from the following areas:

- Asset quality – high grade coal with superior geological mining conditions which allow for the use of faster mining techniques. Coal deposits are also located close to the surface allowing them to use lower cost open cut mining methods.
- Transportation – the only major coal producer domestically to own and operate its own rail and port network. This dramatically reduces transportation cost which can be up to 30% for a typical large mine operator
- Size – second largest producer in the world and two times larger than their nearest domestic competitor. Assets are also highly concentrated with their Shendong mine located in the coal rich Shaanxi province accounting for 65% of output.

Like most commodities, thermal coal prices can be highly volatile, but this leads to another attractive aspect to the Shenhua investment case. During 2008 Shenhua sold over 90% of their self produced coal on long term price agreements, which is significantly higher than the industry average. This results in considerably less volatility in pricing and increases earnings protection on the downside.

The current downturn in the global economy, China included, bodes poorly for those in the power generation process. As the market panicked over near term earning momentum the stock fell from its highs in the mid \$50 to \$10 (see chart on next page), valuing the business below conservative replacement cost assumptions and on a P/E of 11-12x using bottom of the cycle coal prices.

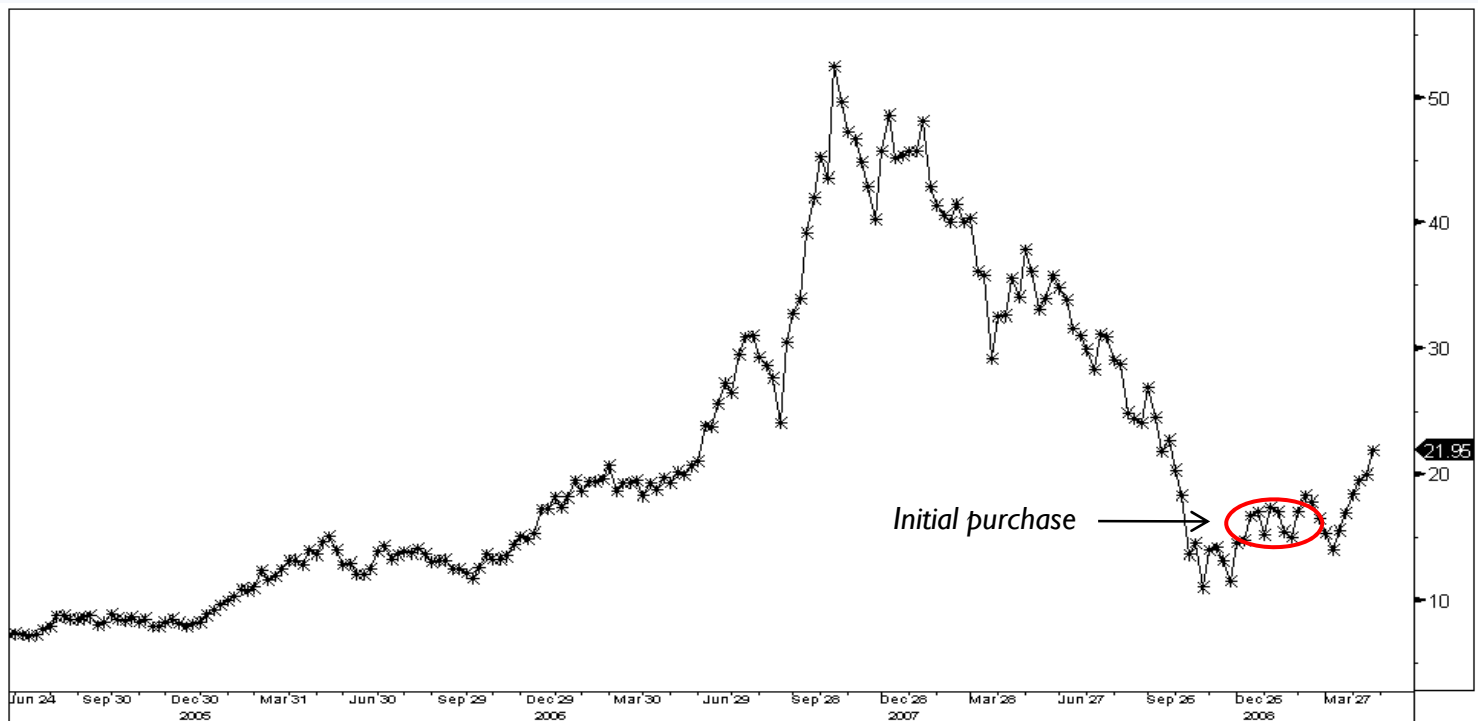
China Shenhua Energy

We saw this as an opportunity to own a best of breed operator with a low cost asset base, a defensive pricing structure and the ability and willingness to invest through the cycle (no debt and plans to increase production by 15% p.a. by the end of 2013).

It is impossible to predict when the macro environment will improve, however when it does there is no denying China's inherent need for most basic commodities including thermal coal.

Couple this with the fact that the government is tightening the supply situation in the industry by eliminating small inefficient operators which make up 45% of capacity we think the outlook looks positive for Shenhua.

Kevin Bertoli – Investment Analyst



Sotheby's

Damien Hirst set a personal record last year when he sold The Golden Calf, a calf with golden horns preserved in formaldehyde, for £10.3 million at the Sotheby's London showroom. For its part in facilitating the sale, Sotheby's earned a commission of 12%.

That, in essence, is what the Sotheby's business is all about. As one of only two truly global art auction houses, Sotheby's acts as a key marketplace for the trade of high end art, antiques and other collectibles.

Sotheby's possesses a number of competitive advantages:

- A prestigious brand that has grown since the company's 1744 founding
- A reputation as a leading authority in the art world, built by a long history of art authentication and appraisals
- Long-term relationships with clients that act as a key barrier to entry

Commission revenue at Sotheby's follows the art market, and as a result when the art market started declining last year so did Sotheby's revenue. As their cost structure is relatively fixed in the short term, the revenue decline quickly hit earnings before the business had a chance to adjust its cost base. Earnings fell from a peak of \$3 in 2007 to 50c in 2008, with further declines expected in 2009.

As earnings expectations declined so did the stock, and we picked up an initial position at \$8.55 in November (a fall of 85% from its \$57 peak in October 2007, as shown in the chart opposite) after watching it fall from \$25 over 3 months.

We believe that at this price, Sotheby's is a very attractive business selling close to book value consisting of prestigious buildings in London and New York, an art portfolio that has been discounted from its peak,

and a loan book secured by art work at reasonable loan-to-value ratios. The irreplaceable brand and an ongoing art commission income stream comes for free.

And while we can't claim to know where the market for a Hirst piece will go in years to come, we are confident that there will continue to be a market for buying and selling art, and that Sotheby's will remain a key place to do that.

Thomas Rice – Investment Analyst



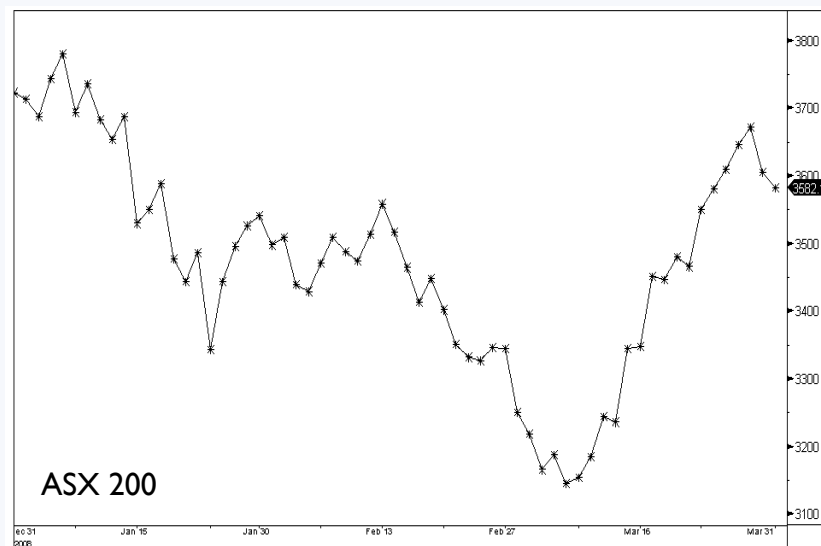
Australian Opportunities Fund

Sector		Example
Banks	22%	ANZ Banking Group Commonwealth Bank
Media	22%	Consolidated Media Holdings PMP Limited
Gaming	13%	Tabcorp Holdings Ltd Sky Services Entertainment
Commodity	9%	Gunns Limited Boral
Food and Beverage	7%	Foster's Group
Insurance	6%	IAG
Internet / Pay TV	4%	Austar United
Retail	4%	Harvey Norman
Other	20%	Includes all other longs and shorts
Net effective exposure	107%	
Debt / Hybrids	11%	
Cash	-18%	
Total exposure	100%	

The Fund is fully invested; our objective is to use the extreme day-to-day volatility across markets to broaden out the exposure. We think the current environment is presenting some new opportunities, and through the quarter we acquired initial positions in Westfield Holdings and Rio Tinto. We haven't previously held a property trust in the Australian Opportunities Fund and we hadn't acquired a traditional commodity company since late 2006. Other activity during the quarter included increasing our investments in Tabcorp, Austar and Wotif.

Below is a chart of the performance of the ASX 200 index over the quarter. We have had consistent inquiry along the lines of:

"Why would you be fully invested when there is so little short term transparency? And do we interpret this positioning as a view you think the market has bottomed?"



Australian Opportunities Fund

The reason we are fully invested is because business valuations are compelling at current levels. Investors appear to be hoarding cash and paying a full price for perceived safety. When we invest we think in terms of what a reasonable price to pay for the business would be, given our understanding of its individual characteristics and cash generating ability over time. We don't focus much on what the business is going to earn in this half, or even this year. Current valuations across much of the market seem to be discounting the long term viability of a number of businesses, and although in isolated cases we think this is a reasonable assumption, generally we think the discounts are excessive.

We don't have a strong view on whether the market has bottomed or not, but what we can say is that the market is up 19% from its lows in March and we are continuing to find investments that we would prefer to own ahead of cash. As long as this is the case our bias will be towards being fully invested despite the day to day volatility.

Placement vs rights issues – what's the difference?

In previous reports we have made reference to our concern regarding the structure of a number of capital raisings that have recently come to market. We think it is incongruous that boards and management would issue equity to new investors at a material discount without first giving all the current shareholders the opportunity to participate.

Generally businesses are being forced to raise equity because they carry too much debt. The economy is slowing and the banking environment has tightened, causing concerns about businesses abilities to service and refinance their borrowing commitments. Ultimately the capital structure of a business reflects decisions that management and the board have made; to be raising equity now means they have misjudged the environment and cash generating abilities of the business.

Our concern isn't that a mistake was made, it is that instead of coming back to the existing owners of the business and giving them (all) an equal opportunity to recapitalise, they are choosing to issue new capital at discounted prices to selective investors, some of which aren't even current owners of the business. We think it is telling of the internal culture of these businesses that their boards are willing to dilute the existing owners of the business in order to fix a problem they have created. It was with great interest that we read the following article published in the Financial Review in February 2009. Rio Tinto appointed an external Director as Chairman, he lasted for one meeting. If the context of the article is accurate, it would be intriguing to know the perspective of the balance of Rio's Board.

Miles Webster – Australian Portfolio Manager

THE PERSONALITIES AYESHA DE KRETZER

Leng divides the indivisible leadership, then splits

Jim Leng is no stranger to a challenge. He inherited the chairmanship at Anglo Dutch steel maker Corus in 2003, just months after his predecessor Brian Moffatt had axed 6000 jobs.

The stock was trading at about 90 pence and steel was a dirty word in the developed world.

But together with newly appointed chief executive Philippe Varin, Leng turned the company on its head.

They shed the bits that needed to go, which ironically included Dutch aluminium assets, cleaned up the balance sheet and went shopping for a suitor.

While Varin operated in the limelight, pushing the share price closer to £5 and shoring up investor support, Leng quietly courted Indian conglomerate the Tata Group.

He was never a well-known or high-profile figure in steel, presumably because he didn't rise from the industry's cliquy ranks.

An avid badminton fan, Leng is a member of the British Olympic Association's advisory board.

But when he and the Corus board recommended a 608 pence bid from Tata in early 2007, the steel world

took notice. Varin and Leng had breathed new life into the so-called "dying industry".

Similarly, when Rio signed up Leng in January, the investment world applauded the move, despite the fact that it knew very little about the quiet achiever to whom Paul Skinner would hand the chairmanship.

"The early January appointment of Jim Leng seems to fit well with a significantly heightened level of activity at the company in terms of the ongoing balance sheet/asset restructure," Deutsche Bank head of metals and mining research Peter O'Connor said yesterday.

As Rio struggled under its enormous debt burden, the market was demanding answers. A new chairman was a very good start towards answering them.

Was it in talks with Chinalco over the sale of assets and shares? Would it raise funds through a massively diluting rights issue?

Skinner repeatedly said "no", Rio was not going to broadly issue new shares. Then Leng was appointed chairman-in-waiting and Rio's plans changed. The company said it would examine all options, including an equity issuance.


CEO Tom Albanese.

"Skinner wanted to do a placement whereas Leng wants to do a rights issue," one source said yesterday. "Leng was a very strong advocate of a rights issue. He wanted to address the problems, do it large, get it done, get it out of the way and move on."

A split emerged in Rio's board ranks and the once-conservative, staid company was totally unprepared to deal with it.

Rio had never before been tested because it had worked — worked incredibly well.

Under the "two Bobs" — Bob


Chairman Paul Skinner.

Wilson who resigned in 2005 and Bob Adams who died unexpectedly in 2003 — Rio was a disciplined outfit that invited no outside scrutiny, a source said yesterday. "Nobody ever had to question them because they just did their job."

But when BHP Billiton tabled its ambitious takeover plans in November 2007, Skinner and chief executive Tom Albanese were given free range to defend the bid, prompting an aggressive and radical push never before seen inside Rio.

The result — an untimely and expensive acquisition in Alcan —


Jim Leng.

proved fatal. "If anything," the source said, "the board probably got a little bit sleepy, so when Albanese and Skinner came along with Alcan, the board said, 'Well we've always said yes to everything'. And they got caught out."

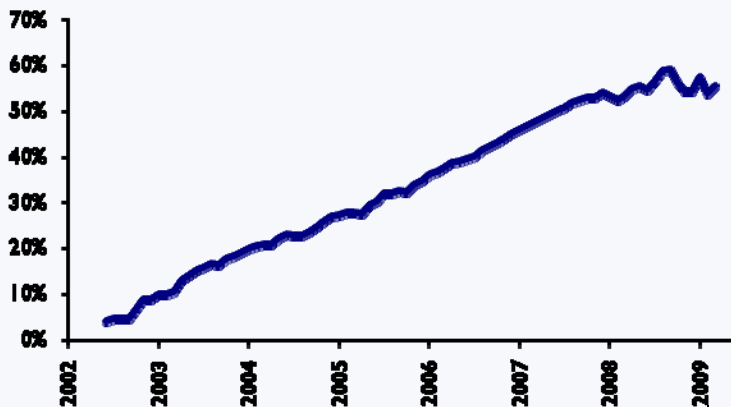
Since then, Rio's board has been "caught out" by not having a back-up plan to show concerned investors how it will finance its debt burden since the BHP deal collapsed.

But yesterday's resignation of Leng must surely be the most embarrassing of all its recent blunders.

Enhanced Yield Fund

	%	Avg. Yield	Avg. Spread to RBA
Cash	25.0	3.95%	0.70%
Corporate debt	43.1	9.01%	5.46%
Fixed	20.3		
Floating	22.8		
Hybrids	28.6	11.98%	8.32%
Fixed	8.1		
Floating	20.5		
Buy & Writes	3.3		
Total	100.0%		

Enhanced Yield Fund Performance Graph



The general themes evident in the first quarter of 2009 were broadly consistent with those of the latter half of 2008 – the global economy is shrinking, banks and corporations have been paying a hefty price to borrow funds from the private sector and governments are being increasingly relied on to prop up their domestic economies.

Australia is no exception to this rule. GDP fell 0.5% in the final quarter of 2008, and when coupled with the positive 0.1% result from the September quarter along with further weak data from the first quarter of 2009, it is hard to argue that we are not already in recession.

During the quarter the RBA maintained its aggressive policy of reducing interest rates in an attempt to lower borrowing costs, cutting the official rate from 4.25% to 3.25% (and subsequently to 3% in April – the lowest rate in almost 50 yrs).

Also, the Federal Government was recently forced to extend their funding guarantee to the State Governments, whose credit ratings are coming under increasing pressure. This is largely as a result of substantial falls in their revenues and increased borrowing costs as they compete with the government guaranteed banks for wholesale funding. Around the world, the US announced that it was going to start buying long-dated treasury securities in an attempt to get mortgage rates down, and the UK and Europe lowered their official rates down to 0.5% and 1.5% respectively in an attempt to prime their ailing economies.

The current environment of economic uncertainty continues to weigh on debt markets. There is still a degree of motivated selling going on – both domestically and offshore - by investors that need to generate cash quickly in order to stay afloat. This is despite the fact that the yield securities of many high quality banks and corporations are trading at distressed levels. From our perspective - here lies the opportunity!

Enhanced Yield Fund

PM CAPITAL QUARTERLY UPDATE March 2009 21

We believe that we have most likely seen the worst of what this cycle has to offer. There are signs of life emerging in the secondary debt markets with bid/offer spreads beginning to approach more normal levels in the better quality bank and corporate debt names - a strong sign that liquidity is improving. This improvement in liquidity represents an increase in demand for yield securities, which is subsequently feeding through to the primary debt markets also. This can be seen in the recent 5yr debt issues successfully completed by Tabcorp (\$A Bills + 4.25%), BHP (\$US deal equivalent to \$A Bills + 3.50%) and AMP (\$A Bills + 4.75%). The major banks have also successfully raised non-Government guaranteed debt recently with CBA doing a 3 Year deal at \$A Bills + 1.30%.

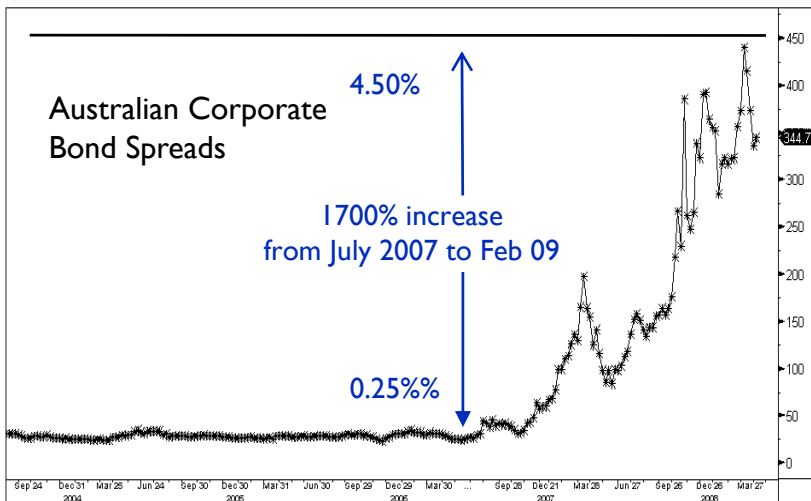
As debt markets start to loosen up (evidenced by the above), credit spreads have begun to contract. This reflects an improvement in the confidence of debt investors that they believe they will have all of their

coupons paid on time plus get their capital back on the relevant due dates. This improvement in demand will ultimately help to reduce corporate borrowing costs and thus should see credit market flexibility continue to improve.

The current net running yield on the PM Capital Enhanced Yield Fund is 7.8%, which is 4.8% above the RBA Cash Rate as at April 2009.

As we have highlighted in previous quarterly updates and in last months correspondence to EYF investors, we genuinely believe that we will look back on this environment (i.e. where assets are being sold for reasons of necessity rather than inherent valuation) as a once in a generation opportunity to invest in yield securities.

Jarod Dawson – Enhanced Yield Portfolio Manager



Issuer	Yield
Term Deposit Major Bank (1 Year)	2.90%
Govt Guaranteed Major Bank Senior Debt (3 Years)	3.75%
Non-Govt Guaranteed Major Bank Senior Debt (3 Years)	4.40%
Non-Govt Guaranteed Major Bank Sub Debt (3 Years)	8.10%
BHP	6.60%
Tabcorp	6.85%
Rio Tinto	10.60%
PM CAPITAL Enhanced Yield Fund (net)	7.80%

Conclusion

Many will argue that the recent move in markets is nothing more than a bear market rally and only time will tell. Much will depend on the ability of the economy to stabilise and then sustain itself. There is no doubt that there are difficult economic times ahead resulting in great uncertainty on earnings. My initial thoughts on returning from the Banking and Insurance conference in London was that the financial community have extrapolated their paranoia about their own outlook onto the expected behaviour of all consumers, exaggerating the likely outcome. I suspect we will soon see signs that the consumer is still breathing. What is important for financial markets is what has already been discounted in asset prices; and asset prices have discounted extreme outcomes. It may feel safe to be hiding in term deposits but I do not think that it is wise.

“The investment world has gone from underpricing risk to overpricing it. This change has not been minor; the pendulum has covered an extraordinary arc. A few years ago, it would have seemed unthinkable that yields like today’s could have been obtained on good-grade municipal or corporate bonds even while risk-free governments offered near-zero returns on short-term bonds and no better than a pittance on long-terms. When the financial history of this decade is written, it will surely speak of the Internet bubble of the late 1990s and the housing bubble of the early 2000s. But the U.S. Treasury bond bubble of late 2008 may be regarded as almost equally extraordinary. Clinging to cash equivalents or long-term government bonds at present yields is almost certainly a terrible policy if continued for long. Holders of these instruments, of course, have felt increasingly comfortable – in fact, almost smug – in following this policy as financial turmoil has mounted. They regard their judgment confirmed when they hear commentators proclaim “cash is king,” even though that wonderful cash is earning close to nothing and will surely find its purchasing power eroded over time.

Approval, though, is not the goal of investing. In fact, approval is often counter-productive because it sedates the brain and makes it less receptive to new

facts or a re-examination of conclusions formed earlier. Beware the investment activity that produces applause; the great moves are usually greeted by yawns.”

From the December 2008 Annual Report of you know who

The yield opportunity is staring everyone in the face but no one wants to be first to move; we have decided to move and there appears to be clear signs that others too are moving. In respect of our equity funds, we have certainly turned out to be outside Zebras (story from our original prospectus, repeated as an appendix to this report) and have the claw marks to prove it. But that is what we are and that is how we will stay. There now appears to be rich rewards on offer for those willing to stray from the herd.

Yours Sincerely

Paul Moore

PM CAPITAL INVESTMENT TEAM

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Ashley Pittard - Global Portfolio Manager

Miles Webster - Australian Portfolio Manager

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**Extracts taken from ‘The New Money Masters’ By John Train:
Acorn Fund Report - Ralph Wanger**

“Zebras have the same problem as institutional portfolio managers. First, both seek profits. For portfolio managers, above average performance; for zebras, fresh grass.

Secondly, both dislike risk. Portfolio managers can get fired; zebras can get eaten by lions.

Third, both move in herds. They look alike, think alike and stick close together.

If you are a zebra and live in a herd, the key decision you have to make is where to stand in relation to the rest of the herd. When you think that conditions are safe, the outside of the herd is the best, for there the grass is fresh, while those in the middle see only grass which is half-eaten or trampled down. The aggressive zebras, on the outside of the herd eat much better.

On the other hand - or other hoof - there comes a time when lions approach. The outside zebras end up as lion lunch, and the skinny zebras in the middle of the pack may eat less but they are still alive.

A portfolio manager for an institution such as a bank trust department cannot afford to be an Outside Zebra. For him, the optimal strategy is simple; stay in the centre of the herd at all times. As long as he continues to buy the popular stocks... he cannot be faulted. To quote one portfolio manager. “It really doesn’t matter a lot to me what happens to Johnson & Johnson as long as everyone has it and we all go down together”. But on the other hand, he cannot afford to try for large gains on unfamiliar stocks that would leave him open to criticism if the idea fails”.

Needless to say, this Inside Zebra philosophy doesn’t appeal to us as long-term investors.

We have tried to be Outside Zebras most of the time, and there are plenty of claw marks on us to prove it